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A case of Timor-Leste: From independence to instability or prosperity?

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ABSTRACT

This paper analyzes the economic growth problems of Timor-Leste since its independence. As for a typical country whose economic growth is mostly relying on the petroleum revenues, its monotonous source of income seems to be the biggest obstacle. Therefore, this article mainly analyzed the possible solutions for how to sustain and manage the economic growth for Timor-Leste. As the Strategic Development Plan was issued in 2011 by Timor-Leste government, a high-quality public spending strategy was set to be the main method to reach a rapid economic growth. Following this strategy, this paper indicates three plausible solutions consist of improvement of infrastructure, coffee production and trades, and development of tourism. After comparing these three alternatives according to the criterion of effectiveness and timing, the conclusion of this paper goes to the improvement of infrastructure being the best solution for Timor-Leste.

Keywords: Timor-Leste; GDP; Dutch Disease

1. Introduction

The Democratic Republic of Timor-Leste is the newest and one of the smallest sovereign states in Asia. Besides, it is the most impoverished country in Asian and it remains instability during the short period of independence. Timor-Leste has the highest rate of poverty than any other country in Asia and it has been suffering from food shortages, poor infrastructure, diseases, malnutrition, and education problems. Although some evidence shows that the living standard in Timor-Leste has been increased to a limited extent, people of this country are still suffering from various problems. For instance, infant mortality during the period 2008-2009 is up to 44 per 1,000 live births; disease control is still tough for this country, according to the World Health Organization (WHO, 2012)¹ indicates that life lost caused by communicable disease is 76% and much higher than the average rate of South-East Asia of 49%.

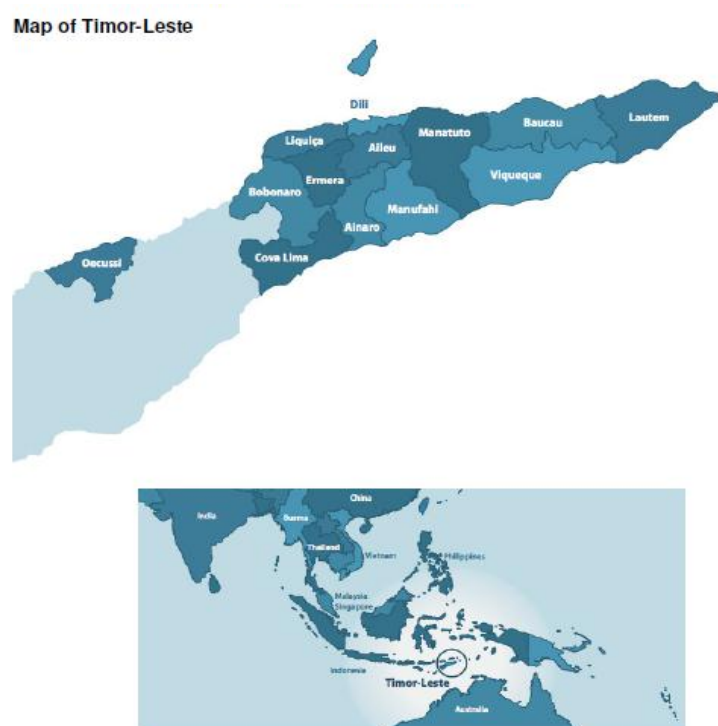


Figure 1. The map of Timor-Leste

Source United Nation Development Programme(UNDP) (2012)²

On the other hand, the absolute value of Timor-Leste's oil wealth, which the nation's finance depends on, is lower relative to other petroleum-endowed nations. Yet the

non-oil GDP has been volatile since independence. The UN schedules to withdraw its aid by the end of 2012, which will have a negative impact on growth (IMF 2012)³. The Petroleum Fund (PF) is playing an important role in the economic growth of Timor-Leste, but there has been significant debate about whether the funds are being well spent. The government launched the Strategic Development Plan (SDP) 2011-2030 in 2011 aiming for rapid and inclusive growth.

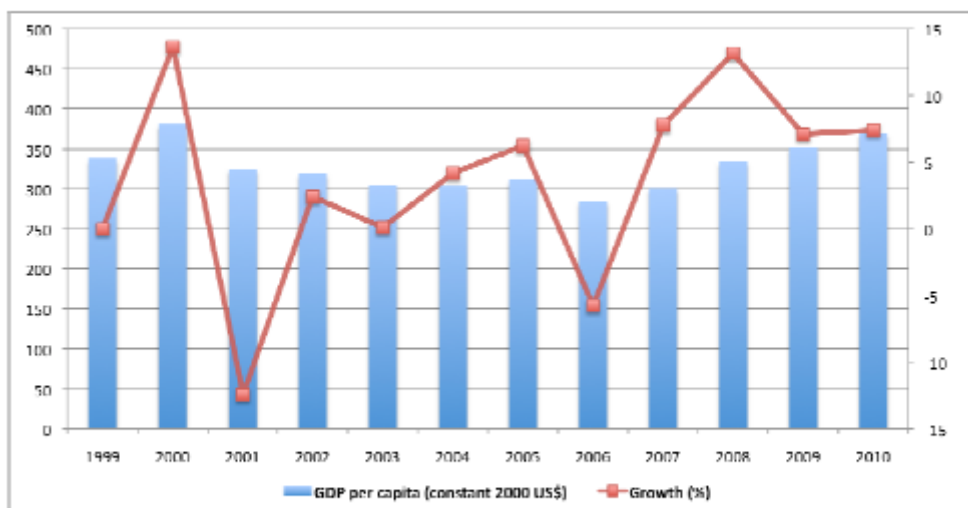


Figure 2. The economic growth and GDP per capita of Timor-Leste

Source World Bank (2012)⁴

2. Case Study

The key issues of Timor-Leste are how to stimulate the economic growth and improve public health services. These goals are hard to target because Timor-Leste is a very typical country whose economic growth highly depends on its petroleum revenues and the public medical situation has not been attended for a long time. Other than the regular government income, the government also suffers from improper spending structure. In public health services sector, the medicine and skilled health personnel are still shortage and disease treatment is heavily depending on the foreign aid. As it is shown in the Figure 3, the country is severely short in physicians, nurses and midwives. As a result, except for antenatal care, other health services, including contraceptive prevalence, births attended by skilled health personnel, measles immunization (1-yr-olds) and smear-positive TB treatment-success, are below the regional average level.

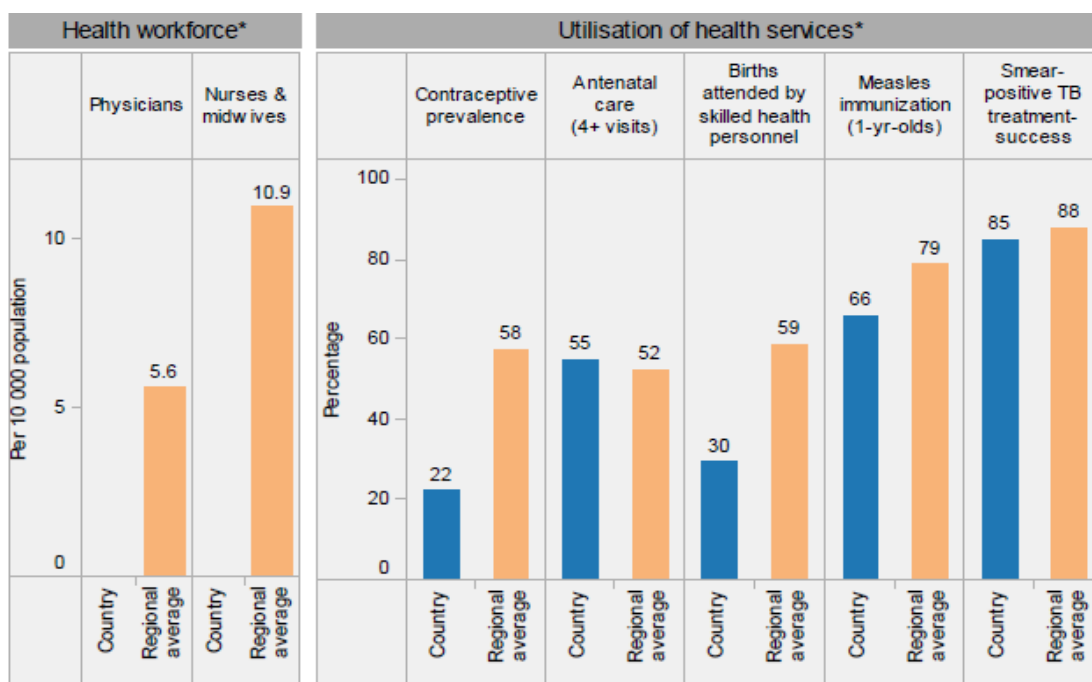


Figure 3. The health workforce and health services statistics

Source WHO Website<<http://www.who.int/gho/countries/tls.pdf>>

For the statistics of life lost in 2008, communicable disease (76%) is the major cause which is 76% while the regional average is only 49%.

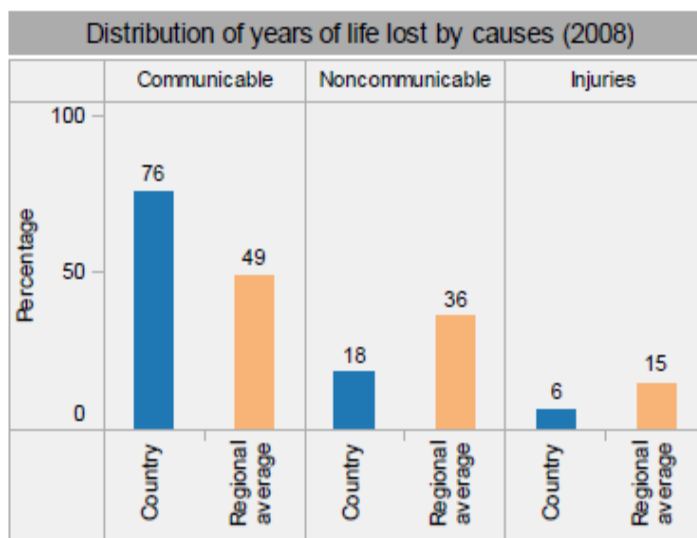


Figure 4. The life lost statistics

Source WHO Website<<http://www.who.int/gho/countries/tls.pdf>>

Compared to the average mortality rate of South-East Asia, although the deaths per 1000 live births has declined from 165 in 1990 to 60 in 2010 as shown in the following Figure 5, pneumonia is still the first reason for deaths in children under-5.

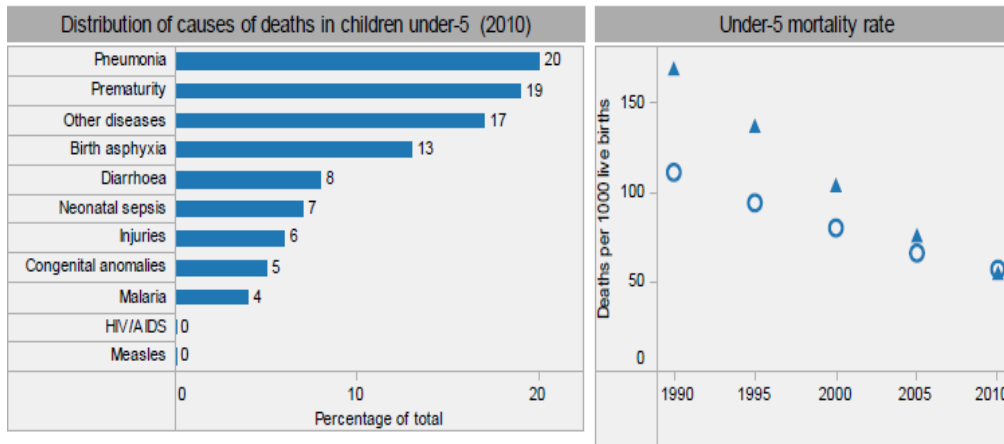


Figure 5. The causes of deaths

Source WHO Website<<http://www.who.int/gho/countries/tls.pdf>>

Figure 6 shows that total expenditure on health per capita has been higher than the average level of South-East Asia for the past 15 years, which indicates that the public health insurance is not in place. People had to spend much more money on treatment and medical care.

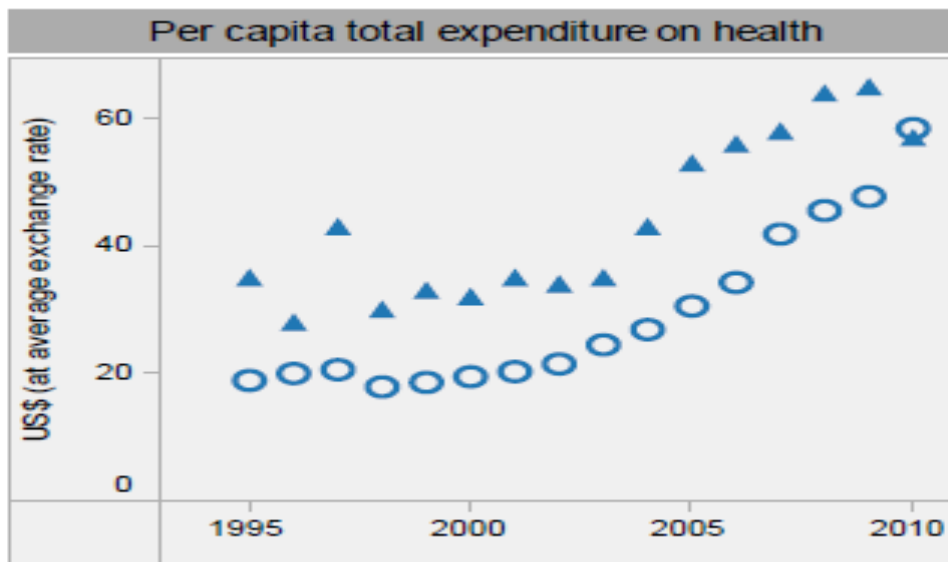


Figure 6. Per Capita Total Expenditure on Health

Source WHO Website<<http://www.who.int/gho/countries/tls.pdf>>

The health care in the country is very imbalanced. Most of the medical resources are concentrated in the urban area so that rich people enjoy much more superior treatment than the poor. For births attended by skilled health personnel, urban and the rich approximately three times and six times higher than rural area and the poor respectively. As a result, the mortality rate for children under five of urban area and the rich is about a third lower than rural area and the poor.

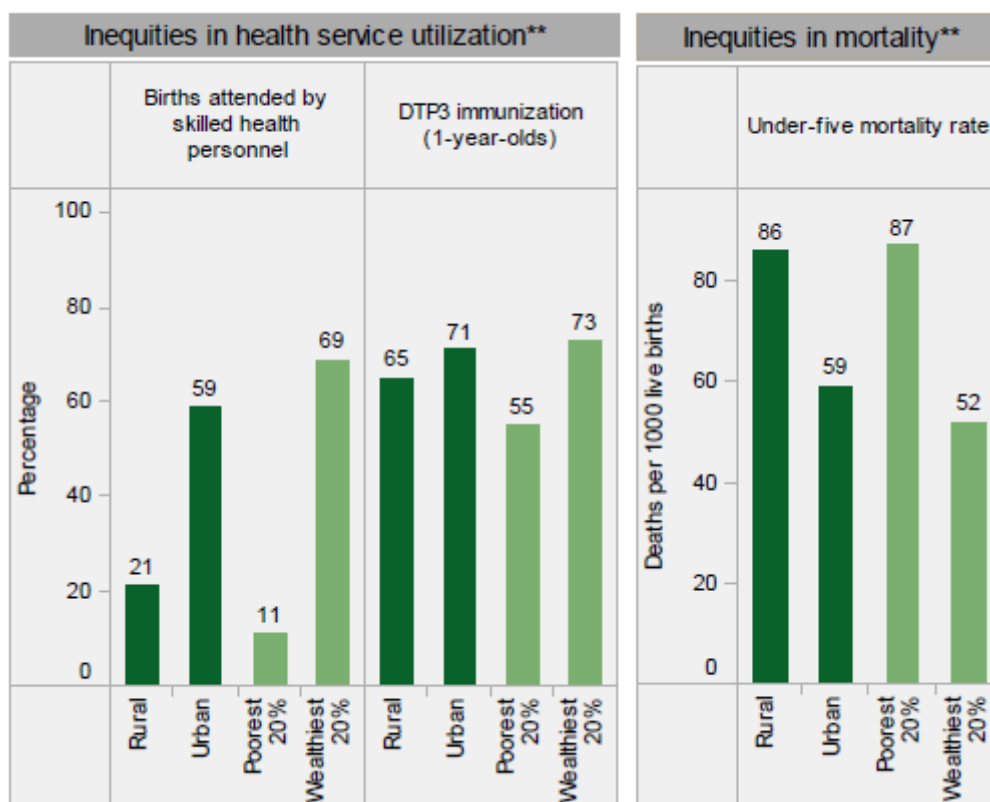


Figure 7. Inequity in Health Service Utilization and Mortality

Source WHO Website <<http://www.who.int/gho/countries/tls.pdf>>

For the other key issue of the country, the economic growth remains problematic. Non-oil GDP per capita of Timor-Leste was estimated by the IMF (2012)³ in 2010 to be US\$821, which is very low in comparison to other countries (World Databank 2012)⁴. Furthermore, the absolute value of Timor-Leste’s oil wealth is also not very high relative to other petroleum-endowed nations, such as United Arab Emirates and Kuwait. BP’s 2012 World Energy Statistics Report pointed out that the UAE’s proven oil reserves was about 978 billion barrels, accounting for 7.9% of the world’s total proven reserves (BP’s World Energy Statistics Report 2012)⁵. Therefore, relying too

much on a single product is very risky for Timor-Leste's economic growth. Timor-Leste will be probably trapped in a typical "Dutch Disease" if it continues to only depend on oil trades rather than developing other fields of production and trades. Dutch Disease refers to a kind of phenomenon that a nation's prosperity in a certain production sector will always lead to declines in other sectors (Matsen & Torvik 2005)⁶. As for Timor-Leste, an increase in revenues from oil will result in a large inflow of foreign currency, making its currency stronger compared to other nations, resulting in other exporting products becoming more expensive for others to buy, making the manufacturing sector less competitive, just like Latin American economics in 1930s, and Russian economics these years (Dobrynskaya & Turkisch 2010)⁷.

Other than the possibility of Dutch Disease, there is another threat to Timor-Leste's sustainable economic growth, that is, oil is a kind of non-renewable natural resource. Therefore, relying on the production of non-renewable resources can only make Timor-Leste's economics growing in a limited time period, but not in the long term. For instance, the largest petroleum field, Bayu-Undan, has become operational since 2004. It produced about 175,000 barrels of oil per day in 2009 (UNDP 2012)². However, this high production speed cannot be sustained in a long-term consideration. Based on conservative estimates the government projects oil production levels gradually tapering off, before coming to an end in 2022 (UNDP 2012)². Therefore, it is unwise for a country to rely on oil production for a thousand years and this kind of prosperity will just be at a moment, not sustainable. In addition, too much exaction of oil and gas is not friendly to the environment. With limited amount of non-renewable resources, we should find other ways to improve Timor-Leste's economic situations and avoid trapped into the Dutch Disease.

3. Discussion

3.1 Solutions for Future Development of Timor-Leste

To give Timor-Leste a rapid economic growth, the government has launched the

Strategic Development Plan (SDP) in 2011 aiming at bringing Timor-Leste to an upper-middle-income country by 2030. To achieve the goals of rapid and inclusive growth, the SDP emphasizes the importance of high-quality public spending, and in particular a scaling up of public investment to improve poor infrastructure.

3.1.1 Improvement of public health services

For future developments, Timor-Leste should build a more complete medical care insurance system to reduce the total expenditure on health per capita. Medical care fee has been a great burden for the poor and people in rural area and some people are dead because they cannot afford the treatment. A better insurance system can let more people to receive medical treatment.

Meanwhile, due to the shortage of skilled health personnel and techniques, the country should bring in more foreign doctors and nurses, and under the help of foreign aid, the country can train its own skilled health personnel.

Lastly, the government should establish a better medical care system. For urban area has greater population density and better infrastructure, general hospitals are needed. In rural areas, clinics should be more widely spreading in the rural area considering the less population density. For the location of medical institutions, they should be closer to the residential area to reduce the time taking to receive treatment. In addition, the road connecting the medical institutions and residential area must be well-built and this point is closely related to the following discussion.

3.1.2 Improvement of infrastructure

Nowadays, Timor-Leste remains the poorest country in Asia mainly because of its poor infrastructure. The poor roads and transportation systems are the major constraints to information flows, communication between different areas, medical

care, receiving advanced knowledge and even food supply during food shortage periods (UNDP 2012)². The development of infrastructure is not only the basis for all the other developments, including education, production, tourism and investment, but also the fundamental rights for Timor-Leste's people to improve their living standards.

During the development progress, the government should be aware of the public spending and the use of Petroleum Fund. Because Transparency International has recorded Timor-Leste as the 143rd most corrupt country out of 182 in their 2011 corruption perceptions index (Transparency International 2012)⁸, the government need to set up an anti-corruption committee to monitor its spending, and separate the responsibilities of recording and actual payments to different people, in order to reduce the possibility of corruption. Only after improving infrastructures, can Timor-Leste improve its factories and equipments, production capacity, and education outcomes.

3.1.3 Coffee production and trading

Although Timor-Leste's external balance of trade reflects the country's heavy reliance on imports, coffee represents 90% of the total export value, almost US\$20 million (World Bank 2012)⁹. As a matter of fact, the Arabica beans produced by Timor-Leste have always been popular among customers, especially those from Europe and America. In the 18th century under Portuguese rule, they have already begun to build coffee production fields and produce Arabica beans. Besides, the perfect geographic conditions, the long history of planting and the popularity among customers will also make Timor-Leste suitable for producing and trading coffee. In this way, Timor-Leste can improve its non-oil GDP by coffee, increase its revenue, diversify its production structure and avoid the Dutch Disease to sustain its economic growth.

However, this solution has its own limitations: (1) Poor technology will constrain the production capacity, because of out-dated equipments and laggard management styles.

(2) Poor roads, transportation systems and medical cares will not attract advanced professionals and skilled workers to Timor-Leste to bring new knowledge and training to local people. (3) Lack of information and access to the outside world will make the people uninformed and cannot receive latest feedbacks from the market. Market is changing all the time, so information asymmetry will put Timor-Leste farmers at an even deeper disadvantage. Therefore, improving basic infrastructure should be the first step before developing coffee and other productions.

3.1.4 Developing the tourism

After Timor-Leste has formally declared its independence, people around the world are becoming more and more curious about the new-born country. For Timor-Leste, a nation located in the South Pacific Island, the development of tourism does have a unique advantage. In addition to its advantages in natural views, Timor-Leste has the worldwide attention, which is a favorable opportunity to attract tourists to travel to Timor-Leste. Tourism in East Timor must be an eco-tourism to represent its own features. It should keep the original environment and lifestyles in some areas which represents its own tradition and culture, to be different from other countries in Asia. Carrying out the tropical rainforest adventure will probably be a good way to attract foreign tourists.

However, to make tourism thrive in Timor-Leste, there are still many problems to overcome: (1) the development of tourism needs to have high-quality infrastructures and services, such as roads, airports, hotels, hospitals and management teams. (2) the development of tourism needs local people to be literate. However, nowadays there are still a proportion of people are undereducated (World Databank 2012)⁴. This will make it more difficult to manage tourism and attract foreigners. (3) Lack of private sector investment is also a big problem facing developing tourism. This situation will not only limit the pace of developing tourism, but also will limit the youth employment opportunities. Therefore, as mentioned above, improving infrastructures

should also be a step before developing tourism and attract private investors.

3.2 Recommendation and Conclusion

To successfully sustain and manage Timor-Leste's economic growth, the government has a long way to go. After analyzing and comparing among these possible solutions, medical system and infrastructure improvements are the essential and fundamental step of all the other developments, that is, its effects will cover most areas around the country and most fields of production and investment.

In addition, with the help of foreign countries, such as China and Australia, Timor-Leste will complete the hardest part of medical system and infrastructure building within a few years. In conclusion, I hold the opinion of improving the medical system and infrastructure to bring Timor-Leste to prosperity.

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