
DEVELOPMENT STRATEGY

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Development strategies have consequences. They affect socioeconomic relationships, the priorities of government budgets, and views of the future. For those reasons, it is worth reflecting on the general approach a country takes to development.

Since independence, Timor-Leste has formed its own hybrid development strategies, through a National Development Plan (NDP) and the distinct practices of two different governments. These hybrids incorporate mixed ideas from economic liberal, developmental state, and human development traditions. Yet the language and practice of development strategy have not always matched, and both are changing. This chapter identifies the main contemporary approaches to development strategy, then links those to experience in Timor-Leste since independence. It concludes with some observations on the neglected sectors of education, health, and agriculture.

Timor-Leste faced enormous challenges at independence. As well as the violence, infrastructure destruction, and mass dislocation of 1999, the little country was left with environmental degradation, the flight of professional classes, virtually no effective governmental institutions, and a variety of international agencies and experts with their own ideas on development. In this context, administrations had to formulate their own approach to development. This chapter suggests that the strategic differences between the FRETILIN-led (Frente Revolucionária do Timor Leste Independente, Revolutionary Front of Independent East Timor) and AMP (Aliansa Maioria Parlamentar, Parliamentary Majority Alliance) administrations cannot be determined by their policy statements alone but, rather, require a study of their respective practice.

DEVELOPMENT STRATEGIES

Three broad development strategies can be defined: the private-investor-led “market economy” approach, the “developmental state” model; and those approaches that emphasize human development. This section identifies the distinct underpinning ideas and views on sectoral development (education, health, agriculture, infrastructure, the economy), some notable international experiences, and the challenges facing each approach.

The Private “Market Economy” Approach

The private investor led “market economy” approach to development—commonly advocated by Western powers—often expresses a unified economic goal, such as “broad-based growth.” It draws on the notion of “comparative advantage,”¹ which encourages specialization and trade, and the “open market” ideas of the nineteenth-century European neoclassical economists,² supplemented by mid-twentieth-century ideas on the “macroeconomy” and its management.³ These “economic liberal” ideas are promoted by the international financial institutions. The World Bank,⁴ for example, developed the ideas of “pro poor growth” and “inclusive growth,” in response to criticisms that the poor do not benefit and are excluded from growth strategies; but the World Bank’s emphasis remains on economic growth.

Broad-based growth arose in recognition of the dangers of extreme specialization, as in the so-called banana republics, which had faithfully followed comparative-advantage strategies but suffered economic crisis when prices for their single cash-crop fell. So the need for some diversification was accepted by economic liberals. However, they continue to emphasize trade, suggesting that specialization in competitive markets indicates **enhanced** potential economic gains. Nevertheless, the developmental prospects of comparative advantage are limited, as the idea is based on comparative statics and only addresses a short-term opportunity. It does not explain how a country might actually improve its productive capacities.

Economic liberals speak of a minimal economic role for the state and oppose public investment that might crowd out (compete with) private investment.⁵ Community or customary land should be registered and commercialized, according to this view. This approach has led to calls for the state to merely create an “enabling environment” of laws, security, and infrastructure to suit the needs and interests of private investors.

The economic liberal view of education, health, and social security is that the state should minimize its commitments and introduce “user pays” and privatized services to encourage consumer participation and market formation. Social services might be offered as a minimal safety net, in recognition of the exclusion of poor people; but open market ideas oppose systems of social guarantees or comprehensive public welfare systems.⁶ Increasing commercialization of services

¹ David Ricardo, *On the Principles of Political Economy and Taxation* (London: John Murray, 1817).

² William Stanley Jevons, *The Theory of Political Economy* (London: MacMillan, 1871); Carl Menger, *Grundsätze der Volkswirtschaftslehre* [Principles of Economics] (Vienna: Wilhelm Braumüller, 1871); Léon Walras, *Éléments d'économie politique pure* [Elements of Pure Economics] (Paris: Corbaz, 1874–1877).

³ John Maynard Keynes, *The General Theory of Employment, Interest and Money* (London: Palgrave MacMillan, 1936).

⁴ World Bank, “What Is Inclusive Growth” (2009), <http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1218567884549/WhatIsInclusiveGrowth20081230.pdf>, accessed May 24, 2012.

⁵ For example, Roger W. Spencer and William P. Yohe, “The ‘Crowding Out’ of Private Expenditures by Fiscal Policy Actions,” *Federal Reserve Bank of St. Louis Review* (October 1970): 12–24.

⁶ For example, Charles W. Calomiris, *The Post-Modern Bank Safety Net: Lessons from Developed and Developing Economies* (Washington, DC: AEI Press, American Enterprise Institute, 1997).

leads to employment and economic growth. Free services, on the other hand, are said to create among individuals laziness and a dependent mentality. The behavioral assumption here is that it is good for people to feel some pressure to participate in markets, so that they may value and more effectively use the goods and services that they purchase (relative to those who are handed goods and services for free).

A major problem with this approach is the unaffordability of (or uneven access to) basic services for large sections of the population, particularly children. Reliance on open markets always favors wealthy people and, in developing countries, excludes large sections of the population. Aid programs aim to fill this gap, but bring their own problems, including inflationary bubble economies, dependency, and “aid trauma” through failures in capacity-building and great inequality.⁷

In more recent times, the market economy approach has insisted that the state should assist the most dynamic sections of the economy, in particular, the export sector, as these sectors can contribute much to the growth of the formal economy and, so, stimulate (create spin-off benefits for) other private investors. Successful private investment creates employment, the principal means by which benefits are said to trickle down to wider sections of the community. An important implication is that infrastructure improvements, such as roads and ports, paid for by the government, are prioritized to encourage export enterprises to expand. Also, preferential (e.g., tax free) treatment for private investors, including foreign investors, is a by-product of a market-economy approach.

States that engage in social-infrastructure development, public enterprise, and provision of free services are moving outside the bounds of the economic liberal view of what used to be called sound economic policy, but is now often included in notions of good governance. Such public institution-building may compete with private investment, which is said to be “more efficient.”⁸

Despite being a hallmark of powerful economies, open market strategies have never led to the industrial development of any country. Such a model was not used in the industrialization of Europe, North America, or Japan. There have been some economic liberal attempts to prove the contrary,⁹ but the evidence is very poor.

Development in Europe was backed by a substantial economic surplus from colonialism and slave-based economies, absorbed into commerce and industry.¹⁰ European, North American, and Japanese capitalist development then grew their human resources and technologies with state sponsorship and financial assistance, public-private collaborations, and little competition.¹¹ After World War Two, the United States suggested that Japan pursue its “comparative advantage” as a provider of cheap labor in basic industry. The Japanese, building on their strength in human resources—in a war-devastated, resource-poor, and disempowered nation—

⁷ Neil Middleton and Phil O’Keefe, *Disaster and Development: The Politics of Humanitarian Aid* (London: Pluto Press, in association with ETC [UK], 1998); Tim Anderson, “RAMSI: Intervention, Aid Trauma, and Self Governance,” *Journal of Australian Political Economy* 62 (December 2008): 62–92.

⁸ World Bank, “Bureaucrats in Business” (New York, NY: Oxford University Press, 1995).

⁹ Walt Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge: Cambridge University Press, 1960).

¹⁰ Eric Williams, *Capitalism and Slavery* (Chapel Hill, NC: University of North Carolina, 1944).

¹¹ Nancy Ettlinger, “The Roots of Competitive Advantage in California and Japan,” *Annals of the Association of American Geographers* 81,3 (September 1991): 391–407.

preferred to upgrade their productive capacities, building a successful industrial economy within a relatively short space of time.¹²

Open market ideas these days suit, and are promoted by, those nations that have already achieved some degree of “market” dominance. But it may also be said that the failure of open market models is what drives the principal alternatives, that is, developmental state and human development (or human-resource-focused) approaches.

The principal challenges for a market economy strategy are how to prevent: a collapse in basic services; the leakages (overseas and in elite consumption) in investment and income generation; and widening inequality and social exclusion. Some formal-sector industries may boom (e.g., natural-resource extraction), but international experience suggests that the benefits of such industries will be poorly distributed. The best evidence of this can be found in resource-rich developing countries, such as Nigeria and Bolivia. Yet inequality does not concern economic liberals; rather, it is seen positively, as a spur for market participation.

The “Developmental State”

East Asian versions of the “developmental state” represent the most prominent and successful examples of developing countries (and in some cases former colonies) upgrading their productive capacities. We can see capitalist and socialist variants, looking at Japan, South Korea, Taiwan, Singapore, Venezuela, and the Peoples’ Republic of China. In both the capitalist variant (where private investors dominate) and the socialist variant (where social investment dominates), strong political will is required, so that the state has a degree of autonomy with respect to private investors. A developmental state implies that the state leads the process of development, whether by forming councils to coordinate the production and trade strategies of large, private companies (as in Japan), by developing long-term plans beyond the agenda of existing industries (as in Singapore), or by building strong public enterprises (as in Venezuela). As this requires struggling with large private corporations, it has been said that an authoritarian state is required.¹³ Indeed, authoritarianism was prominent in militarized South Korea and civilian-led Singapore. However, developmental states have been described in relatively strong democracies, too, such as contemporary Venezuela, and in small island nations, such as Mauritius.¹⁴

¹² A. Johnson Chalmers, *MITI and the Japanese Miracle* (Stanford, CA: Stanford University Press, 1982).

¹³ A. Johnson Chalmers, “Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Japan, in *The Political Economy of the New Asian Industrialism*, ed. F. C. Deyo (Ithaca, NY: Cornell University Press, 1987); and Eun Mee Kim, *Big Business, Strong State: Collusion and Conflict in South Korean Development, 1960–1990* (New York, NY: State University of New York Press, 1997).

¹⁴ Thomas Meisenhelder, “The Developmental State in Mauritius,” *Journal of Modern African Studies* 35,2 (June 1997): 279–97.

The World Bank's "East Asian Miracle" report gives some idea of the developmental state's challenge to the open market model.¹⁵ It raised a huge controversy in the United States, amongst economic liberal opponents of state "intervention" in the economy. The report drew attention to the coordination required in industrial development and the key economic role of East Asian states. However, as Joseph Stiglitz reminds us,¹⁶ this report was watered down due to resistance from the United States, and only appeared at all because Japan funded the report.

Institutional ideas help explain the conventional success of the developmental state model, including in the United States. Economist John Kenneth Galbraith saw the key features of North American capitalism as little to do with markets and more to do with the planned sector, where large corporations backed by states administer systems and prices.¹⁷ The idea of comparative advantage was challenged by that of competitive advantage, where it was recognized that local advantages were created and not static.¹⁸ The technical-industrial centers of both Japan and California have been described as developing under long-term influences of joint ventures, a strong human-resource base, linkages with other states, state–corporate coordination, and "complementary strategies of import substitution and export promotion."¹⁹

In a similar way, the institutional idea of "circular and cumulative causation," with its discussion of the development and decay of institutional linkages,²⁰ has been used to explain industrial "cluster development" in developing countries. The United Nations Commission on Trade and Development has discussed criteria for regional clusters, including technological development, innovation and trust, cooperation as well as competition, and the learning involved in industrial clusters. The most successful subregional example of this model is the engineering and information-technology cluster in Bangalore, India. This large industrial zone was built on strong central-government investment in colleges and defense industries, as well as on coordination with and among private firms.²¹

Many of the examples of developmental states have been large, strong countries. However, examples also include small island states such as Singapore²² and Mauritius.²³ In the latter case, the former colony managed to escape dependency on plantation sugar and moved into a diversified, capitalist model, with strong

¹⁵ World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, World Bank Policy Research Reports (Washington, DC: World Bank, 1993).

¹⁶ Joseph Stiglitz, *Globalization and Its Discontents* (New York, NY: Norton and Co., 2002).

¹⁷ J. K. Galbraith, *The New Industrial State* (Boston, MA: Houghton Mifflin, 1967).

¹⁸ For example, R. J. Johnston, "Extending the Research Agenda," *Economic Geography* 65 (1989): 338–47; and Michael Porter, *The Competitive Advantage of Nations* (New York, NY: Free Press, 1990).

¹⁹ Ettliger, "Roots of Competitive Advantage."

²⁰ Philip Toner, *Main Currents in Cumulative Causation: The Dynamics of Growth and Development* (London: MacMillan, 1999).

²¹ UNCTAD, "Promoting and Sustaining SMEs, Clusters, and Networks for Development," Issues Paper, UN Conference on Trade and Development, New York, NY, 1998.

²² Kevin Grice and David Drakakis-Smith, "The Role of the State in Shaping Development: Two Decades of Growth in Singapore," *Transactions of the Institute of British Geographers* 10,3 (1985): 347–59.

²³ Richard Sandbrook, "Origins of the Developmental State: Interrogating Mauritius," *Canadian Journal of African Studies* 39,3 (2005): 549–81.

development of education and health. The process was said to require a “capable and relatively autonomous state bureaucracy.”²⁴ However, the role of the state in planned institutional development and the various linkages within a developmental state do not of themselves provide the full picture. This process also depends on the substantial development of human resources and, in particular, a firm basis in education and health. Challenges for a developmental state approach include a clear vision, a well-educated population, and political will alongside popular support.

Human Development

Focusing on education and health sits alongside the emphases on other human capabilities in what might now be called a human development approach. To the extent that this can be called a distinct strategy of development, it requires emphases on core capabilities such as education, health, and gender equality and participation. In development this should be seen as strong and sustained efforts to build not just human resources but a healthy, well-educated population. In this approach, education and health are key goals of development, not just the means to create skilled workers.

It is notable that several resource-poor island states have made great advances through building their human resources. Japan, for example, became an industrial power despite being crushed by war, and despite the absence of energy resources. Singapore, a former colony with hardly any physical resources (it even has to import fresh water), is now a high-income country. Likewise Cuba, with few physical resources, has the best health indicators in the developing world and is the major provider of health-aid programs to other developing countries. These three very different countries have one thing in common: They built a distinct future by investing in their own people.

While the human development concept is relatively new, the approach is not. Sweden, for example, led the world in maternal care in the late nineteenth century, through its network of midwives. Though a fairly poor country at that time, its well-organized and well-distributed system of birth assistants gave it better maternal mortality outcomes than other European countries.²⁵ Sweden’s early success in maternal health was not due to economic wealth. Indeed, research commissioned by the World Bank tells us that, across all developing countries, the education of women has a more powerful impact on critical health indicators (adult and child mortality, fertility rates) than does earning a high income.²⁶ Yet market economy approaches always stress high incomes.

²⁴ Thomas Meisenhelder, “Developmental State in Mauritius.”

²⁵ Wim Van Lerberghe and Vincent De Brouwere, “Of Blind Alleys and Things that Have Worked: History’s Lessons on Reducing Maternal Mortality,” *Studies in Health Services Organisation and Policy*, no. 17 (Antwerp: ITG Press, 2001), www.jsieurope.org/safem/collect/safem/pdf/s2929e/s2929e.pdf, accessed May 24, 2012.

²⁶ Jia Wang et al., *Measuring Country Performance on Health: Selected Indicators for 115 Countries* (Washington, DC: World Bank, 1999).

Table 1			
Development Strategies			
	Private Market Economy	Developmental State	Human Development
Ideas, strategies, emphases	Open markets, broad-based growth, comparative advantage	State-led planning, competitive advantage, institution-building	Participation, human capabilities, human resources
Sectoral implications (education, health, infrastructure, economy)	Minimal free services, safety net, export infrastructure, privatization, enabling environment	Coordination of human resources and industry, state investment, capitalist or socialist versions	Strong push in education, health, and equality
International experience	Western model (selectively applied), favored by corporations	East Asia (Japan, South Korea, China, Singapore), Venezuela	Japan, Kerala, Cuba, Venezuela, Singapore
Challenges	Weak strategic plan, excludes the poor	Human resources, political will, and popular support	Coordination, mobilization of human resources

The focus on human capabilities and improved outcomes allows for a wide view of development. For example, it seems likely that customary or community land, in some countries, serves as a powerful basis for food security, employment, and social security. Where land is widely distributed, as in the Melanesian countries (Papua New Guinea, the Solomon Islands, Vanuatu), it serves as a great “hidden” reserve of wealth, nutrition, and potential income. The land also provides the distribution mechanism for those benefits.²⁷ Market economies, by contrast, will always demand the commercialization of land.²⁸ This will be followed by land rationalization and greater reliance on cash economies, with all their distribution problems.

A human development emphasis faces challenges of effective coordination and mobilization of its human resources. Nevertheless, the focus remains on building human capacity for the future.

²⁷ J. Fingleton, ed., “Privatising Land in the Pacific: A Defence of Customary Tenures” (Canberra: Australia Institute, 2005), <https://www.tai.org.au/index.php?q=node%2F19&pubid=80&act=display>, accessed on April 30, 2012; and Tim Anderson, “Land Registration, Land Markets, and Livelihoods in Papua New Guinea,” in *In Defence of Melanesian Customary Land*, ed. Tim Anderson and Gary Lee (Sydney: Aid/Watch, 2010), <http://aidwatch.org.au/publications/publication-in-defence-of-melanesian-customary-land>, accessed April 30, 2012.

²⁸ For example, S. Gosarevski, H. Hughes, and S. Windybank, “Is Papua New Guinea Viable?” *Pacific Economic Bulletin* 19,1 (2004): 134–48.

STRATEGIES IN TIMOR-LESTE

The post-independence development strategy in Timor-Leste began with a National Development Plan (NDP), launched upon independence in May 2002. Since then we have seen the differing approaches of two main administrations: the FRETILIN-led government of 2001–06, and the AMP coalition of 2007–10. We must have regard to the language of strategy, but we also have to look at practice. Let's start with the NDP.

The National Development Plan, 2002

Timor-Leste's National Development Plan²⁹ is a complex document and is difficult to characterize because the process of its development required that it contain a variety of influences. It is necessarily a hybrid. In the first instance, the process of developing the NDP added elements of a human development character: inclusiveness and participation. Economic liberal approaches see economic policy as a "technical" matter, best left to the experts. As in any elitist process, programs are formulated "from on high" and delivered. Yet, in the formulation of Timor-Leste's NDP, then chief minister and chair of the planning commission, Mari Alkatiri, pointed to

the open, participatory and inclusive nature of our planning ... we invited representatives of the Church and members of Civil Society, national and international NGOs, the private sector and public interest groups ... to help debate and formulate policy options, program priorities and implementation strategies for the National Development Plan.³⁰

The president-elect, Xanana Gusmão, agreed:

The process of preparing the Plan [NDP] gave thousands of East Timorese, from school children to elderly people, the opportunity to think about the kind of future they want for themselves and for future generations.³¹

This level of participation helps include a wide range of voices, adding both relevance and ownership to the development process, thus enhancing human capabilities. The human development emphasis is present, but more muted, in the rest of the document. There is some emphasis, in education and capacity building (skills development), on "reducing imbalances in education" and addressing urban-rural gaps.³² This emphasis on eliminating inequalities takes the NDP beyond the more limited market economy commitments to publicly funded basic education, usually followed by a push to privatize secondary and technical education.

²⁹ Planning Commission, *East Timor: National Development Plan* (Dili: Planning Commission, May 2002).

³⁰ *Ibid.*, p. xvii.

³¹ *Ibid.*, p. xvi.

³² *Ibid.*, pp. 4, 9, 31.

There are other hints of a human development emphasis, through the NDP's commitment to ongoing participation in governance—to the “participation of all citizens in economic, social, and political processes and activities” and to promoting “gender equality and the empowerment of women.”³³ The plan's commitment to the Millennium Development Goals (MDGs) maintains this same emphasis, as the first few MDGs are based on human development measures. There is an emphasis on institution-building in the NDP, as one might expect of a new nation that requires the basic institutions of a new state, that is, law, policy, and infrastructure. Institution-building in itself would not reflect a developmental state approach unless it was preparing a leading role for the state, especially in investment planning and resource management.

A market economy approach would focus institution-building on creating an enabling environment of law and institutions for private economic activity. Indeed, the NDP does this repeatedly.³⁴ It thus incorporates some of the market economy approach into its institution-building. However, it goes further than that. Despite the market economy language on institutions, the NDP is heterodox in maintaining a strong role for state planning, state involvement in resource control, and some hints of greater planning in the areas of agricultural development and rural development.³⁵ These provide hints of a modest developmental state approach.

Despite the fact that the NDP is said to cover eighteen years (2002–20), Mari Alkatiri, in his introduction, suggests that the plan relates mainly to “the next five years.”³⁶ The plan itself refers to an ongoing monitoring and evaluation process that includes “most importantly, improvement in the plan in itself.”³⁷ As such, both participation and state direction are to be maintained.

A market economy, or economic liberal, approach to resource management would leave this to the private sector, with the state simply collecting taxes and license fees. This is indeed the case in Australia, for example, where the state has no equity at all in natural-resource or processing industries. The NDP, by contrast (building on Article 139 of the Constitution, which requires the state to own and fairly manage natural resources), calls for strong state management and, in particular, for “sound administration and sustainable utilization of the oil and gas revenues to benefit present and future generations” and to “curb the temptation to squander the windfall in ostentatious consumption.”³⁸ This contrasts with the strong tendency of market economy approaches to “discount the future value” of assets (e.g., environmental assets) and to emphasize current market transactions.

However, the NDP has other strong economic liberal elements, to some extent, due to outside influences such as the World Bank. This plan was created before independence, at a time when Timor-Leste did not quite have its full sovereign voice, and when development banks and international donors had a stronger say. The language of economic liberal institutions (particularly the World Bank) is apparent, and has been incorporated into this sovereign document. The NDP repeatedly emphasizes the themes of private-sector-led development, with a diminishing

³³ *Ibid.*, pp. 20–24.

³⁴ *Ibid.*, pp. 2, 20, 22, 24, 28, 29.

³⁵ *Ibid.*, pp. 10, 20, 31.

³⁶ *Ibid.*, p. xvii.

³⁷ *Ibid.*, p. 5.

³⁸ *Ibid.*, pp. 24, 30.

economic role for the state. It is notable, though, that the “private sector” of the NDP is a wide concept, mixing informal farming with private-formal-sector businesses, domestic or foreign.

The NDP suggests that “successful private sector development will be a key driver of economic growth and poverty reduction ... the Government has committed itself to a market-based economy ... [including] an open approach to foreign investment and foreign trade.”³⁹ It calls for “an open market system but with important strategic and regulatory roles for government,”⁴⁰ saying that Timor-Leste will develop:

a market economic system with strategic and regulatory roles for government, including the provision of social safety nets ... **and** a strong role for the private sector in development ... **as well as** an enabling environment ... and **will arrange** for the delivery of essential support services for the private sector to gain confidence and strength ... **and will** provide a growth enabling policy and legal environment ...⁴¹

There are many emphases on private investor led growth, including an openness to foreign investment.⁴² The market-based economy approach is also applied to agricultural development, although here the private sector is said to include informal-sector farmers.⁴³ An outside reader of the NDP might say that, in terms of economic development strategy, economic liberal influences are strong to dominant, but moderated by some developmental state influences in the areas of planning and natural resource management and by some human development emphases in terms of participation and a more equitable approach to education, women, and rural development. However we must look at practice to better understand national strategy.

FRETILIN-Led Heterodoxy, 2001–06

The practice of the first post-independence government, a coalition led by FRETILIN, built on the NDP, but was, in practice, more heterodox. What follows is not an assessment of that government, but, rather, some illustrations of its distinct themes in the fields of agriculture, fiscal autonomy, and education and health.

With very little money in the first budget and with the task of constructing the institutions of a new state—a parliament, criminal and civil law, a police service, public services, language policy—there was much to address. Prime Minister Alkatiri stressed the need to construct democratic institutions but also to address key human development objectives, such as nutrition, health, and education. Poverty would be reduced by “rapid, integrated, equitable and sustainable economic

³⁹ *Ibid.*, p. 11.

⁴⁰ *Ibid.*, p. 6.

⁴¹ *Ibid.*, pp. 22, 28–29.

⁴² *Ibid.*, p. 31.

⁴³ *Ibid.*, p. 24.

growth,"⁴⁴ to help meet the people's basic needs. He noted the objective of creating an enabling environment for the private sector, but this included "farmers, fishers, investors, micro-enterprise ... traders and others."⁴⁵ The government would maintain a market economy but with "a strategic and regulatory role" for government, which would in particular create "the networks and mean by which to guarantee social security during the most difficult times."⁴⁶

One of the first conflicts with international agencies came over agriculture, before independence, and illustrates the challenges that would be faced by FRETILIN and the NDP. In 2000, a World Bank team that included AusAID officials had rejected proposals by the United Nations Transitional Administration (UNTAET) and East Timorese leaders that aid money be used for agricultural service centers, a public abattoir, and public grain silos. The agencies did not support the move to rehabilitate irrigated rice fields, either. This opposition was evidently ideological, motivated by a prescriptive economic liberalism: "Such public sector involvement [in agricultural services] has not proved successful elsewhere,"⁴⁷ and "the government should not own revenue generating enterprises, such as meat slaughterhouses, warehouse facilities, grain storage facilities ... [This] would be costly and would inhibit private entrepreneurship."⁴⁸ Given that these proposals were linked to concerns arising from the country's prior food crises, the World Bank's interventions were acts of extraordinary insensitivity, and a denial of self-determination.⁴⁹

After independence, the government proceeded with its planned rehabilitation of rice fields, but without World Bank or Australian help. Australia, a major grain exporter, had made clear that its assistance with food security would focus on export crops and agribusiness.⁵⁰ With some assistance from the United Nations' Food and

⁴⁴ Mari Alkatiri, *Timor Leste: a Caminho do Desenvolvimento: os primeiros anos de governação* (East Timor: The path of development: The first years of government), 2a edição actualizada (Lisboa: Lidel, 2006).

⁴⁵ Ibid.

⁴⁶ Ibid., p. 45.

⁴⁷ World Bank, "Project Appraisal Document on a Proposed Trust Fund for East Timor Grant in the Amount of US\$6.8 Million Equivalent and a Second Grant of US\$11.4 Million to East Timor for an Agricultural Rehabilitation Project," Rural Development and Natural Resources Sector Unit, Papua New Guinea/Pacific Islands Country Unit, East Asia and Pacific Region, Report no. 20439-TP, June 14, 2000, p. 14.

⁴⁸ IDA, "Agriculture in East Timor: A Strategy for Rehabilitation and Development" (Dili: International Development Association/World Bank Mission Report, May 2000), pp. 3–4.

⁴⁹ See Tim Anderson, "Self-determination after Independence: East Timor and the World Bank," *Portuguese Studies Review* 11,1, Special Issue on East Timor (July 2003): 176–77.

⁵⁰ DFAT, "Food Security and Trade: A Future Perspective," Department of Foreign Affairs and Trade (Canberra, 1996), Summary (vii–xi). Despite Australia's economic liberal approach to food security ("rely on trade, not self-sufficiency"), the country did offer support for a "Seeds of Life" program, which was aimed at developing appropriate domestic seeds (including rice) for Timor Leste's conditions; see: ACIAR, "Seeds of Life—East Timor," <http://aciarc.gov.au/project/cim/2000/160>, accessed May 24, 2012; see also E. L. Javier, G. San Valentin, P. Kapukha, B. Monaghan, B. Palmer, C. Piggin, F. Tilman de Benevides, D. Da Silva, and A. De Oliveira, "Selection of Better Rice for East Timor," in *Agriculture: New Directions for a New Nation—East Timor (Timor Leste)*, ed. Helda Da Costa, Colin Piggin, Cesar J. da Cruz, and James J. Fox, ACIAR Workshop Proceedings, No. 113 (2003), pp. 79–83, <http://aciarc.gov.au/files/node/512/pr113.pdf>, accessed May 24, 2012.

Agriculture Organization (for grain silos) and Japan (in rice production), Timor-Leste maintained an independent course. By 2004, rice production (mostly irrigated fields) had increased strongly from the very low levels of 1998–99 (from 36,000 to 65,000 tonnes), though possibly at the expense of maize and cassava production.⁵¹

In 2005, a food security policy was introduced that emphasized a fair degree of independence from market economy orthodoxy in agriculture. This policy focuses on support for existing small-scale farming, rather than (as advocated by the World Bank and the Asian Development Bank) a push into large-scale cash cropping, aimed at export markets. It proposed a range of extension services (e.g., seeds, technologies, livestock services), support for farmers' organizations, rural credit, and marketing and infrastructure support for both local and export markets. It speaks of a land use policy, support for community organizations and cooperatives, and roads to provide "market access for isolated sucos [villages]."⁵² The food security policy goes beyond agriculture into "early warning systems," grain storage, and relief assistance, "preferably established and managed at community levels through Suco councils."⁵³ There was no talk of alienation of land to large agribusiness investors. Nevertheless, a proposed biofuel industry, using contracted East Timorese *Jatropha* farmers, was initiated in mid 2005.⁵⁴

Little of the proposed wide-ranging support to small farmers was achieved. This was in part because of limited budgets, and also due to competing demands on those budgets. The commitment to agriculture in the 2004–05 combined-sources budget was 8.8 percent,⁵⁵ down from the 11 percent that had been promised in the Sector Investment Program.⁵⁶

The first government maintained its resolve to pursue cautious and autonomous fiscal policy, carefully managing small budgets and, despite the lack of resources, avoiding debt. Conscious of the debt-based political leverage introduced in the 1980s and 1990s, which had been resisted strongly by many other developing countries, a public campaign backed this move for a "debt free" future.⁵⁷ So, despite the virtual absence of oil and gas revenues in the first few years, the government took out no loans.⁵⁸ Nor were there significant private takeovers of key services.

The government developed a series of Sector Investment Programs (SIPs), though these tended to be more comprehensive than focused. For example, the private-sector SIP committed itself to the support of "agri-business" and "private

⁵¹ UNDP, "The Path Out of Poverty," *Timor Leste Human Development Report 2006* (Dili: United Nations Development Programme, 2006), p. 84.

⁵² MAAF, "National Food Security Policy for Timor Leste," Ministry of Agriculture, Forestry and Fisheries (Dili: República Democrática de Timor Leste, November 16, 2005).

⁵³ *Ibid.*

⁵⁴ Ortlan Bennett, "Timor Link to Region's Biggest Biofuel Industry," *Sunday Times*, Perth, October 2, 2005.

⁵⁵ RDTL, *General Budget of the State 2004-05*, Budget Paper No. 1 (Dili: Ministry of Planning and Finance, Democratic Republic of Timor Leste, 2004), p. 44.

⁵⁶ UNDP, "Path Out of Poverty," p. 38.

⁵⁷ ETAN, "The World's Newest Country Must Start Debt-Free!" (2003), <http://etan.org/action/action2/06alert.htm>, accessed May 24, 2012.

⁵⁸ IMF, "Staff Report for the 2006 Article IV Consultation, Democratic Republic of Timor-Leste" (Dili: International Monetary Fund, December 27, 2006).

participation in infrastructure, including perhaps power and water supply.⁵⁹ There were, however, no large agribusiness projects nor private-investor moves into power or water. Water and electricity, though very limited, were kept in public hands.⁶⁰ Telecommunications was handed to a foreign company, but on a build-operate-transfer (BOT) basis, through which the government maintained some equity and future rights.⁶¹

This was not a market economy approach but, rather, a state-managed effort to retain strategic control and avoid leverage by foreign financiers. Nevertheless, those financiers were managed tactfully. Timor-Leste joined the World Bank, but did not borrow its money. The Bank maintained an advisory role, as well as helping coordinate foreign assistance.⁶² At a conference in 2005, the prime minister explained why his government had not engaged in the World Bank's "Poverty Reduction Strategy Paper" (formerly Structural Adjustment Programs) process of conditional loans:

The PRSP with its concessional loans program increasingly places more burdens on developing nations because they are not based on real feasibility studies ... we have adopted a policy of avoiding such debts because we recognise that our capacity to absorb these funds is still limited, as is our labour force productivity.⁶³

The conflict over agriculture and food security provides one example of the leverage Alkatiri's government sought to avoid. The constant demand for foreign investor "participation" in key services was another.⁶⁴

In education and health, the FRETILIN government built on the country's constitutional commitment to education and health as rights, rather than commodities. In this sense, the 2001 Constitution had established and the government had maintained some "human development themes," opposed to the "pay for service" ethos of market economies. The government began with strong commitments, pledging "more than 35 percent of resources" to education and health in its first budget.⁶⁵ However, it delivered only 27 percent and 25 percent in the 2004–05 and 2005–06 budgets, respectively (see Table 2 below).

⁵⁹ Ministry of Development, "Private Sector Development: Priorities and Proposed Sector Investment Program" (Dili: Private Sector Development Sector Investment Program, April, 2006), pp. ix–x.

⁶⁰ IMF, "Selected Issues and Statistical Appendix, Democratic Republic of Timor-Leste" (Dili: International Monetary Fund, January 9, 2007).

⁶¹ Alkatiri, *Timor Leste: a Caminho*, p. 53.

⁶² IMF, "Staff Report for the 2006 Article IV Consultation, Democratic Republic of Timor-Leste," Annex, pp. 5–6.

⁶³ Alkatiri, "Keynote remarks at the International Meeting to Review the Implementation of the Program of Action for the Sustainable Development of Small Island Developing States," January 13, 2005, www.un.org/smallislands2005/coverage/statements/sids050113timor-leste.pdf, accessed May 24, 2012.

⁶⁴ For example, IMF. "Selected issues and Statistical Appendix," p. 8.

⁶⁵ Alkatiri, *Timor Leste: a Caminho*, p. 48.

Spending as a percentage of combined sources (CS) and state budget	2004–05	2005–06	2006–07	2008	2010
Education (% of CS budget)	14.9	13.4	10.7	11.7	11.3
Education (% of state budget)	15.3	15.1	11.1	13.0	10.2
Health (% of CS budget)	12.2	11.3	9.2	8.2	6.9
Health (% of state budget)	9.0	11.9	8.1	6.9	5.4
Agriculture (% of CS budget)	8.8	4.6	5.8	5.9	3.7
Agriculture (% state budget)	1.5	3.7	4.4	4.8	2.5
Infrastructure (% of CS budget)	n.a.	n.a.	8.8	13.2	26.6
Infrastructure (% of state budget)	n.a.	n.a.	15.8	12.8	28.5

Notes: **“Combined sources” is the state budget plus contributions from outside agencies;** the Ministry of Education was the Ministry of Education and Culture before 2008; the Ministry of Infrastructure was the Ministry of Public Works in 2006-07 and prior to that was part of transport and communications; prior to 2005, the state budget was divided into CFET (Consolidated Fund for East Timor) and TFET (Trust Fund for East Timor); autonomous agencies are included in combined sources, but not in state budgets.

Sources: RDTL, General Budget of the State 2004–05, Table 8.1; RDTL, General Budget of the State 2005–06, Table 6.5; RDTL 2007, Table 8.5; RDTL, General Budget of the State 2008, Table 7.3.

There were some modest education and health achievements in those first years. Combined school enrollment rates rose from 59 percent in 1999 to 66 percent in 2004, and under-five (years) mortality (deaths per thousand) was said to have fallen from 159 in 1999 to 136 in 2004.⁶⁶ Lack of capacity and resources constrained educational development. Nevertheless, a school feeding program was introduced in some districts, again, representing a strong human development theme. The first draft of the food-security policy included reference to the school feeding program, backed by the United Nations’ World Food Program, which would both “encourage school attendance and improve nutrition of school age children.”⁶⁷ For some reason this reference was dropped from the final food-security policy;⁶⁸ but the school feeding program itself was maintained.

A significant human development move in health occurred in early 2003, when the country’s leadership chose—against the opposition of the United States and Australia—to take on a health-cooperation program with Cuba. This “south-south cooperation” program rapidly became the backbone of the country’s primary health care and medical training, dwarfing all other health aid programs in the country, indeed, in the entire region. By late 2005, there was an offer of one thousand medical scholarships, and by 2008 almost nine hundred of the scholarships had been awarded. By 2006, there were almost 300 Cuban health workers in the country, many

⁶⁶ UNDP, “Path Out of Poverty.”

⁶⁷ MAAF, “DRAFT National Food Security Policy for Timor Leste” (Ministry of Agriculture, Forestry and Fisheries, Dili, República Democrática de Timor Leste, July 7, 2005).

⁶⁸ MAAF, “National Food Security Policy for Timor Leste.”

of them in remote rural areas. Building on the Cuban-model's success with health care, a substantial literacy program, based on a Cuban method, was introduced in 2005.⁶⁹ These programs gave strong practical support to the constitutional commitment to health **and education as basic human rights**, and represent a strong human development emphasis, contrasting with market economy ideas.

The FRETILIN-led government built on the National Development Plan and its Sector Investment Programs, both of which had some strong economic liberal language. Nevertheless, the government pursued some key heterodox policies: in agriculture, finance, education, and health. This was a strong human development approach, at odds with the "user pays" and private-investor "participation" ethos of market economy programs. As the stated economic strategy was wide ranging and had a fair degree of economic liberal language, it attracted support of the international agencies. But in 2006, when a political crisis destabilized the government, the International Monetary Fund (IMF) pressed for stronger measures to support private-sector-led growth, including private investment in agriculture, fisheries, and tourism. It warned of rising wages and, to contain this, urged "greater labour market flexibility."⁷⁰ These market economy ideas found greater resonance with the AMP coalition government elected in 2007.

The AMP and Big Money, 2007–2010

The AMP coalition government, led by Xanana Gusmão, introduced some economic liberal emphases. Once again, what follows is not an attempt to assess the AMP government but, rather, a characterization of some important elements of its strategic approach in the fields of fiscal policy, infrastructure, land use, and education and health.

The AMP coalition had access to larger budgets relative to 2001–06, mostly thanks to petroleum revenues, and was also inclined to spend more freely. The state budget almost tripled, from US\$120 million in 2005 to \$348 million in 2008; by 2010, the budget had risen to US\$660 million.⁷¹ Despite rising revenues from the Petroleum Fund, in 2009, the government overdrew the nominal "sustainable" amount (ESI) by US\$104 million, taking \$512 million instead of \$408 million.⁷² In that same year, further overspending of the Petroleum Fund, in the name of an Economic Stabilization Fund, was blocked when the courts found such overspending to be unconstitutional.⁷³ This sharply increased level of spending, justified by references to poverty reduction and a "stimulus" to the economy,⁷⁴ identifies the AMP government with a "big money" approach most consistent with economic liberalism.

⁶⁹ Tim Anderson, "Solidarity Aid: The Cuba–Timor Leste Health Program," *International Journal of Cuban Studies*, Issue 2 (December 2008), pp. 53–65, http://cubanstudies.plutojournals.org/Portals/8/Issues/sissue_2_bw.pdf, accessed May 24, 2012.

⁷⁰ IMF, "Staff Report for the 2006 Article IV Consultation."

⁷¹ RDTL, General Budget of the State 2005–06, Budget Paper No. 1, Dili, Ministry of Planning and Finance, Democratic Republic of Timor Leste, 2005; RDTL, General Budget of the State 2008, Budget Paper No. 1, Dili, Ministry of Finance, Democratic Republic of Timor Leste, 2007; RDTL, 2010 State Budget, Dili, República Democrática de Timor Leste, Book 1, 2009.

⁷² World Bank, "East Asia and Pacific Economic Update 2010," Vol. 1, Timor Leste, 2010, p. 71.

⁷³ RDTL, 2010 State Budget, p. 8.

⁷⁴ *Ibid.*

Some foreign advisers and economic liberal agencies⁷⁵ had urged this stimulus spending, especially on infrastructure and on improving conditions for foreign investors. “Ramp up public spending,” the IMF said.⁷⁶ The aim was to “lift [economic] growth to a higher sustainable path.”⁷⁷ The emphasis here is on current spending, consistent with the market economy approach to development, in which “future value” is discounted. Government spending can stimulate waves of new income and consumption in an economy. Such spending may be more useful if linked to the creation of valuable infrastructure, such as roads and schools, but can also be carried out in a wasteful manner.

The chief stated aim of Timor-Leste’s 2010 budget was infrastructure:

The 2010 budget prioritizes investment in infrastructure. The future of our country depends upon the building of basic infrastructure. We need infrastructure to develop a modern and prosperous Timor-Leste.⁷⁸

Indeed, there was a very strong budget commitment to infrastructure. Planned expenditure rose from US\$44.5 million in 2008 to \$229 million in 2010, representing a jump from 15.8 percent to 28.5 percent of the state budget (see Table 2). However, the potential for waste and corruption is reinforced by the idea that the “stimulus” provided to private businesses is as much a legitimate policy aim as the infrastructure development itself. For example, under the August 2009 “Referendum Package”—comprising some \$70 million of mostly infrastructure projects—the aim was to subcontract projects so that private companies would make a profit while constructing public facilities. However, dozens of projects were allocated outside normal government procedures, mostly to private companies, and many complaints of waste and corruption ensued.⁷⁹ The secretary of state for public works, Domingos Caero, rapidly acknowledged that “about 60 percent of the Referendum Package Projects are of bad quality” and said he was taking steps to penalize the companies involved.⁸⁰ However, it seems likely that a similar pattern of subcontracting will be employed in the 2010–11 infrastructure budget, marked for roads, bridges, power generation, and other facilities.⁸¹

The concept of a stimulus was developed in wealthy countries with strong formal sectors. The idea was that weak consumer demand in a previously active

⁷⁵ For example, Jeffrey Sachs, “General Taur Matan Ruak Questions Jeffrey Sachs on International Aid,” *Tempo Semanal*, April 5, 2010, <http://temposemanaltimor.blogspot.com/2010/04/general-taur-matan-ruak-questions.html>, accessed on April 30, 2012.

⁷⁶ IMF, “Selected Issues and Statistical Appendix,” pp. 2, 5.

⁷⁷ *Ibid.*, 2, 8; IMF, “Staff Report for the 2006 Article IV Consultation,” pp. 10, 12, 21.

⁷⁸ Xanana Gusmão, in RDTL, 2010 State Budget, Dili, República Democrática de Timor Leste, Book 1, 2009, p. 15.

⁷⁹ *Tempo Semanal*, “Pakote Referendum Timor-Leste: Exclusive Major Government Document Leak,” March 28, 2010, <http://temposemanaltimor.blogspot.com/2010/03/pakote-referendum-timor-leste-exclusive.html>, accessed April 30, 2012.

⁸⁰ FRETILIN.Media, “Government Admits 60% of Public Works Projects of ‘Bad Quality,’” Media Release, Dili: Frente Revolucionaria do Timor Leste Independente, June 7, 2010, <http://fretilinmedia.blogspot.com/2010/06/media-release-government-admits-60-of.html>, accessed April 30, 2012.

⁸¹ RDTL, 2010 State Budget, pp. 15, 29.

formal economy could be reactivated by new spending.⁸² However, this was not a developmental concept aimed at building new capacity. Indeed, such demand management was unable to address the structural changes of the 1970s in wealthy countries. Additional problems with such stimulus spending in less developed economies may include the money being captured by elites in the cities and formal sector, leaving little to “trickle down” to those in the rural, informal sector; large leakages to offshore accounts and wealthy consumption spending, which weakens any spin-offs or trickle down to other sectors; and a lack of coordination, undermining new capacity and the creation of new **job-creating enterprises**, especially when the so-called stimulus is carried out through private contracts. A developmental state emphasis would maintain greater control and coordination of infrastructure development.

An unusual feature of Timor-Leste’s fiscal policy in 2008 was the decision to cut a range of taxes, in particular, service taxes, income tax, and tariffs. This was a unilateral, economic liberal move, welcomed, but not really called for, by international agencies. In 2007, the IMF had discussed possible “tax reform” in Timor-Leste, generally favoring tax reductions but admitting there was no strong evidence to indicate benefits. Indeed, the IMF recognized that cuts to the non-oil tax system would “remove a useful discretionary fiscal policy instrument” and that retaining “some level of non-oil tax revenue would be prudent.”⁸³ Nevertheless, President Ramos-Horta called for the country to be “almost tax free,” in a bid to attract foreign investment.⁸⁴ A law along these lines was passed by the parliament in mid-2008 and was subsequently praised by the World Bank.⁸⁵ The immediate effect was to narrow, even further, the “tax base” of the country, making the state even more dependent on the Petroleum Fund. There do not appear to be any offsetting investment dividends from this move. Political stability and improvements in infrastructure and public health would likely do more than the tax cuts did to attract investment in, say, the tourism sector.

In agriculture, the major initiatives of 2008 were proposed biofuel projects. One of these extended the earlier proposal for subcontracted *Jatropha* farming, near Baucau.⁸⁶ The other involved a proposed lease to a foreign company of 100,000 hectares, about 20 percent of the country’s arable land.⁸⁷ It was argued that a sugarcane plantation on this land would create jobs. FRETILIN spokesperson

⁸² For example, John Maynard Keynes, *General Theory of Employment*.

⁸³ IMF, “Selected issues and Statistical Appendix,” pp. 19–24.

⁸⁴ ABC, “Ramos Horta Calls for Timor to Be Tax Free,” May 26, 2008, www.radioaustralia.net.au/international/radio/onairhighlights/ramos-horta-calls-for-timor-to-be-tax-free, accessed May 24, 2012.

⁸⁵ World Bank, “Paying Taxes 2010: The Global Picture,” 2010, www.pwc.com/gx/en/paying-taxes/pdf/paytax-2010.pdf, accessed May 24, 2012.

⁸⁶ RDTL-EDA, “Deed of Agreement for Carabella Bio-Oil Facility, Republica Democratica de Timor Leste and Enviroenergy Developments Australia” (ten-page agreement signed by Avelino da Silva, Secretary of State for Energy Policy and Edian Krsevan, Director EDA, February 13, 2008).

⁸⁷ MAP-GTLeste Biotech, “Memorandum of Understanding [concerning proposed sugar cane industry and lease of 100,000 hectares of land],” Dili, Ministerio da Agricultura e Pescas, MOU signed by Mariano Sabino, Minister of Agriculture and Fisheries and Gino Sakiris, Chairman of GTLeste Biotech, January 15, 2008.

Estanislau da Silva (the former agriculture minister) strongly criticized the large lease proposal:

They say they are going to plant sugarcane ... [This] goes against what we are doing in terms of development and increasing food production and food [self-] reliance ... Two thousand jobs means nothing to me when you give away 100,000 hectares.⁸⁸

This was, indeed, a shift away from an autonomous agricultural and food security policy—based on domestic crops as the core of food security—toward a market economy approach, which emphasizes formal-sector industry, export-oriented cropping, and food security through cash-for-food exchanges. Yet the dangerous volatility of rice markets from 2006 onward should have warned against such an approach. The government sale of subsidized rice imports is said to have created hoarding, speculative markets, and corruption, as well as economic damage to local growers.⁸⁹ This is an unstable “solution.”

The AMP government’s commitment to education and health sounds good, but has not been matched in practice. The prime minister’s 2010 Strategic Development Plan presents the admirable goal of “school construction and teacher training to ensure universal secondary school completion through Grade 12 by the year 2020.”⁹⁰ This would be an achievement above that of most wealthy countries—and is possible; but those developing countries that have made strong advances in education have only done so after many years of strong and consistent investment in education and training.

In contrast, the proportion of both Timor-Leste’s state budget and total budget (“combined sources,” i.e., state plus donors, **especially outside agencies**) dedicated to education has fallen steadily since 2004–05. The 2010 state budget dedicates only 10.2 percent to education, down from 15 percent five years earlier (see Table 2). Although the total budgets have grown larger and the absolute dollar amounts spent on education and health have also increased, the relative spending on education and health has fallen. In UNDP (United Nations Development Programme) terms, reducing the percentage being spent represents a weak commitment to education and health.⁹¹

The Strategic Development Plan (SDP) itself presents as a successor to the National Development Plan of 2002. It is an ambitious and optimistic document,

⁸⁸ Agence France-Presse, “Massive East Timor Land-for-Biofuel Plan Raises Hackles,” Dili, June 24, 2008, http://www.spacedaily.com/reports/Massive_East_Timor_Land_For_Biofuel_Plan_Raises_Hackles_999.html, accessed April 30, 2012.

⁸⁹ Douglas Kammen and S. W. Hayati, “Crisis and Rice in East Timor,” 2007, <http://www.etan.org/news/2007/03food.htm>, accessed April 30, 2012; Steve Holland et al., “East Timor PM Accused of Corruption,” Radio Australia, June 26, 2009, <http://www.radioaustralia.net.au/asiapac/stories/200906/s2610077.htm>, accessed April 30, 2012.

⁹⁰ OPM, “From Conflict to Prosperity: Timor Leste’s Strategic Development Plan 2011–2030,” Dili, Office of the Prime Minister, April 7, 2010.

⁹¹ UNDP, *Human Development Report 2007/2008—Fighting Climate Change: Human Solidarity in a Divided World* (New York, NY: United Nations Development Programme, 2008), pp. 247–50, 265–68, http://hdr.undp.org/en/media/HDR_20072008_EN_Complete.pdf, accessed June 11, 2012.

suggesting that Timor-Leste is set for huge increases in per capita income, that petroleum revenues will “provide substantial revenues for decades,” and that the big-spending approach—including “withdrawing in excess of the ESI” and additional borrowing—is desirable and necessary.⁹² The SDP has some strong human-development language and, in contrast to AMP government practice, is less strong on economic liberal ideas. Nevertheless, it does see private investment as the key element in the petroleum sector, telecommunications, and agriculture.⁹³ This document does not have the legitimacy of the earlier NDP, being basically a missive from the prime minister’s office. After it was published, Prime Minister Gusmão sought “dialogue.”⁹⁴ In view of this genesis, it seems unlikely that this plan will survive the next change of government.

International financial institutions (IMF, World Bank, Asian Development Bank) seem to have influenced AMP government policy and practice. The IMF took its typical narrow view of development in Timor-Leste, insisting that everything depends on economic growth: “To promote human development and reduce poverty, the growth rate of Timor-Leste’s economy will need to accelerate markedly.”⁹⁵ The AMP government’s practical approach has been broadly consistent with this theme. That means that despite enhanced spending, there is less emphasis on those factors or sectors that do not contribute to apparent economic growth: a strong, informal, rural sector and development of human capabilities through participation, education, and health.

MANAGING PETROLEUM FUNDS

Both the FRETILIN-led and the AMP governments have demonstrated strong national will in struggles with the Australian government and Australia-based mining companies over petroleum revenues. There have been drawn-out disputes over maritime boundaries, royalty shares, and a gas refinery location. This political will shows the capacity to support development plans, but the impact of this is undermined, more recently, by reversion to market economy practice. This latter theme has become more pronounced in the AMP government’s practice than in that of the former FRETILIN-led government.

We can see this greater AMP government reliance on economic liberal arguments in the 2010–11 debates over changes to Timor-Leste’s Petroleum Fund. This crucial fund began as a cautious mechanism for managing anticipated one-off flows of funds from oil and gas fields. Principles established by the Petroleum Fund Law 2005 (in turn, based on Article 139 of Timor-Leste’s constitution) require the nation’s natural resources to be owned by the state, “prudently managed,” and used “in a fair and equitable manner” for the needs of “both current and future generations.”⁹⁶ The law set up a governance structure for the fund, a regulated

⁹² Office of the Prime Minister, “From Conflict to Prosperity: Timor Leste’s Strategic Development Plan 2011–2030, Summary, pp. 4, 22, www.scribd.com/doc/29934804/TIMOR%E2%80%90LESTE%E2%80%99S-Strategic-Development-Plan-2011-%E2%80%93-2030, accessed May 24, 2012.

⁹³ *Ibid.*, pp. 16–18.

⁹⁴ *Ibid.*, p. 24.

⁹⁵ IMF, “Selected Issues and Statistical Appendix,” p. 12.

⁹⁶ Article 11.4 of the Petroleum Fund Law 2005.

investment regime for its financial assets (mostly US-dollar bonds), and a process for “sustainable” withdrawal of revenues.

Those basic principles enjoyed broad support when there was no money in the fund, but discontent grew as several billions of dollars accumulated. The AMP government drew strongly on the fund for a range of projects, but at a time of global recession when there were limited actual returns on the fund’s mainly US-dollar bond investments. Particular risk factors for the fund include the state’s extreme dependence on fund revenues. In the 2010 budget, the fund provided more than 90 percent of local revenues.⁹⁷ In addition, local financial management capacity was limited and, consequently, there were moves to contract less accountable external managers. In 2010, consulting firm Towers Watson, contracted by the Ministry of Finance, proposed a substantial shift of fund assets into externally managed equities.⁹⁸ Later, former World Bank official Jeffrey Sachs backed AMP government moves to draw down and spend more from the fund—a proposal questioned by then armed forces chief, General Taur Matan Ruak.⁹⁹

FRETILIN claimed credit for the initial conservative Petroleum Fund strategy, saying that it had protected the country’s assets during the 2008 financial crisis.¹⁰⁰ It continued to criticize the high-spending budgets of the AMP government. In late 2010, the AMP released its proposal for amending the Petroleum Fund Law. Prominent was the enhanced role for the Minister of Finance, the use of external managers, and allowing up to 50 percent of the fund to be invested in stock markets, with the aim of “maximizing the risk-adjusted financial returns” of the fund.¹⁰¹ FRETILIN opposed this plan, as well as the government for “non-transparent” and excessive spending, especially on infrastructure programs.¹⁰²

Greater spending (which would put at risk long-term revenue streams from the fund) is consistent with an economic liberal emphasis on stimulating the economy (e.g., through infrastructure projects) to produce new rounds of economic activity. This approach heavily discounts future returns in favor of supposed near-term benefits from current spending. It is less consistent with developmental state and human development strategies, which would place greater emphasis on education and training and institutional development, both of which are long-term projects with little short-term economic impact. Going for high-risk investments, hoping for high returns, is also consistent with economic liberalism, with its focus on greater “market participation.”

Timor Leste’s fund is small, and its managers have limited levels of financial expertise. Nevertheless, the state has rapidly developed an extreme dependence on fund revenue. Countries with higher levels of skilled personnel relative to Timor-

⁹⁷ RDTL, 2010 State Budget.

⁹⁸ Peter J. Ryan-Kane, “Timor Leste Petroleum Fund: From Oil to Financial Assets: Planning for a Sustainable Future for Timor Leste,” public presentation by Towers Watson to Finance Ministry, Dili, March 2010.

⁹⁹ Sachs, “General Taur Matan Ruak Questions Jeffrey Sachs on International Aid.”

¹⁰⁰ FRETILIN, “Fretilin Investment Strategy Protects Timor Leste’s Petroleum Fund,” Media Release, Dili, Frente Revolucionaria do Timor Leste Independente, October 15, 2008.

¹⁰¹ Ministry of Finance, “First Alteration to Petroleum Fund Law No. 9/2005 of 20 June,” Legislation Proposal, October 20, 2010, Article 14.

¹⁰² For example, FRETILIN, “Timor Leste Government Raids Petroleum Fund Ignoring the Law,” Media Release, Dili, Frente Revolucionaria do Timor Leste Independente, January 27, 2011.

Letse's might better manage exposure to risk in volatile financial and equity markets, but the particular developmental features of Timor Leste otherwise suggest a more cautious approach. Given the poor returns of US bonds and the steady depreciation of the US dollar, a change to the law was necessary. However, rather than an anxiety to maximize returns and spend even more, a move into diversified bonds—along with cautious expansion of direct investment options, while slowly building domestic financial management capacity—would retain most of the prudential aspects of the initial regime.¹⁰³

THE NEGLECTED SECTORS

Development of the key sectors of agriculture, education, and health remains fragile. There are gaps between rhetoric and commitment, such as in the area of agriculture. With most of the population dependent on informal-sector farming—and with the entire population affected by failures in staple-food production—every government has stressed the importance of support for rural farming communities. Yet no government has matched this concern with substantial investment. This sector, which engages and employs as much as 80 percent of Timor-Leste's population¹⁰⁴ has never received more than 5 percent of the state budget (see Table 2). Small farmers have been mostly left to their own devices.

Why is small farming so undervalued? For one thing, it is not “counted” well by economists, nor by those who rely on market economy information. Subsistence production and a great deal of informal work and exchange are simply not added to the national accounts. Even the UNDP—generally more heterodox in economic matters—adopts this misleading approach. For example, in the 2006 Human Development Report for Timor-Leste, the country is said to need “sustained economic growth” for “tackling rural poverty.” The report goes on to note:

Growth will have to start with agriculture, which employs around three-quarters of the labour force. Most farmers are engaged in subsistence cultivation ... average landholdings are around 1.2 hectares. Currently productivity is low: output per worker is less than one-tenth of that in industry and services and, as a result, agriculture generates only one-fifth of GDP.¹⁰⁵

This is a basic misreading of the agricultural sector. The confusion comes from conflating a large informal sector with formal sector macroaggregates. To put it another way, they have not included proper estimates of subsistence and informal sector production. Production in rural subsistence sectors is often underestimated.¹⁰⁶

¹⁰³ See Tim Anderson, “The Petroleum Fund and Development Strategy in Timor Leste” (a Report for Timor Leste's Petroleum Fund Consultative Council, Dili, June, 2010).

¹⁰⁴ ACIAR, “Rebuilding Agriculture in East Timor,” Australian Centre for International Agricultural Research, 2011, <http://aciarc.gov.au/files/node/665/Rebuilding%20Agriculture%20in%20East%20Timor.pdf>, accessed April 30, 2012.

¹⁰⁵ UNDP, “Path Out of Poverty,” p. 3.

¹⁰⁶ John Gibson, “The Economic and Nutritional Importance of Household Food Production in PNG,” in *Food Security for Papua New Guinea*, ed. M. Bourke, G. Allen, and J. Salisbury, Proceedings for the Papua New Guinea Food and Nutrition 2000 Conference (Lae: PNG

It seems likely that agriculture contributes the major part of Timor-Leste's national production, given that more than 75 to 80 percent of the population rely on it for their food and livelihoods.¹⁰⁷

Understating the economic value of small farming contributes to the logic of governments pushing small farmers from their lands to make way for large export crop plantations. This is precisely what happened with the oil palm developments in Indonesia after the Asian Financial Crisis. The big plantations may increase GDP, but the displacement impact on small farming could easily lower total production, as well as dislocate large communities. Rural poverty could very well increase.

The alternative is to more decisively support rural communities, to help them do better in their current farming and expand their domestic market opportunities, while backing up these communities with essential services. Better estimates of subsistence production can strengthen government commitments to deliver on their promises of extension services, local market facilities, food storage, and improved local roads. Export markets can come second.

Closely related to support for small farming is the recognition of customary land rights, and resisting the temptation to give over alienated or "unused" land to large export crop plantations. Timor-Leste's 2002 Constitution, at section 54.4, specifies that only East Timorese "natural persons" can own land—neither corporations nor foreigners can. There was good reason for this. Community and family control of land for small farming provides the basis for livelihoods, food security, social security, and environmental protection. Export capacity would better build on this basis rather than displace it. The multiple benefits of small farming have only recently been more widely recognized.¹⁰⁸ Large plantations, on the other hand, bring the particular dangers of dispossession, displacement, environmentally damaging monocultures, and food insecurity. The experience of Haiti is one the best recent examples of this.¹⁰⁹

Another neglected sector under the AMP government has been health care. The **apparent** decline in commitment to health care—from 12 percent of the state budget in 2005–06 to less than 6 percent in 2010—is alarming, given the health care needs of the country. The Ministry of Health's Mid Term Expenditure Framework, developed in 2007, expected that 12 percent of the state budget would be earmarked for health;¹¹⁰ clearly, there has been a retreat from this position. The AMP may have become complacent over its commitment to health care, by relying on the huge Cuban health program. While there have been some investments in health, these will have to be scaled up substantially to make good use of the hundreds of medical students returning from Cuba. Failure to do so will risk losing many of those highly trained young people to emigration or other careers. The big surge in trained doctors, expected between 2010 and 2013, is a rare opportunity that needs careful management, and significant investment.

University of Technology, 2000), pp. 37–44; and Anderson, "Land Registration, Land Markets, and Livelihoods in Papua New Guinea."

¹⁰⁷ ACIAR, "Rebuilding Agriculture in East Timor"; and UNDP, "Path Out of Poverty," p. 3.

¹⁰⁸ For example, Marcel Mazoyer, "Protecting Small Farmers and the Rural Poor in the Context of Globalization," Rome, United Nations' Food and Agriculture Organization, 2001, <http://www.fao.org/DOCREP/007/Y1743E/Y1743E00.htm>, accessed April 30, 2012.

¹⁰⁹ Georges, Josiane, "Trade and the Disappearance of Haitian Rice," TED Case Studies No. 725, June 2004, <http://www1.american.edu/TED/haitirice.htm>, accessed April 30, 2012.

¹¹⁰ Rui Araujo, personal communication, May 2010.

The steady decline in the budget commitment to education is also alarming, given Timor-Leste's rapidly growing and relatively young population. Despite expanding budgets overall, and despite Prime Minister Gusmão's commendable goal of universal secondary school enrollment by 2020,¹¹¹ the state's commitment to the education sector has fallen from 15 percent to 10 percent of the state budget. This level of funding is inadequate for the stated goal.

Although Timor-Leste's relative performance in education is better than its per capita income would suggest—we have to look thirty places up the HDI (Human Development Index) rankings to South Africa to find another country that has a similar (above 70 percent) combined gross enrollment rate¹¹²—Timor-Leste's commitment to education is weak and compares poorly to other countries. Moreover, the country's literacy deficit falls more heavily on women than men. In 2004, only 43.9 percent of adult females in Timor-Leste were literate, compared with 56.3 percent of adult males.¹¹³ Developing countries on average commit 14 to 15 percent of their government budgets to education. Those that want rapid progress in human development must do much better than this. Twenty-two developing countries dedicate more than 20 percent of their government budgets to education; and a couple allocate more than 30 percent.¹¹⁴ Against its low education commitment, Timor-Leste has the fourth highest rate of natural population growth on earth, at 3.1 percent per year.¹¹⁵ This should prompt a greater commitment to education, not a diminished one. Meeting the universal secondary schooling goal of the 2010 Strategic Development Plan in the next decade would likely require that something closer to 30 percent of the total budget be committed for education.

CONCLUSION

This chapter explained three competing approaches to development strategy: those that emphasize the market economy, those that emphasize the role of the developmental state, and those that emphasize a human development approach. It has been argued that the market economy approach is counterproductive to a genuine development process and, instead, represents the preferred model of large corporations and those countries that have attained a fair degree of market dominance in international trade and investment. The latter two approaches, on the other hand, represent contemporary currents of genuine development strategy, directing the transformation of country capacity and building human resources for such change.

All three strategies are embodied to varying degrees in the various hybrids of Timor-Leste's National Development Plan, the practice of the FRETILIN-led government of 2001–06 and the AMP coalition of 2007–11. The NDP was a necessary hybrid, with distinct influences from international agencies. It has strong economic liberal influences, moderated by some developmental state influences in the areas of planning and natural resource management, and some human development

¹¹¹ OPM, "From Conflict to Prosperity," p. 14.

¹¹² UNDP, *Human Development Report 2007–08* (New York, NY: United Nations Development Programme, 2008), p. 231.

¹¹³ UNDP, "Path Out of Poverty," p. 15.

¹¹⁴ UNDP, *Human Development Report 2007–08*, Table 11.

¹¹⁵ UNDP, *Human Development Report 2009*, Table L.

emphases in terms of participation and a more equitable approach to education, women, and rural development.

The adopted strategies of the two post-independence governments were inferred more from their practice than from policy statements, due to the increased inclusiveness of policy language. The Fretilin-led government built on the National Development Plan, but pursued more heterodox, human development policies, with elements of development state ideas in agriculture, finance, education, and health. The AMP coalition had strong market economy influences, consistent with IMF advice. While the AMP asserted some human development themes in its 2010 Strategic Development Plan, its big spending stimulus approach coupled with weak investment in education and health was more indicative of economic liberalism. There are serious implications of such an approach, particularly for the neglected sectors of agriculture, education, and health. It is hoped that this discussion encourages further debate on development strategy, particularly within Timor-Leste.