

A Year of Turmoil: Timor-Leste 2006–2007



Foreword

This country economic report on Timor-Leste is part of a series of studies, undertaken by various Swedish universities and academic research institutes in collaboration with Sida. The main purpose of these studies is to enhance our knowledge and understanding of current economic and political development processes and challenges in Sweden's main partner countries for development co-operation. It is also hoped that they will have a broader academic interest and that the collaboration will serve to strengthen the Swedish academic resource base in the field of development economics.

The study reviews the economic development of Timor-Leste during 2006 and early 2007. Apart from an update of the macroeconomic development, the study provides a more in-depth analysis of two main challenges facing the country: development of the agricultural sector and weaknesses in the field of governance. The study was undertaken by Mats Lundahl at Stockholm School of Economics and Fredrik Sjöholm at the Research Institute of Industrial Economics.

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A Year of Turmoil: Timor-Leste 2006–2007

At the beginning of 2006 Timor-Leste appeared to be a politically and economically relatively stable country, even though the economic picture was mixed. The rate of growth of GDP was not fast enough to outstrip the rate of growth of the population. The latter amounted to no less than 3 percent per annum (Timor-Leste has the highest fertility rate in the world) while the projected growth rate for 2005 was around 2.5 percent. Employment was a problem as well.

On the stabilization front the picture was brighter. The oil revenues from the Bayu Undan field ensured a large surplus in the government budget. For the same reason the current account deficit on the balance of payments was on its way down and Timor's foreign assets were increasing. The rate of inflation was low. Because of the employment of the US dollar instead of a domestic currency, the rate cannot deviate very much from the international one.

At the same time, Timor-Leste was facing the great challenge of how to develop the economy, away from the one-sided concentration on subsistence agriculture, investing the oil revenues in such a way as to bring about a progressive diversification of the economy, notably of the modern sector, in such a way as to create gainful employment and reduce poverty.

The year 2006 did not become the peaceful continuation of the development efforts that the vast majority of observers had hoped. Beginning in April Timor-Leste was shaken by a series of recurrent riots, a series that has continued up to the presidential elections in April 2007. Thus, 2006 became a year of turmoil instead of a year of progress, and at the time of writing the clouds have not yet drifted away. The future appears more uncertain than ever since the fateful year 1999.

The present report intends to reflect both the need for development of the basic sector, subsistence agriculture, and the recent disturbances. We will begin with an update of the macroeconomic situation of the country. The second part of the report examines the situation and the principal problems of the agricultural sector. The third and final part deals with the problem of good governance in Timor-Leste, with the deep-going conflict between the two leading political actors: Xanana Gusmão and Mari Alkatiri and with the relationship of this conflict and the turbulent and violent events of the past year.

Macroeconomic Developments

Macroeconomic developments in Timor-Leste during 2006 and the beginning of 2007 are shaped by the negative political events, analyzed below, and a positive increase in oil revenues. Starting with the latter aspect, in early 2005 the government estimated that oil revenues would amount to about 54 percent of GDP in 2005/06 (Lundahl and Sjöholm, 2006). This was a gross underestimation. As seen in Table 1, oil revenues amounted to an estimated 128 percent of GDP in the fiscal year 2005/06. The budgeted oil revenues for the current year are even higher: 172.6 percent of GDP. Other domestic revenues are about 9 percent of GDP. Hence, oil and gas revenues constitute about 97 percent of total public revenues. The large oil revenues have changed the overall budget balance from a modest surplus of 3 percent in 2002 to a staggering budgeted surplus of 246 percent in 2006/07.

Table 1: The Government Budget 2002–2007. Share of GDP (percent)

	2002/03	2003/04	2004/05	2005/06 (estimated)	2006/07 (budget)
Revenue	23.9	31.3	97.8	137.5	172.6
Domestic revenues	5.7	8.7	10.7	9.5	9.2
Oil/gas revenues	8.7	12.3	77.1	127.9	161.0
Expenditure	20.2	20.3	20.7	26.3	72.8
Recurrent expenditure	15.7	15.8	16.4	18.8	40.6
Capital expenditure	1.4	0.7	0.8	4.4	32.2
Overall balance	3.8	11.0	77.1	111.1	99.8
Cumulative Oil/gas savings	3.1	4.1	20.4	184.1	246.6

Source: IMF (2007), p. 42.

Moreover, the cumulative oil savings amount to around 200 percent of GDP. Oil revenues will continue to be high over the next 20 years. It is of special importance that the sea dispute with Australia seems to have been settled which will substantially increase production of oil and gas. It is estimated that the net present value of oil revenues will amount to more than USD 9 billion (IMF, 2007, p.15).

Government expenditures have been rather stable at around 20 percent of GDP between 2002 and 2005, with an increase to about 26 percent in 2005/06 (Table 1). It is therefore noteworthy that the budg-

eted expenditures as a share of GDP increase almost threefold in the 2006/07 budget. The increase is planned to include both increased capital expenditures and increased recurrent expenditures. This is financially possible, considering that oil revenues are large and that aid from the donor community is expected to remain above USD 100 million a year in the medium term (IMF, 2007, p. 5).

It is important to note that actual public expenditures have tended to be well below the budgeted ones in recent years. The government has experienced large difficulties executing public spending, partly as a result of the highly centralized system where all expenditures have to be cleared by Dili. Another major problem is a widespread lack of administrative capacity which results in a slow budget execution pace. Some major donors are now increasing the number of foreign experts and advisers in Timor-Leste in an attempt to improve the situation. It is, however, also important that the Timorese themselves are actively involved in preparing and implementing the budget in order to build up indigenous administrative capacity. In sum, the balance act between breaking the current low ability of budget execution and enhancing future indigenous administrative capacity is a delicate one. Considering the present situation, it seems likely that Timor-Leste will find it difficult to execute the large increase in public spending which is budgeted for 2006/07.

The positive development of the public budget corresponds to a similar positive development of the national income with an increase from about 692 million US dollars in 2005 to an estimated 847 million in 2006 (Table 2). All of this increase is caused by increased oil and gas production. The non-oil GDP has been stagnant even in current prices and the estimated level in 2006 is lower than in 2001. Growth was picking up in 2005 to a low but still positive rate of 2.3 percent in 2005, an improvement of the previous three years' negative or stagnant development. Unfortunately, the growth rate seems to have turned negative again in 2006. It is possible that this negative growth is caused by the political turmoil which has had a negative impact on most economic activities. The only positive economic aspect of the turmoil is the increased number of foreigners sent to Timor-Leste by the United Nations and by other donors. These foreigners include police officers, military personnel, and a host of administrative staff that are sent to Timor-Leste both to stabilize the political situation and to increase the administrative capacity. The foreign community is the main user of the modern service industry located primarily in Dili. Despite this positive economic effect, however, the output of the industry and services sectors has declined in 2006 (IMF, 2007, Table 3). This is not surprising considering that industry and services are the only private modern activities in Dili and presumably therefore those most affected by the turmoil. Agriculture is mostly of a subsistence type (see below) and therefore less prone to be hit. The figures with respect to agricultural output point to a stagnant situation in 2006. The public sector has been growing, partly as a result of the decision to increase the number of public employees (IMF, 2007, Table 3).

Declining investment rates do not seem to be the cause of the negative economic growth rate, since investments have remained stable for the last three years at about 19 percent of GDP (Table 2). This is a very low figure in light of the large need for public and private investments in Timor-Leste and the substantial decline from a share of about 30 percent of GDP during the years around independence. Private investments in

particular are very small, amounting only to about four percent of GDP. These low figures are presumably caused by a combination of a non-existent modern private sector outside some service industry establishments in Dili and a lack of means to invest among the large rural population (cf. the discussion below).

The lack of a modern sector is also reflected in low export figures. Exports amount only to about two percent of GDP compared to imports of 40 percent of GDP (Table 2). Coffee is the only major export good whereas a host of consumer and capital goods are imported. Exports have actually declined as a share of GDP in 2006 despite a declining GDP. This is a development paralleled by the declining output in industry and services discussed above.

Finally, inflation has been picking up again in 2006 to about 5.7 percent. This is slightly surprising in light of the negative economic growth. One plausible explanation for the increasing inflation is the shortages created by the political turmoil and the increased demand from inflows of foreigners. This is seen by the fact that the annual inflation rate went from less than one percent in early 2006 to 2.8 percent when the turbulence started in May and to almost 7 percent in June and thereafter (IMF, 2007, Table 5). It is, however, unclear if the inflation rate is measuring a countrywide development or if it is measuring the development in the major cities.

Table 2: Timor-Leste: Selected Economic Indicators

	2001	2002	2003	2004	2005	2006 (est.)
GNI at current prices (million USD)	371	352	349	507	692	847
Non-oil GDP (million USD)	368	343	336	339	350	356
Gross investment (% of non-oil GDP)	30	31	26	19	19	19
Gross private investment (% of non-oil GDP)	12	12	10	4	4	4
Gross public investment (% of non-oil GDP)	18	20	16	15	15	15
Real non-oil GDP growth (%)	16.5	-6.7	-6.2	0.3	2.3	-1.6
Non-oil Exports (share of non-oil GDP)	1	2	2	2	3	2
Imports (share of non-oil GDP)	71	63	58	48	39	40
Inflation (%)	-0.3	9.5	4.2	1.8	0.9	5.7

Source: IMF, 2007, various tables.

Agriculture: The Main Sector

It is difficult to overemphasize the importance of agriculture in Timor-Leste in general and for poverty eradication in particular. Around 80 percent of the Timorese are dependent on agriculture for their livelihood but agriculture only contributes around 30 percent of the non-petroleum GDP of the country (World Bank, 2006a). Around 86 percent of the poor live in rural areas and 44 percent of the rural population are found below the poverty line, as compared to 25 percent of the urban population. (Lundahl and Sjöholm, 2005).

Moreover, a large share of the population experience periods of insufficient food supply when the food reserves from the harvest are exhausted. It is estimated that roughly 64 percent of the population suffer from food insecurity. The most difficult months are November to February (UNDP, 2006, p. 2). It is often difficult for households to find the means to buy food to bridge the time until the new harvest. Households typically attempt to overcome the shortage by changing their diet and by reducing the number of meals, and it seems to be the children that take the brunt of the adjustment (UNDP, 2003, p. xiii). At the national level, food production is not sufficient to meet the domestic demand and the agricultural trade deficit amounts to roughly one-third of GDP (UNDP, 2006, p.27).

The importance of agricultural development for reducing poverty is by no means a feature which is unique for Timor-Leste but the situation in most developing countries is similar. For instance, the World Bank (2005, p. 5) estimates that a one percent increase in yields reduce poverty by about 0.5 percent in East and South Asia. However, there are strong reasons to believe that agriculture is even more important in Timor-Leste than in Asian developing nations in general. The country does not have any industrial sector, which means that there are few alternative ways of earning an income. Booth (2004) argues that Timor-Leste is more similar to African countries than to other Southeast Asian nations, with farming of poor quality land and with lack of access to markets for goods and capital. It is hence relevant to note that the estimates by the World Bank (2005) suggest that a one percent increase in yields in Africa reduces poverty by 0.7 percent. Given the similarities, in Timor-Leste as well, agricultural development is likely to have a large positive impact on poverty eradication.

Large segments of the rural population survive on subsistence farming. Farmers tend to use simple production methods to grow food crops

for their own consumption and the surplus sold in the market is small. Whatever cash incomes that are generated are primarily used to buy essential food, kerosene, and salt (Barlow, 2001, p. 110). The importance of subsistence farming differs between regions, however. About 80 percent of the rural households in the Eastern region are classified as subsistence farmers, compared to a mere 11 percent in Central Timor-Leste, and 32 percent in the Western region (Ministry of Agriculture, Forestry and Fisheries, 2004, p. 2).

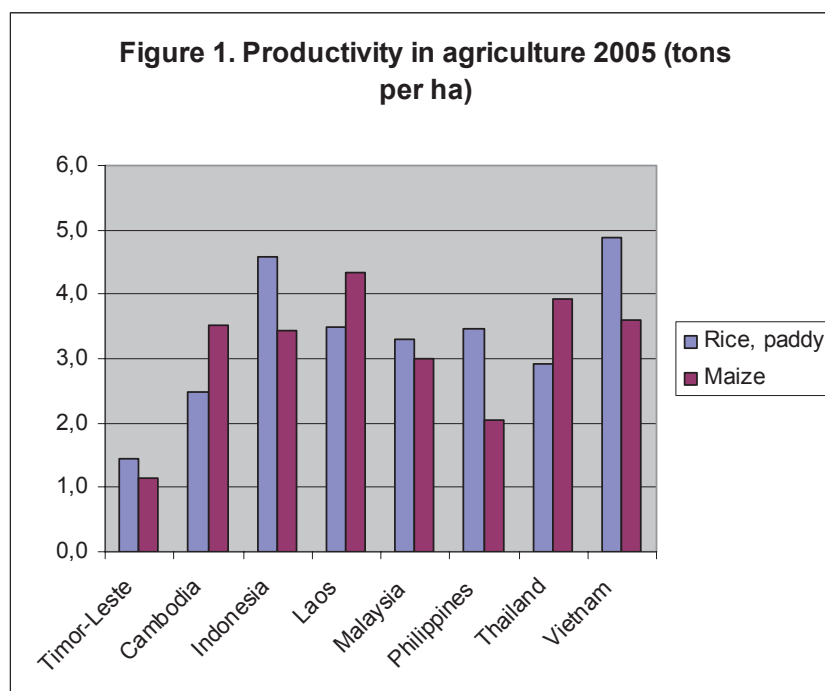
The main staple crops in Timor-Leste are rice and maize. Some 81 percent of the households grow the former and 23 percent the latter (UNDP, 2006, p. 27). Moreover, the land area used for maize is about three times as large as the land used for rice. The total area used for rice is actually only half as large as the corresponding area around 1975 (a peak period). Rice and maize are supplemented for example by cassava, which is grown by most rural households, often to be used as a reserve when the supply of rice and maize has run out. The same is true for sweet potatoes and taro.

Coffee is the main cash crop in Timor-Leste and it is also the country's main export good. Production of coffee was introduced by Chinese traders and was developed further by the Portuguese. Production is concentrated to the highlands (Fox, 2001, p. 164). Around 40,000 households, or 200,000 people, depend on coffee for supplementary incomes. The quality of Timor-Leste's coffee is good, or has high potential. So far, export has predominantly targeted high-quality niches in foreign markets. The decision by Starbucks to sell coffee from Timor-Leste has provided a major boost to the reputation the product and opens up a large potential market in the future.

The main problem with expanding coffee production is that little investment has been made in plantations. Due to poor husbandry of the coffee trees crops are small and delivery is irregular. For instance, yields are reported to be a mere 100-150 kilos of green beans per hectare (Ministry of Agriculture, Forestry and Fisheries, 2004, p. 5). The irregularity and small size of the coffee crops is a major obstacle to attracting foreign purchasers who often require a higher degree of predictability. It should also be mentioned that large improvements can be made in the processing phase of coffee making.

There have been some minor attempts to broaden cash cropping to, for instance, vanilla and coconuts, but most of these attempts have failed. For instance, falling world market prices of vanilla in recent years seem to have been devastating to Timor-Leste's attempt in this niche.

Maize and rice are the dominant staple crops and coffee dominates cash cropping, but farmers in Timor-Leste do of course also grow a host of other crops. Fruit trees are common, there has been some success with soy beans, and legumes are important for building soil fertility. Farmers are often deliberately growing different crops as a way to reduce risk and spread crops around the year. Moreover, most farmers have some livestock such as poultry, goats and cattle. Here again, production is of a subsistence character and there are few market oriented attempts of livestock production.



Source: FAO Statistics Division,
<http://faostat.fao.org/site/336/DesktopDefault.aspx?PageID=336>

As has been discussed above, rural poverty is primarily caused by a very low productivity in agriculture. *Figure 1* shows productivity, measured as tons of production per hectare, for rice and maize. Productivity is substantially lower in Timor-Leste than in any other of the included Southeast Asian countries. For instance, productivity is on average 250 percent higher in rice production in other countries and production of maize about 310 percent higher. It is worth pointing out that productivity is higher not only in the wealthier Southeast Asian countries but also in countries that are on an income level similar to that of Timor-Leste. For instance, Cambodia's productivity is about 180 and 320 percent higher than Timor-Leste's for rice and maize, respectively. The corresponding figures for Laos are 250 and 390 percent. Finally, neighboring Indonesia has three times more production of both rice and maize per unit of land than Timor-Leste.

Increased Agricultural Productivity in a Labor Surplus Economy

Timor-Leste shows all the characteristics of a labor surplus economy as described by in the classic work of W. Arthur Lewis (1954). Most people are employed in subsistence farming where the marginal and average productivity of labor, and hence also per capita output, is very low. Few people are employed in the modern sector. Moreover, the situation is presumably getting worse at a rapid pace since the extraordinarily high fertility rate – close to 8 children per woman in child-bearing age (Ministry of Health et al., 2004, p. 6) – in Timor-Leste means that the population is growing at a high rate. Each year, about 15,000 young Timorese enter the labor force and unemployment and under-employment rates are increasing. A rapidly growing population in combination with stagnant agricultural output has contributed substantially to a falling per capita income. For instance, GDP per capita declined by 17 percent in nominal terms between 1997 and 2004 and by a staggering 55 percent in PPP terms (UNDP, 2006, p. 12).

One way to increase incomes in a labor surplus economy, is to move people out of the surplus sector, agriculture, into an expanding modern sector. The labor productivity is about ten times as high in industry and services compared to in agriculture in Timor-Leste and any movement of labor from agriculture to a modern sector would therefore have a large positive economic impact on the overall economy (UNDP, 2006, p. 3). An additional benefit of this is that the average productivity will eventually start to increase also in agriculture, when the labor surplus is declining because of this movement of labor out of agriculture. Increased incomes for farmers will in turn increase the demand for other goods and services and will thereby provide an extra and presumably important boost to the economy.

Unfortunately, no modern sector is to be seen in Timor-Leste (Lundahl and Sjöholm, 2006, pp. 18-22). The only booming industry is oil which, however, provides very few jobs. There are no signs of an emerging manufacturing industry, mainly because of high costs of production in combination with low productivity levels. Moreover, the number of public servants has been kept at a relatively low figure of 17,200 over the last years. Although a slight increase in public employment is being discussed by the government, it will at best absorb a marginal fraction of the labor force. Finally, some income earning opportunities for the rural population have been facilitated through infrastructure projects. However, many of these projects are near completion, which suggests that off-farm employment opportunities might decrease rather than increase in the near future.

Determinants of Agricultural Development

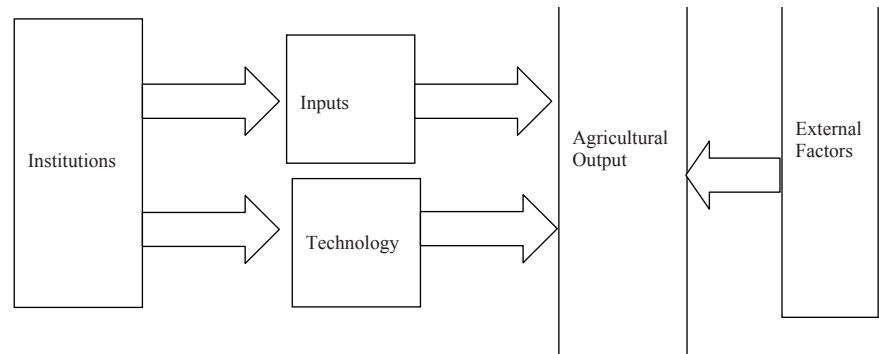
It is clear from the discussion above that the possibility to move people out of agriculture and thereby increase average productivity and incomes is very limited. This puts the rural population in a difficult position and leaves little room for per capita income growth other than what can be achieved through increased agricultural output. In other words, living standards will remain very low for the rural population unless there is a substantial increase in farm production. It should be noted that in the long run it is not likely to be sufficient with improvements in agriculture but a more substantial improvement in living standards requires a modern sector. In the short run, and until a modern sector starts to emerge, improvements in agriculture constitute the only way to improve the livelihood in Timor-Leste.

There is no lack of suggestions that aim at agricultural development. Some concern very general factors such as the business climate and the commercialization of agriculture. Other suggestions are more focused on practical aspects such as introduction of irrigation or new seeds. It can therefore be difficult to see how different suggestions are related and how they are expected to affect agriculture output. Figure 2 may be helpful when it comes to understanding the determinants of agricultural output and can possibly provide a base for policy recommendations.

The figure divides factors affecting agriculture output into different categories. First, there are external factors, i.e. factors that are beyond the control of farmers or policy makers but which could have an impact on agricultural output. Such factors could for instance include climate and world market prices of agricultural goods. Output is also affected by the amount of inputs used in agriculture. Inputs include a range of factors from land and labor to capital, like seeds, water, fertilized and tools. Moreover, the better the technology, the more output will be

produced with a given bundle of inputs. In practice, it can be difficult to separate inputs and technology in agriculture. New seeds are inputs but their proper use may require technological change, e.g. through extension services, and additional inputs, such as irrigation, to be effective, as in the case of the Green Revolution. Finally, investments in inputs and technology are affected by institutions. These include for instance property (land) rights and markets.

Figure 2. A Model of the Determinants of Agricultural Output.



External Factors

Parts of Southeast Asia are among the most fertile areas on earth. Unfortunately, Timor-Leste is not one of those places. The fertile part of Southeast Asia ends somewhere after Bali, and the eastern part of the archipelago is characterized by a climate which is not ideal for agriculture. The problem is best described as one of too little or too irregular rain and with relatively sloping land with unfertile soils.

The climate in Timor-Leste is a typical monsoon climate with a wet season extending from around December to March and a dry season from around May to October, but with local geographic variations. The annual rainfall ranges between 500 and 1,500 mm in the relatively dry north and over 2,000 mm in the relatively wet south. Local variations in rainfall are common as Timor-Leste is surprisingly ecologically diverse for being a relatively small country (Fox, 2001, p. 155). The rainfall can be very irregular. For example, Dili sometimes receives 30 percent of its annual rainfall in one single day (UNDP, 2006, p. 19).

Moreover, there are regular droughts in Timor-Leste, sometimes referred to as El Niño. Such droughts occur approximately every fourth year. Then the rainfall is not only reduced by as much as 50 percent but the drought also delays the wet season by two to three months, which causes further difficulties for agriculture. The latest drought in 2002/03 reduced output by about 21 percent (UNDP, 2006, p. 21).

Parts of the Southeast Asian archipelago are very fertile because of a fortunate combination of large rivers and volcanic soil. Timor-Leste has few rivers and, more importantly, the soil is not volcanic but instead consists of limestone and metamorphosed marine clays, a combination which is substantially less fertile (Ministry of Agriculture, Forestry and Fisheries, 2004, p. 1). An additional problem is that Timor-Leste is a very mountainous island and around half of the land has a slope of 40 percent or more, which makes agricultural activities very difficult to pursue.

Technology

Technology in agriculture is to a large extent the sum of inputs (described below). The choice of a new input, for example a new variety of seeds, often requires a change in the whole bundle of inputs, such as water and pesticides. For instance, Barlow (2001, pp.119-20) describes how maize and rice harvests could increase by as much as 100 percent in Timor-Leste if new and better variants were to be planted. However, as he notes, such variants are typically more sensitive to droughts and pests and require more fertilizers and better storage facilities. This change in inputs could be described as a new technology package.

The lack of education must also be mentioned. This is one of the major limitations on this type of broad agricultural changes. The UNDP (2006, p. 28), for instance, argues that studies on other countries suggest that such changes in technology require a minimum of four to six years of education of good quality. Unfortunately, the level of education in Timor-Leste is low and the quality is poor (Lundahl and Sjöholm, 2005). The implication is that improvements of the level of education have immediate relevance for the possibilities of introducing a new agricultural technology.

Another area where technology seems to be important is in the processing of crops like rice and coffee. The UNDP (2006, p. 30) claims that rice mills are using outdated technologies and that output is substantially lower than in other countries in the region. As we have already mentioned, coffee as well seems to be suffering from poor processing, often carried out by the farmers themselves and where lack of water, necessary for the wet fermentation, is a major constraint (Barrow, 2001, p. 120).

One way of improving the agricultural technology is through extension services. The Indonesian government took a very active part in agricultural production in Timor-Leste. During the occupation, inputs were provided by the government and output was purchased at set prices. Moreover, the government provided credits, storage facilities and marketing assistance. The present government has not played any such active role. This is partly caused by an explicit intention to let the market forces and the private sector, rather than the government, shape agricultural production and development. It is also a consequence, however, of a lack of capacity. There are very few agricultural extension workers in Timor-Leste. This is a consequence both of a lack of trained personnel (Timmer, 2001, p. 105) and of the decision to restrict the number of public servants (UNPD, 2006, p. 41). Cooperatives and NGOs may fill some of the gap but the overall impression is that extension services are inadequate in Timor-Leste (Barlow, 2001, pp. 114-15).

Land

The combination of Timor Leste's particular soil, its steep slopes, and irregular and heavy rainfall makes the land fragile and prone to erode. Hence, the natural erosion levels are high. In addition, there is a high level of man-made deforestation and soil erosion. This is partly caused by 'slash and burn' cultivation which is still common in Timor-Leste. Even more important is the effect of logging for firewood. The demand for firewood has increased in recent years, partly as a consequence of the removal of kerosene subsidies. The increased demand for firewood has put pressure on forests and aggravated land erosion, especially in areas close to towns and major villages. There are no recent figures on how much forest is being lost or on the amount of soil erosion in Timor-Leste,

but the forest loss during 1972–1999 was estimated to about 1.1 percent per year (UNDP, 2006, p. 27).

The combination of the decline of the area suitable for agriculture because of erosion and one of the highest fertility rates ever recorded means that landholdings are small. The average landholding is only around 0.4 hectares per capita (Table 3). The median area is even lower, only 0.22 hectares per person and less than 5 percent of the landowning rural population have more than 1 hectare per person (UNDP, 2003, p. 30). On a positive note, most people do have access to some land. Hence, there are few landless people in Timor-Leste, in stark contrast to the situation in many other countries in Southeast Asia. The share of irrigated land is only about 21 percent of the total.

Table 3. Land Holdings and Poverty in Timor-Leste

	National	East	Central	West
Per capita agriculture land (ha.)	0.39	0.33	0.48	0.29
Per capital irrigated land (ha.)	0.08	0.15	0.06	0.05
Poverty headcount (% of total)	44	32	49	48

Source: UNDP (2006, Table 2.1).

The size of the holdings differs between regions as shown in Table 3, with landholdings being relatively large in Central Timor-Leste and relatively small in Western Timor-Leste. Eastern Timor-Leste has the largest amount of irrigated land per capita. There is no direct correspondence between land holdings and poverty. Poverty is most widespread in the central region (relatively large landholdings) and in the western region (relatively small landholdings). There seems to be a stronger correlation between irrigated landholdings and poverty. This was at least the case at the time of independence when the non-poor population had irrigated land holdings amounting to 0.13 hectare per capita while the poor only had 0.04 hectare per capita (UNDP, 2003, p. ix).

Capital

Two types of capital are of interest in the discussion of agricultural development. The first is physical capital such as machinery and the second is financial capital such as credits. The use of machinery in agriculture, such as tractors, is extremely limited in Timor-Leste. The hundreds of tractors donated since 1999 are largely non-functional due to lack of maintenance or inability to pay for fuel (UNDP, 2006, p. 28). Small hand-tractors and the like are not available in Timor-Leste and agriculture is characterized by production methods that have changed very little for several decades or perhaps even centuries.

Irrigation schemes are difficult to implement in Timor-Leste. Rainfalls are irregular and most rivers are completely dry for large parts of the year. Moreover, even in those instances where some type of irrigation exists, it tends to be simple and unreliable. Irrigation systems are often crucially dependent on the water level in the rivers, which has to reach the same level as the intake of the irrigation system. There are few instances where a pump can help farmers transferring water from its prime supply to the irrigation systems. As an example on the low quality of irrigation, it was reported that only a few hundred irrigation schemes existed in Timor-Leste around the time of independence and only around 20 of these could store water (Ministry of Agriculture, Forestry

and Fisheries, 2004, p. 4). Maintenance is a major problem and irrigation schemes are often ruined by flooding rivers.

Lack of irrigation is, hence, a major problem when it comes to expanding agricultural output. The lack of water is particularly troublesome in the case of rice production. It should be noted, however, that less than 20 percent of the irrigated land produces a second rice crop (Ministry of Agriculture, Forestry and Fisheries, 2007). In other words, agricultural output is low even when water is not the binding constraint. Hence, there are a range of other problems explaining the low agricultural production level in Timor-Leste. Some of these are discussed below.

There are no up to date figures on exactly how much fertilizers and pesticides that are being used in Timorese agriculture but all indications point to a very small amount. For instance, the Timor-Leste Suco Survey reported that only 3 percent of the households used such inputs in 2001 (UNDP, 2003, p. ix). The lack of availability is said to be the main reason for not using pesticides and fertilizers. It is also likely that even if they were available it would be difficult for many farmers to purchase them because of their lack of financial means.

Investments in irrigation, new seeds, or even a plow or a horse, are expensive and require financial capital. Such capital is in scarce supply since the incomes of the farmers are low, but also because the financial sector is very rudimentary. Banks are few and those which exist tend to be located in Dili where they target the international donor community and some service sector operators. No commercial banks are to be found in the rural areas and even if they did exist it is likely that the low incomes and ill-defined land rights would provide serious obstacles to borrowing for most farmers. There is no information on what the credit situation looks like at present but JICA (2002) reports that no farmers had access to credits from banks, 50 percent could borrow from traders, and 14 percent from relatives. People tend not to borrow for investments in agriculture. For instance, the UNDP (2003, p. 48) claims that at the time of independence only 2 percent borrowed to purchase agricultural inputs and 4 percent for non-agricultural business. This suggests that people borrow for consumption rather than for investment, perhaps as a way to bridge periods with food shortages.

Finally, micro finance may provide a useful alternative to banks and some initiatives have been taken by international donors. It is, however, still unclear how successful these programs have been.

The Institutional Framework

Farmers need access to markets if they are to abandon subsistence farming. Markets exist in towns and larger villages but a major problem is lack of transportation to markets. Many observers claim that access to markets is more difficult now than before 1999. Roads were developed reasonably well during the Indonesian occupation, partly to facilitate the movement of troops across the island, but maintenance has been very poor since 1999. Only some 30 percent of the major roads are rated as being in fair to good condition and most secondary roads are poor (Ministry of Agriculture, Forestry and Fisheries, 2004, p. 2). Around 20 percent of all sucos can be reached only by dirt roads (UNDP, 2006, p. 29). The situation is particularly troublesome during the rainy season when many roads are practically impossible to use.

Walking is the most common way to move about for most people even when roads exist. Other means of transportation are either non-existent, or, more commonly, too expensive. Thus, 80 percent of all farmers have

to walk on foot to the nearest market which is located two hours away on average (UNDP, 2006, p.29).

Selling your products in the market is difficult. It is widely argued that farmers have difficulties in getting access to price information for various crops. Improved communication networks including telephones and radios are necessary to facilitate the information gathering (Timmer, 2001, p. 107). Inadequate or non-existent storage capacity is another problem and a large share of the harvest is being destroyed as a consequence (UNDP, 2006, p. 30). One result of the poor access to markets is that many farmers only grow one crop of rice even where a second crop would be possible.

Most farmers use land without clearly defined titles. The attempt of the government to define land rights has been slow and progress has been limited. This comes as no surprise considering that many different, partly conflicting, legislations are involved (Fitzpatrick, 2001, 2002). First, there are land claims that are based on traditional rights where the issue is becoming especially problematic when groups are claiming back land taken under the Portuguese or Indonesian administration. Secondly, there are land claims based on Portuguese titles, some of which were lost during the Indonesian occupation. Third, there are land claims based on Indonesian titles, often concerning plantations and transmigration sites. Finally, there are claims based on occupation of land as a result of displacement of people voluntarily or by force by the Indonesian administration. It is unclear how much of the land that has received a formal title from the government but it seems to be as low as between 10-20 percent. An additional problem is that it is reported that conflicts over land sometimes continue even after the new land titles have been issued.

Coffee is an example of how the lack of land rights leads to poor harvests. Poor coffee production is to a large extent caused by neglect in pruning the coffee trees. Pruning increases the crops but only after a few years, and yields decline for the first two years after the pruning. Farmers who are not certain that they will have the right to the crops in the future will therefore behave rationally and avoid pruning the trees.¹ Similar lack of investments in other types of agriculture is also partly caused by a failure by the government to provide land titles. Such failure leads to lower investment both because of the insecurity when it comes to enjoying the fruits of the investment and because of the difficulties in obtaining loans without clearly titled land as collateral.

Conclusions

Agriculture is of crucial importance in Timor-Leste and it is difficult to imagine any poverty eradication without substantial improvements in agriculture. Such improvements seem particularly important since most people will be restricted to finding an outcome in the agriculture sector for the foreseeable future. The sector acts as a 'sink' in the absence of alternative gainful employment.

Agricultural productivity is very low in Timor-Leste, even compared to levels in other poor Southeast Asian countries. It seems that this poor productivity is caused by a host of factors. The general picture is that agriculture is conducted with traditional, or almost ancient, practices. Irrigation is limited, pesticides and fertilizers almost non-existent and so is mechanical equipment. Harsh external factors such as droughts and

¹ Another reason for not pruning the trees is that many farmers are so poor that they cannot take two years of declining production. A better functioning credit system could help farmers to smooth out incomes between years (UNDP, 2006, p. 29).

land erosion makes the situation even more complicated. Any improvement is likely to require a broad set of changes. In order to introduce such changes it seems important that the right incentives are in place. This is not presently the case. Poor infrastructure is a major constraint on the commercialization of agriculture which means that the incentives to increase agricultural output, and the means to do so, are only partly in place.

It seems clear that the government has a major policy role to play when it comes to increasing agricultural production. The most obvious example is by providing the necessary infrastructure for farmers to be able to get their products out in the market. There are also other and more difficult issues that have to be dealt with by the government. One such issue is the speed-up of the allocation of land rights. It is likely that the lack of clearly defined land rights has a detrimental effect on investments in agriculture. Another obvious area for the government is extension services. Such services were of major importance during the Indonesian occupation but have since vanished, partly as a deliberate attempt to make the agricultural sector relying more on market mechanisms and less on central planning but also as a consequence of the lack of service personnel with sufficient skills.

Issues of Good Governance

The future efficiency of the government in the development of agriculture is directly related to the issue of good governance. In countries where the basic democratic institutions do no work no concerted development effort is likely to be forthcoming. In the new state of Timor-Leste much of the political energy of the first four years of independence was concentrated precisely on putting these institutions in place. Since these institutions are of vital importance for the functioning of the economy they warrant an examination in the present context, especially since recent political events have tended to turn the earlier optimistic mood that prevailed after the exodus of the Indonesians in 1999 and the rallying around the flag that took place thereafter into a much more careful, critical and possibly also slightly pessimistic attitude.

In April 2006, the World Bank published a study of the institutions of governance in Timor-Leste (World Bank, 2006b). The overall conclusion was that the country had made strong progress in institutional development. The base for this is the national development plan, based on such notions as efficiency, transparency, freedom from corruption, rule of law and accountability. The bank qualifies the achievements until early 2006 as 'remarkable' (World Bank, 2006b, p. 1):

The executive branch of the state, the Government, has been successful in establishing core planning and resource management functions that are effective, transparent, and anchored in the NDP, and compare very favorably with those of other low income countries. The Government has developed solid and transparent arrangements for collecting petroleum revenue, safeguarding the country's most important resource, and ensuring that sustainable income will be spent only through the budget approved by parliament. Albeit with varying reach and quality, the Government has also succeeded in providing services in health; education; infrastructure and communications; and Agriculture, fisheries and forestry. These results have been achieved against considerable odds, including a pervasive lack of technical and management skills and lack of familiarity with the institutions needed to run the state.

Having said this, however, the World Bank report also points out that the success in building institutions had been concentrated mainly to the executive branch. Other areas had not been developed to a correspond-

ing extent and some lagged considerably behind, a situation that called for deliberate political action to forestall the emergence of a lack of confidence with respect to the legitimacy of the government among the citizens in general. The checks and balance issue was brought up explicitly. The executive branch is much stronger than the parliament and the judiciary, and both media and civil society are weak, and the bank points explicitly to the desirability of strengthening the countervailing powers (World Bank, 2006b, p. 1).

Three issues in particular call for attention. The first is the judiciary. This was identified as the weakest of all the fundamental institutions of governance (World Bank, 2006b, p. 19):

The district courts in Baucau, Oecusse and Suai function only sporadically. They are currently opening, but judges, prosecutors, and defenders are not in residence and depend on UNOTIL [United Nations Office in Timor-Leste] to travel to the courts for hearings. The OPG [Office of the Prosecutor General] and, to a lesser extent, the courts, have developed formidable backlogs. As of December 2005, there were 474 cases awaiting trial in the district courts. Illegal retention remains a significant problem. The effectiveness of the justice system is further hampered by the fact that laws and proceedings are not translated into languages understood by all court actors, including Timorese legal professionals, the majority of whom were trained in Indonesia.

When all the Timorese judges had to undergo a professional examination in 2004–05 the result was dismal. Not a single one passed, but all had to be put into full-time training and the entire responsibility for the operation of the court system had to be taken over by international judges. This situation of international dependence is likely to continue at least until 2010, and possibly beyond as well. The worst backlogs were found in civil cases, that is, in cases which among other things may have direct bearing on the efficiency of the economy (World Bank, 2006b, p. 19):

Between January and October 2005, only 17 civil cases were tried in all of the district courts, in contrast to 337 criminal cases. During the same period, the backlog for civil cases increased by 39 percent. In October 2005, the Court of Appeals had a backlog of 54 civil cases, compared to 4 criminal cases. The slow resolution of civil cases affects the confidence of both the community and the private sector in the justice system. The *Doing Business Report for 2006* found that Timor-Leste scored poorly on enforcement of contracts, with an enforcement time averaging 990 days and costing USD 183 for every USD 100 recovered.

Timor-Leste still lacks the Supreme Court, envisaged by the constitution, which should serve as a check on the government. So far it only has a Court of Appeal, but the decisions of this court on constitutional matters do not bind the government.

The second issue that calls for attention is corruption. The World Bank report expresses the prevailing sentiment among foreign donors well when it states that there is plenty of anecdotal but so far not much substantial evidence of corruption. At the same time it points to a number of typical high-risk areas, headed, not unexpectedly, by customs, tax administration and procurement, and stresses the need to be proac-

tive. Once corruption has taken hold it will be difficult to weed it out and the development effort will suffer. Perceptions of increasing corruption among the population are dangerous, even if they are not well founded, because they undermine the credibility of the government (World Bank, 2006b, p. 30).

Intimately related to the corruption issue is the situation of the media. The World Bank stresses that the media have an important role to play in the effort to combat corruption. Timor-Leste has four daily newspapers, several weekly magazines, an independent national television and radio broadcasting station and community radio stations all over the country. This is fine as far as it goes, but so far there is nothing that resembles critical, investigative journalism in the country and overall the media must be qualified as weak. They lack financial independence and they are highly prone to self-censorship – a result of the suppression of the freedom of expression during the Indonesian occupation of the country. Even worse, a directive issued by the Council of Ministers in 2004 overturned the 2000 executive order of the transitional administration of the country which established the freedom of the press, and in the 2006 Penal Code, defamation was made a criminal offense instead of a civil issue. This makes it easy to silence criticisms. Alternatively, the media may resort to self-censorship in order to survive.

While Freedom House had classified Timor-Leste as ‘free’ with respect to the situation of the press in 2005, in 2006 the country’s status was changed to ‘partly free’ only, due, firstly, to the criminalization of defamation in the new Penal Code, with severe penalties for defamation of public figures, and secondly because of the harassment of the oldest Timorese newspaper, *Suara Timor Lorosae*, by government officials. Prime Minister Mari Alkatiri ordered all government offices to boycott the paper, withdrew government advertising from it and prohibited government officials from issuing any statements to the paper’s journalists. The paper was also evicted from the building containing its office (Freedom House, 2006).

The Outlook for Democracy

The checks and balances issue points directly to the question of how strong the roots of the young Timorese democracy actually are. Can the country look forward to a peaceful cementing of the latter or will the conflicts which have dominated political activities for more than a year, notably the one between the two leading actors, Xanana Gusmão and Mari Alkatiri, carry the day? At the beginning of 2006 Francisco da Costa Guterres (2006) defended a PhD thesis at Griffith University in Brisbane which focuses on the attitudes and behavior of the Timorese elites in politics. His point of departure is the lack of democratic government during the Portuguese and Indonesian administrations, a situation which caused political division among the local elites. Since Timor-Leste is a nation with a weak civil society, weak social institutions and an undeveloped economy, the elites tend to play a disproportionate role in politics.

Basically the elites support democracy. According to Guterres, there are several reasons for this. In the first place the elites, especially those active in the resistance movement, directly experienced brutal authoritarian rule during the Indonesian occupation and then concluded that political democracy constitutes the best guarantee for their personal security and civil and political liberties. Secondly, the promise of democracy in a free nation was at the heart of the resistance movement, and it

is simply not possible to take this promise back. Thirdly, those leaders who had been exiled overseas, in countries like Portugal and Australia, during the occupation had had first-hand exposure to democracy and had appreciated both political liberty and economic development. Finally, after the departure of the Indonesians in 1999 Timor-Leste was administered by the United Nations, an administration which was scheduled to lead to precisely democracy. All these factors have contributed to the fostering of positive attitudes to democracy among the Timorese elite groups.

The question, however, is exactly how deeply rooted these attitudes are. Have they come to stay or were they simply the product of the events leading up to the transition to domestic rule? Politics in Timor-Leste to a large extent is an elite affair. The Timorese elites who emerged during the Portuguese period had a relatively homogeneous background. 'A majority of these elites were descendants of the *liurai* [traditional leaders], autocrats and mestizos', writes Guterres (2006, p. 110). 'Only a very few of them became elites due to their modern education. Mari Alkatiri was one of the very first East Timorese to achieve this, finishing his secondary schooling in Dili in 1974' (Guterres, 2006, p. 110). The elites were frequently educated in Catholic schools, learning skills that made it possible to get jobs within the public administration but which did little to prepare them for participation in the democratic process.

After the 'Carnation Revolution' in Portugal in 1974, political parties were beginning to be formed in Timor-Leste as part of the decolonization process, notably the UDT (União Democrática Timorense), which favored a federation with Portugal, Apodeti (Associação Popular Democrática de Timor Pró-Referendum), which sought integration with Indonesia, and Fretilin (Frente Revolucionario de Timor Leste Independente), in favor of total independence. Relations grew tense immediately (Guterres, 2006, pp. 118-19):

... in ... elite-level relations during these years ... a lack of communication and deep suspicions became hallmarks. After forming political parties, these elites could not agree on formal and informal rules by which to decide East Timor's political future. They even rejected their opponents' presence in conferences organised by the Portuguese government to discuss the future of East Timor. For example, in 1975, the Portuguese government organised a conference ... in Macau in order to discuss the future of the territory. FRETILIN, however, chose not to participate in the conference. It did not want APODETI's leaders to be present, fearing that the conference would be used as a means by which to eliminate FRETILIN.

On 11 August 1975, the UDT supported by the Indonesian military pulled off a coup d'état in order to take over from Portugal and dismantling Fretilin. Timorese politics then degenerated into civil war. Nine days later, the UDT was defeated by Fretilin, and on 28 November 1975, Fretilin proclaimed the country's independence. The UDT withdrew to the other side of the border and its leaders together with those of Apodeti, among others, signed the so-called Balibo declaration of integration with Indonesia. On 7 December, Indonesia, on the pretext that chaos prevailed which threatened Indonesian stability, invaded and a few months later incorporated East Timor as its twenty-seventh province.

Guterres argues that the Indonesian occupation served to increase confrontation in politics. The Timorese officials imitated the Indonesians

and corruption increased, notably in the management of public funds, but not only that (Guterres, 2006, p. 145-46):

In politics, the East Timorese were also introduced to a non-competitive and corrupt system that encouraged them to use violence against their political opponents and to carry out manipulations in the elections. Members of the parliament and politicians were not allowed to express opinions different from the government's policies. Local and national parliaments only became 'a rubber stamp' to legalise government proposals.

The presence of these ... orientations caused deep divisions between East Timorese political elites. Each set of elites perceived the other as a threat to their very existence, with high levels of violence ... routinised. Pro-Indonesian elites, with the support of the Indonesian military, for example, tried to dismantle the resistance organisation by arresting their leaders, then killing or imprisoning them. [...] In turn, the resistance also used violence against their political opponents.

The Indonesian occupation served as a further means of political polarization in Timor, with one side favoring the integration and the other, headed by Fretilin, advocating complete independence. The armed wing of Fretilin, Falintil (Forças Armadas da Libertação Nacional de Timor Leste) fought against the Indonesian military and the UDT and Apodeti paramilitaries.

The origins of the rift between Xanana Gusmão and Mari Alkatiri also go back to the very same years, after 1974–75, when the Timorese began to break away from Portugal and Fretilin established its supremacy as the main anti-Indonesian force in the country. The causes are furthermore related to the organization of the resistance. Alkatiri was a political left-wing radical who had been in Angola and made contact with the MPLA (Movimento Popular de Libertação de Angola). He was one of the founders of Fretilin and he was one of the persons who were instrumental in bringing in radical, Marxist-Leninist, ideas from the resistance movements in Lusophone Africa: MPLA, Frelimo (Frente de Libertação de Moçambique) in Mozambique and PAIGCV (Partido Africano da Independência da Guiné e Cabo Verde) into the Fretilin party program in May 1977. Marxism-Leninism was adopted as the official party ideology and the absent party leader Xavier do Amaral was subsequently deposed and charged with treason and his supporters were purged from the Central Committee.

Xanana Gusmão had joined Fretilin in May 1975. He quickly made it into the Central Committee. Gusmão studied Marxism, however, without being convinced of its virtues, and when after the Indonesian invasion he became a regional Falintil guerrilla leader, he opposed the use of 'revolutionary violence' and the persecution of 'counter-revolutionaries' in 1977. Falintil was defeated in 1978, when its *base de apoio* was destroyed and a number of commanders were killed or captured. In 1981 Xanana Gusmão and Mau Hunu, who at the time were the only two members of the Fretilin central committee still in Timor, decided to employ guerrilla tactics instead, and Xanana became the commander-in chief of Falintil.

In 1986, Xanana was convinced that the resistance against the Indonesians had to be broadened in order to be successful. He took contact with the UDT leadership abroad. As a result, the Convergência Nacional da Resistência do Povo Maubere (CNRM) as an umbrella

organization – later (in 1997) the Conselho Nacional da Resistencia Timorense (CNRT.) The new organization also included representatives of the Catholic Church, East Timorese in the Indonesian militia and even some Apodeti people.

Xanana Gusmão had broadened the basis of resistance. What he did next came as a logical step: in 1987 he separated Falintil from Fretilin, in order to make completely clear that the resistance against the Indonesian occupation was a broad-based one, not based on the political ideology of a single party (Shoesmith, 2003, pp. 240-41):

The final step was taken on December 7, 1987, the 12th anniversary of the Indonesian invasion, when Gusmão issued an address to the people of East Timor in which he attacked the Central Committee of Fretilin for committing ‘enormous and excessive political errors.’ The Central Committee, he said, had been guilty of ‘political infantilism’ and doctrinaire Marxism. Its senseless radicalism ‘paid no attention to our concrete conditions and limitations. It made us intolerably overbearing and led us to put many compatriots on the same footing as the criminal aggressor. ...’ Falintil, he promised, would not permit the installation of a leftist regime and would be neutral, independent of Fretilin control. Its struggle was on behalf of ‘the interests of all the citizens and social classes in East Timor’ ...

The strategy worked in the sense that greater popular support was mobilized for the national cause. Falintil and Fretilin were no longer alone, but the support of the Catholic Church put more pressure on Indonesia inside Timor, and outside the country the United Nations, various human rights groups and solidarity groups made sure that events in Timor did not escape attention. Armed resistance and peaceful efforts were combined (Guterres, 2006, p. 134). At this point Fretilin switched from a confrontational attitude to one of tolerance of its domestic political opponents. This paved the way for the multi-party democracy that was incorporated into the constitution of the new state.

The antagonism between Gusmão and Alkatiri, however, became permanent. The issue of Marxism-Leninism gradually faded into the background as independence drew closer, but the rift has never been bridged. On the contrary, it widened further when the constitution was written. Fretilin had obtained no less than 55 of the 88 seats in the Constituent Assembly in 2001 and hence was able to concentrate political power in the government and the parliament, notably the former, instead of distributing power equally between these two institutions and the president, as desired by the opposition.² In this way, the president in principle became a mere ceremonial figure, and power was concentrated in the hands of the prime minister. Later the Constituent Assembly was converted into a national parliament simply by a government decree, without any elections taking place.

The dominant party has also used its position to override the constitutional veto of the president against certain legislative bills, by obtaining an absolute majority of votes in Parliament. This has included a highly controversial Security Act which in principle gives the government power to control the opposition. During the 2002 elections, Alkatiri also told the Fretilin supporters not to vote for Gusmão for president but for Francisco Xavier do Amaral instead or cast blank votes.

² Fretilin was supported by the ASDT (Associação Social Democrata Timorense) which had six seats, hence obtaining the necessary two-thirds majority.

Things did not get visibly better afterwards. In November 2002, Gusmão, openly (in Parliament) called for the resignation of Rogério Lobato as Minister of the Interior, on the grounds of 'incompetence and negligence' alleging that he was contributing to the formation of armed gangs. In 2006 the government passed a highly controversial Internal Security Act, which was vetoed by the president but thereafter overruled by the Fretilin-dominated Parliament with an absolute majority, a Law on Freedom of Demonstration which prohibited demonstrators from questioning the legitimacy of the government and forbade protests in front of government buildings. This was complemented by a Penal Code making defamation a criminal offense, with harsh penalties.

The conflict between Gusmão and Alkatiri has been visible also on a second level. The army, which is basically made up of former Falintil people has been loyal to Gusmão. The commander-in-chief, Taur Matan Ruak, was deputy commander of Falintil. The police force, on the other hand, has been more committed to the government and there have been clashes between the two, like when in January 2004, soldiers attacked a police station in Lospalos and wounded some police.

Guterres (2006, p. 292) summarizes the situation prevailing at the beginning of 2006 thus:

Today, the Mozambique group has been evaluated by most analysts of East Timor's politics as politically the most powerful group, controlling the core of government and a large majority in parliament. Resorting to political strategies it learned while in Mozambique under the rule of FRELIMO, this group often betrays authoritarian inclinations and confrontational outlooks, hence demonstrating attitudes towards democracy that appear at most to be 'semi-loyal'. The constitution they drafted resembles that of Mozambique. This group centres on Mari Alkatiri, Secretary General of FRETILIN. Its members display unquestioning support of Alkatiri, and many of them have been duly rewarded with high positions in government [Rogério Lobato (interior), Ana Pessoa (administration) and Madalena Boavida (finance)]. Meanwhile the 'homegrown' group encompasses several factions, including resistance leaders and incumbent elites. The resistance leaders trace their roots to FALINTIL and the broader clandestine movement. This faction centres on Xanana Gusmão, the current president of East Timor, and Francisco Lu Olu Guterres, the Speaker of the National parliament and president of FRETILIN. This faction too is characterised by strong loyalties, even as its members have subsequently joined different political parties such as FRETILIN, PD, and PSD. They also hold various high-level posts in the National Parliament and Government.

The above was the situation in April 2006. The political actors pretty much conceived of politics as a zero-sum game, where the winner takes all and there is no role for the loser. Unfortunately, the following year stands out as a year lost from the governance point of view. Politics moved from the basic institution to the streets of Dili.

A Year of Riots³

On 24 April 2006, the worst riots since 1999 broke out in Dili. The background was the following. In February almost 600 soldiers left their barracks without permission, staging a one-month strike and demonstrating against what they perceived as bad working conditions and favoritism in promotions. Allegedly the soldiers, mainly from the western districts of Timor-Leste were being passed over in promotion, in favor of people from the east. The Prime Minister, Mari Alkatiri, responded to their protests in March by dismissing them all. Altogether this measure affected almost one-third of the total defense force, leaving a mere 1,400.

Riots began on 24 April in the streets of Dili, with burning of cars and buildings and they would continue on an intermittent (sometimes almost daily) basis for almost a year. The soldiers clashed with the Timorese police force, burning cars and throwing rocks. A few days later a handful of civilians were killed, more than 30 people were injured and 7 were arrested. Around 100 homes and a market were damaged in the capital. Thousands of people left their homes and sought shelter in such places as churches, schools and embassies. The spokesman of the former soldiers, ex-lieutenant Gastão Salsinha, stated that he was in the mountains above Dili with about 100 men and that he was prepared to continue fighting, in a guerrilla war. President Gusmão was asked to dismiss the prime minister.

Prime Minister Alkatiri asked the soldiers to turn themselves in and cooperate with a commission of enquiry that would study their claims. This turned out to be of no avail. Instead, the disturbances continued. The inhabitants of the capital began to leave and head for their villages, bringing whatever valuables they could with them.

On 8 May the Minister of Development Abel Ximenes resigned from his post, acknowledging that he had failed to do anything to change the situation. The following day a mob of about 1,000 people attacked a government office in Gleno, south-west of the capital. When the police intervened one officer was killed and another was injured following the torching of police cars. Around 100 people were arrested.

Alkatiri stated that the violence aimed at provoking the fall of the government and blocking the democratic institutions so that the president would have to dissolve the parliament. Australia sent two warships to North Australian waters in the event that the Timorese government would request international assistance for peace keeping. On 11 May the UN Security Council extended the mandate of the UN Office in Timor-Leste, scheduled to shut down on 20 May, for another month.

On 22 May, the rebel soldiers were joined by the head of the military police, Major Alfredo Reinado and 28 of his men, and the conflict again escalated. The following day there was a new incident in the hills outside Dili as some ex-soldiers ambushed troops. The Timorese government finally asked for outside help from Australia, New Zealand, Malaysia and Portugal. Another stream of refugees began pouring into churches and convents. Simultaneously youth gangs armed with stones, slingshots with darts, daggers and machetes began to attack cars and threaten civilians in the capital, while Alfredo Reinado, who stood out as the leader of the rebel militaries, assured that his aim was not to topple the Alkatiri government but to ensure justice within the armed forces.

Meanwhile gunfights broke out on the outskirts of the capital and on 25 May army soldiers killed 9 unarmed policemen and wounded another

³ The following account is based on the continuous reports of the international mass media found on <http://www.asiapacificnews.com>, <http://www.asianews.it/main.php?l=en> and <http://www.unmiset.org>.

27, including two UN police advisers, in the center of Dili. The police had been under attack for about an hour inside their barracks when UN police and military advisers managed to negotiate a ceasefire under which the police officers were to surrender their weapons and leave the building unharmed. The killings took place as they were escorted out. The same day a crowd began smashing windows and putting fire to houses in Dili, including that of the Minister of the Interior, Rogério Lobato, killing six of his relatives, (two young children and three teenagers). In the meantime Australian combat-clad soldiers began patrolling the Dili streets backed by armored cars and helicopters and Australia decided to increase the number of soldiers in Timor-Leste.

Around the same time reports began to spread about clashes between armed youth gangs, and Australian troops had to stop a crowd from invading and torching a hotel where Prime Minister Alkatiri was to hold a press conference. The gangs were rumored to side with army factions from the east and the west, respectively. Inhabitants in Dili were seen fleeing to the airport, where the international presence is heavy, or to the Australian embassy. Over 20,000 people were taking shelter within Red Cross, aid agency and church compounds, at the airport and at the sea port of Dili. The majority of the police officers of the capital were reported to have deserted their posts and having joined the rebel soldiers.

The lines of the conflict were beginning to be defined: east versus west, with the former supposedly more nationalistic, containing many ex guerrilla fighters and other members of the independence movement of the 1980s and 1990s, army versus army, army against police, ethnic youth groups fighting each other. At the bottom of all this were the structural weaknesses of Timorese society: the fragile economy, the inability of the modern sector of the economy to provide employment, and a growing discontent with the inability of the government to do anything visible about poverty.

Alkatiri under Fire

At the end of May questions concerning the role of Alkatiri in the conflict were also being raised. Alkatiri was reelected as secretary general of the Fretilin at the party congress with 97 percent of the votes in an open vote instead of one with closed ballots as the statutes of the party dictate. Alkatiri's leadership style has been criticized, notably his stand in religious issues, against the Catholic church (Alkatiri is a Muslim, while over 90 percent of the Timorese population is Catholic), his decision to invite 500 Cuban physicians to the country, despite the protests of the US ambassador, and his decision to declare a national day of mourning when Yassir Arafat passed away. On several occasions he had had to call on the army and the police to defend unpopular decisions, but after the decision to use the army instead of the police to quell the April riots senior army officers began to feel uneasy and this, in turn, helped to trigger the ensuing desertions from the armed forces.

Observers were beginning to feel that Alkatiri was losing the support of the people, the military, the police, the Church and possibly also that of the country's most important foreign allies, and the question was openly asked whether it would at all be possible to end the crisis unless Alkatiri resigned.

On 27 May President Xanana Gusmão met an envoy from the army rebel faction who stated that his people were ready to go back to the negotiation table, and the following day Prime Minister Alkatiri and the military leaders held an emergency meeting after new outbreaks of gang

violence, renewed burnings of homes and new killings. Alkatiri again told the press that the violence was part of an attempt to stage a coup d'état and depose him, and said he was confident that the president would respect the constitution. The Bishop of Dili, Dom Alberto Ricardo called for the resignation of the prime minister, and talk about increasing animosity between the president and the prime minister was spreading.

The riots continued, with crowds demanding the resignation of Alkatiri. The government met for crisis talks, while President Gusmão tried to calm down a crowd outside the government offices. A mob broke into a government warehouse in the capital and looted it for rice. Foreign Minister José Ramos Horta acknowledged the failure of the government to deal with the crisis, and rumors started to spread that he and the president were examining the constitution to find out whether it would be possible to dismiss the prime minister and appoint a government of national unity instead.

On 30 May, President Gusmão announced that he alone would take over the responsibility of security, as an emergency measure, for thirty days, taking control of the army and the key portfolios of defense and the interior. The government announced the dismissal of these two ministers, Roque Rodriguez (defense) and Rogério Lobato (interior). In the meantime the riots and torching of homes continued, in spite of the presence of more than 2,000 foreign security forces. Among the targets was the Serious Crimes Unit office from which most of the evidence of the responsibility for the 1999 crimes was removed. The growing unpopularity of Alkatiri was directly connected to his failure to put an end to the riots. An estimated 70,000 persons from the capital were in camps and 30,000 had left Dili, out of a total of 150,000. The World Food Program of the UN and other international organizations, like Caritas, were supplying food. Violence, arson attacks and gang fighting continued the next day and more foreign troops were coming in. Alkatiri stated that he was sharing security responsibilities with the president, and rebel leader Major Alfredo Reinado claimed that it was a mistake by Gusmão not to dismiss Alkatiri, calling the latter 'a criminal' who had ordered many of the killings of the previous weeks. Gusmão again pleaded for peace and reconciliation asking people to forget the words east and west. The tension between the president and the prime minister was increasing.

On 1 June ministers Lobato and Rodriguez officially announced their resignation, accepting their failure to deal with the crisis and Ramos Horta had to add the defense portfolio to his responsibilities. The youth gangs began to be identified as 'martial arts' gangs and rumors started to spread that they were being paid by somebody to start violence, a well-coordinated violence carried out with the aid of mobile phones and SMS messages.

The looting continued in Dili, with a mob of about 1,000 breaking into government warehouses. The commander of the Australian forces met with Reinado, who reiterated his demand that Alkatiri should resign, but Alkatiri refused and countered with a demand that the rebels hand in their weapons. On 3 June Ramos Horta was sworn in as defense minister, with responsibility for national security, in an effort to heal the wounds. At the same time the country got a new minister of the interior, Alcino Barris, the former vice minister.

On 3 June Australia's Foreign Minister Alexander Downer visited Dili, calling for a deeper involvement by the United Nations. Clashes between armed gangs continued on 4 June. When the parliament met,

next day, only 50 of the 88 members showed up, for security reasons. Gang fights continued. Ramos Horta urged for the creation of a government of national unity and on 6 June 2,000 protesters headed by Major Augusto Araújo, a friend of Reinado's, around the government houses and the Parliament, calling for the resignation of Alkatiri.

After meeting with Ramos Horta, Alfredo Reinado reiterated his willingness to hold talks with the government, but also that he could see no role for Prime Minister Alkatiri in a future solution. On 8 June a group of 30 people told a reporter from the ABC TV channel that they had been recruited by former Minister of the Interior Rogério Lobato on behalf of the prime minister to form a secret security team and kill political opponents, among those the 600 soldiers dismissed from the army. They claimed to have been given weapons, ammunition, uniforms and vehicles. The allegations were denied by Alkatiri. The same day a Fretilin office was burned in Gleno, Ermera district. At the same time José Ramos Horta declared that he would be willing to take over as prime minister should Alkatiri choose to step down. New accusations followed: that armed Alkatiri supporters, with weapons provided by Lobato, had massacred around 60 civilians in April and buried them secretly. On 11 June the opposition leader Fernando de Araújo, of the Partido Democrático, left the capital, claiming to have received death threats from Alkatiri. The UN relief coordinator to Timor, Jan Egeland, reported that the number of displaced people was far higher than originally thought: around 70,000 in Dili and 63,000 outside the city.

When the UN Security Council discussed the situation in Timor-Leste, on 13 June, several speakers called for a stronger presence there, and Secretary-General Kofi Annan stressed that the United Nations was determined not to abandon Timor-Leste at a critical moment. Annan asked UN human rights chief Louise Arbour to set up an independent inquiry commission to deal with the violence in the country and also stated that he would send a team there to prepare for the return of UN Peacekeepers. He later told a reporter that he thought that the UN had pulled out of Timor too quickly.

A couple of days later the rebel forces began handing in their weapons to Australian peacekeepers and Ramos Horta promised them that their allegations against the armed forces would be made subject to a thorough investigation. Gusmão said that Reinado was not a rebel and that he was not responsible for the events of the crisis. On 19 June, in a meeting with Ramos Horta, another rebel leader, Vicente 'Railos' da Conceição, the head of the alleged secret security team, refused to disarm his soldiers, claiming that he would only hand in his arms directly to the president. On the 20th Prosecutor General Longuinhos Monteiro issued a warrant for the arrest of Rogério Lobato on account of the arming of civilians, and hundreds of protestors demanded the resignation of Alkatiri.

Alkatiri Resigns

The same day, 20 June, President Gusmão in a formal letter asked Prime Minister Alkatiri to resign. The standoff between the two leading political figures had come to an end. The letter was accompanied by a videotape of the ABC television program where the allegation of arming a hit squad was made. The following day he repeated the request in a meeting of the Council of State, the body of national political and community leaders which included both the president and the prime minister. The United Nations reported that its mission in Timor, UNOTIL, had been extended until 20 August. On the 22nd Rogério Lobato

was arrested and brought before a court. Further house torching was taking place in Dili and President Gusmão, in a 90-minute address to the nation, threatened to step down himself, after two days of refusal from Alkatiri, claiming that he was embarrassed about all the bad things that the state had done to the people. On the 23rd 2,000 demonstrators gathered outside the government buildings in support of Gusmão, Alkatiri still maintaining that he would not step down. On the 24th the number of protesters amounted to 5,000, making it impossible for the participants in a Fretilin central committee meeting to speak to each other. The party decided to keep Alkatiri in office in spite of all protests, and Ramos Horta resigned from the government, making it clear that he would not continue in an Alkatiri-led administration.

On 26 June, Prime Minister Mari Alkatiri, faced with the possible resignation of up to eight more ministers, finally gave in and resigned himself. Crowds celebrated in the streets of Dili. The situation had become impossible.

He has long been indifferent to his own unpopularity, but in the current chaos the country needs a less divisive leader. [...] Mr Alkatiri has become a hate-figure, blamed for everything that has gone wrong in the country, and it was hard to see how rebuilding confidence and stability after the traumatic events of the past few weeks could start while he remained in office. [...]

Much of his unpopularity is due to his brusque, business-like manner.

He is an intellectual, impatient with people who express poorly thought-out ideas.

He has never seemed able to empathise with the suffering experienced by much of the population during the Indonesian occupation, or to find the right words to comfort those who are often unable to articulate what they feel about those years.

By contrast, president Gusmao [sic] is a master of the art of healing. With a few simple words, or just a hug, he can move crowds to tears.
...

The two men who have been running the country since independence could hardly have more different styles, and they have had a very uneasy relationship with each other. [...]

Mr Alkatiri is a consummate party man – Fretilin reaffirmed its backing for him three times in recent weeks, the last time less than 24 hours before he resigned.

The party remained loyal to the end, but he was arguably the wrong kind of leader for a country as traumatised as East Timor

summarized BBC's South East Asia correspondent Jonathan Head (2006).

Unrest continued in the streets of Dili, as thousands of Alkatiri supporters moved into the city, clashing with the groups that had demanded his resignation. Houses and shops were torched and stones were hurled at a refugee camp.

On 3 July the Timorese parliament met for the first time in several weeks to discuss whether the immunity for Mari Alkatiri should be waived so he could be made to answer questions regarding his possible involvement in the setting up of the alleged hit squad. The same day Australia announced the doubling of the country's food aid to East Timor as the supplies for the refugees were running out. The following day UNICEF reported that 15 percent of the approximately 36,000 children in the camps needed immediate treatment for malnutrition, and two days later New Zealand as well announced an increase of the aid to Timor-Leste. On 7 July Prosecutor-General Longuinhos Monteiro ordered ex-Prime Minister Alkatiri to appear for questioning on 20 July, as suspected of having distributed weapons to civilians.

On 8 July President Xanana Gusmão announced that José Ramos Horta would be the new prime minister of Timor-Leste, with Fretilin's Minister of Agriculture Estanislau da Silva as first and independent Minister of Health Rui Maria de Araújo as second deputy prime minister. The new prime minister pledged to end the violence that had by then been plaguing the country since the end of April. He urged the Australian troops to remain in Timor at least until the end of the year. UN spokesman Ian Martin, Kofi Annan's special envoy to Timor-Leste stated that the UN presence should be extended well beyond the presidential and parliamentary elections scheduled for May. Comandante Railos and his men put down their arms.

On 14 July, Ramos Horta's new cabinet was sworn in. The new prime minister (who also retained the Defense portfolio) stated that his main goals were the restoration of order, economic strength and social stability. President Gusmão urged the new government to pay special attention to the employment problems of veterans and youths, which he stressed were to a large extent responsible for the past few months' disturbances. On the 18th Australia's prime minister, John Howard, visited Dili. On 20 July Alkatiri was banned from leaving the capital for 15 days by the Prosecutor-General. On the 26th rebel leader Alfredo Reinado and 21 of his supporters were arrested by Australian troops, suspected of having fuelled the April riots, and their weapons were seized, after the expiry of a gun amnesty proclaimed by Ramos Horta. The next day Ramos Horta asked for 800 more UN police.

At the end of July and the beginning of August things calmed down considerably in Timor-Leste. Australia began to remove some military personnel. However over the weekend around 8 August 40 youths planning to attack a refugee camp were arrested. On 15 August the Special Envoy of the Secretary General of the UN, Ian Martin, called for the establishment of a new, and larger, UN mission in Timor. Australia's foreign minister Alexander Downer, however, stated that Australia was not prepared to see the UN take over the next phase in the international operations in the country, and that it would be more efficient to leave things the way they were being administered at the time.

On 19 and 24 August new gang fights broke out. On the 25th the United Nations Security Council finally took the decision to establish a new Timor mission, creating the United Nations Integrated Mission in Timor-Leste (UNMIT) for at least six months, with 1,608 police and up to 35 military liaison officers.

On 30 August, 57 of the inmates of the Becora Penitentiary in Dili, among them Alfredo Reinado, several pro-Indonesia militia men held on account of the 1999 riots as well as some ordinary criminals, escaped after threatening the guards with grass cutters. Ramos Horta partly

blamed the Australian and New Zealand security forces for refusing to increase the security outside and around the prison in spite of repeated requests. The following day saw new clashes between gangs armed with stones and machetes.

On 4 September the foreign ministers of Australia, Indonesia and Timor-Leste met in Dili for security talks. Again Ramos Horta stressed the need for continued presence of foreign troops and police in Timor. One result of the meeting was a promise of more Australian soldiers.

On 9 September dozens of youths with stones and slingshots attacked a refugee camp in Dili, and international peacekeepers had to fire tear gas to stop them. Four days later the responsibility for the international police forces was formally handed over to the UN. The following day saw new gang battles, with one dead and five injured. On the 24th two youth groups from different regions clashed near the Comoro market in the capital. Two days later Ramos Horta met with hundreds of the dismissed soldiers, explaining that he was willing to listen to their complaints and secure back pay. Around the same time, the Timorese police force began to return to their work in Dili.

Gang fights were renewed on 9 October. A week later the UN released a report on the events in April and May, recommending that Rogério Lobato and Brigadier General Taur Matan Ruak, the former head of the armed forces, among others be tried in court over the issue of arming civilians during the conflict. The report also blamed Alkatiri as responsible for the outbreak of violence and for failing to take measures against the distribution of weapons. On the 26th the airport had to be closed after a clash between two armed rival groups nearby which resulted in two deaths.

After a brief interval without incidents Ramos Horta on 9 November stated that the worst period of violence was over, and four days later members of rival gangs held a rally in Dili to promote peace and unity. At the very end of the month the trial against Rogério Lobato had to be postponed until 9 January 2007 after he had failed to show up in court. The same day it was revealed that much of the violence was drug-related, with locally made methamphetamine being distributed to gang members before the fights. On 4 December the brief period of peace and unity was over. Renewed gang fights took a toll of 3 dead over a couple of days, on 7–8 December some 35 people were held by the police for throwing stones and carrying arms and new death incidents were reported over the following weeks.

As the trial of Lobato began on 9 January 2007 hundreds of his supporters rallied outside the court. The political violence continued. Between 15 and 22 January 5 dead and 24 injured from political violence were reported. At the end of the month, Alfredo Reinado had been tracked to a village four kilometres west of Dili and Australian troops had set up roadblocks to restrict his mobility. Gang violence continued in the capital and on 1 February, following a two-week investigation in gang neighborhoods, 47 people were arrested for possession of illegal weapons, riotous behavior and suspicion of homicide. Among those were various 'martial arts' gang members and numerous weapons were confiscated.

Presidential Elections

In the meantime the election issue was coming up. Presidential elections were scheduled for 9 April with parliamentary elections to follow in May. President Xanana Gusmão let it be known again that he did not intend

to stand for a second period. Instead Prime Minister José Ramos Horta announced that he would run. Three days later the charges against ex-Prime Minister Mari Alkatiri for providing civilians with arms and setting up hit squads were dropped, making it possible for him to stand in the parliamentary elections. On 14 February Ramos Horta anew asked for increased United Nations assistance to stop violence in Timor-Leste, after new incidents just one or two days before, with more teenagers being killed. On 18 February a second prison escape took place, with around 40 prisoners breaking out, among those both people who had been arrested in connection with the May riots and youths involved in more recent gang fights. On the 20th 79 people were arrested and the following day seven international police officers were injured when their vehicles were attacked. On 22 February the number of arrests over three days amounted to 148. The following day the UN Security Council voted to prolong the mission of the peacekeepers until 26 February 2008 and to send additional officers before the 9 April elections to ensure that these be fair and free. The same day a Timorese youth was killed by an Australian soldier after attacking him shooting steel arrows.

On 26 February President Xanana Gusmão declared war on Alfredo Reinado after raids by his men on two police border posts and the seizure of 25 high-powered weapons and plenty of ammunition. This meant a turnaround on part of the president who is believed to have defended Reinado behind the scenes before the incident. (Reinado had also threatened to kill Australian soldiers if they tried to catch him.) The border with Indonesia was closed by the Indonesians after the raids. On the 26th the Australians began chasing Reinado. On 4 March Reinado's base at Same was attacked by the international security forces, killing four men, but Reinado managed to escape himself. The following day thousands of his supporters staged a protest in Dili and blocked roads with burning tires. The president threatened to use emergency measures to quell the unrest. On the 5th and 6th his sisters' houses were looted and demands were voiced that the Australian troops leave Timor. On the 6th Gusmão took direct control of the armed forces.

In mid-February the prosecutors in the Lobato case had disclosed that they were seeking a seven-year sentence and on 7 March Rogério Lobato was convicted for abuse of power, manslaughter and for illegally furnishing civilians with arms to seven-and-a-half years of prison.

On 10 March the Timorese election authorities announced that 8 candidates would be running for president,⁴ including José Ramos Horta. The election campaign had an uneasy start. On 30 March supporters from the two camps clashed in Viqueque and Dili. On 2 April, a man was murdered and a house torched as part of the election campaign. On 7 April, a mere two days before the elections, the team appointed by the UN to supervise the elections reported that it could not certify that the elections would be free and transparent, and half the candidates expressed fears that the elections would be manipulated. The next day the police arrested some 200 people in connection with irregularities in the preparations for the elections. (Many were, however, released shortly afterwards.)

On election day, 9 April, things were calm and the voting could take place without incidents. The voters could choose between eight candi-

⁴ José Ramos Horta (independent), Francisco 'Lu Olu' Guterres (Fretilin), Fernando 'Lasama' de Araújo (Partido Democrático, PD), Francisco Xavier do Amaral (Associação Social Democrática Timorense, ASDT), João Carrascalão (União Democrática Timorense), Lúcia Lobato (Partido Social Democrático, PSD), Avelino Maria Coelho da Silva (Partido Socialista Timorense PST) and Manuel Tilman (União dos Filhos Heróis das Montanhas de Timor).

dates, with José Ramos Horta, Francisco Guterres, of Fretilin, and Fernando de Araújo, of the Partido Democrático, as the main candidates. Guterres is a former guerrilla commander, and has served as speaker in the parliament. Araújo spent six years and four months in prison together with Xanana Gusmão. He was the secretary-general of the youth organization of Timorese resistance, Renetil (Resistência Nacional dos Estudantes de Timor Leste). More than 522,000 people were eligible to vote under the supervision of 2,800 foreign troops and police 3,500 election officials and 232 foreign observers.

When 70 percent of the votes had been counted on 10 April it looked like a very close split between Ramos Horta, Araújo and Guterres, with around 21 percent each. On 11 April, five of the presidential candidates wrote to the national election commission accusing Fretilin for intimidation of voters and irregularities in the counting of the votes. The following day Guterres (28.3 percent) and Ramos Horta (22.6 percent) emerged as the two leading contenders, followed by Araújo (18.6). Since 50 percent is required to win in the first round, a run-off between the two top candidates was scheduled for 9 May. The election commission began an investigation regarding the alleged vote manipulation and on 15 April it was reported that in Baucau, the second largest town, around 100,000 voters had produced more than 300,000 votes, a serious allegation, since the total number of eligible voters was 520,000 in the entire country. The issue was later deemed to be caused by a 'technical error'. When the official count was announced on 18 April, Guterres had obtained 28 percent and Ramos Horta almost 22. The same day the prime minister announced that the hunt for Alfredo Reinado would be suspended in an effort to bring him to the negotiation table instead.

The presidential runoff on 9 May was a contest between Francisco 'Lu Olu' Guterres and José Ramos Horta. Ramos Horta was backed by not only by his own followers, but also by five of the parties losing in the first round, and he won by a comfortable margin: 69 percent of the votes against 31 percent for Lu Olu, in elections with a voter turnout of 80 percent.

Parliamentary elections have been scheduled for 30 June. On 30 April Xanana Gusmão was elected president of a new party: CNRT (Conselho Nacional da Reconstrução Timorense), using the same acronym as the pro-independence movement of 1997: the Conselho Nacional da Resistência Timorense). Mari Alkatiri reacted by calling the use of the initials 'cynical' and 'opportunistic' and threatened with legal action.

Conclusions

The period between April 2006 and the presidential elections in April and May 2007 was characterized by extensive and recurrent turmoil in Dili. The normal political process ceased to function and street violence took over as the main expression of diverging viewpoints. The trigger was discontent among parts of the armed forces, and the conflict has been portrayed largely as one of regional differences on the one hand and one between army and police on the other. However, it was also related to the successively deepening rift between the president, Xanana Gusmão, and the prime minister, Mari Alkatiri and their struggle for political supremacy.

This struggle is not yet over. Gusmão has so far been pulling the longer straw, managing to make Alkatiri quit post and seeing his ally José Ramos Horta being elected as the nation's new president. The most important round remains, however, the parliamentary elections in late

June, when Gusmão and his new and untried party will be facing Alkatiri and the Fretilin political machine. Should the Fretilin forces win, the political situation will remain pretty much the same as the one prevailing during the first independence years, depending, of course, on the relative strength in parliament of Fretilin and its adversaries. Should Gusmão emerge as the victor, Timor-Leste will be entering a new political phase with contents that are largely unknown. Whatever the outcome, there will be consequences for the economy. The country needs peace and quiet during the next few years. Revenue is not lacking. On the contrary, the country has more resources than it can absorb in a gainful way, but only peaceful conditions and constructive political decisions will make it possible to increase the absorption capacity and diversify the undeveloped economy away from the heavy dependence of the vast majority of the population on subsistence agriculture.

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