

Policy Brief

Areas of Cooperation Between ASEAN and Timor-Leste

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Key Messages:

- Timor-Leste's admission, in principle, as a full member of ASEAN marks a pivotal moment in its development journey. Even as the process for full membership continues, there are several areas of mutual interest where ASEAN and Timor-Leste can collaborate.
- The economic growth of Timor-Leste is dependent on diversifying its economic base. Growth has been sluggish and volatile, relying primarily on pro-cyclical public spending, which is heavily funded by oil revenues.
- To ensure sustainable development, Timor-Leste must diversify its economy, reducing its over-reliance on a single commodity and gradually shifting towards higher value-added products and services.
- There are numerous areas where cooperation between ASEAN and Timor-Leste can be mutually beneficial. Priority areas include blue economy development, sustainable agriculture, digitalisation, and human resource development.
- Timor-Leste should be included in ASEAN's programmes and initiatives aimed at narrowing the development gap within and between ASEAN Member States.

This Policy Brief explores the development challenges faced by Timor-Leste and how its potential accession into ASEAN can influence the country's long-term economic prospects. Timor-Leste stands out as one of the most democratic countries in the region, with a stable and peaceful environment, free press, and a high level of female representation in Parliament. However, its economic growth has been inconsistent and overly reliant on public expenditure, funded largely by oil revenues. There remains a significant development gap between Timor-Leste and other ASEAN members across various dimensions. As the process for Timor-Leste's full membership in ASEAN unfolds, several areas of mutual interest emerge for collaboration. Key areas of focus include the development of the blue economy, sustainable agriculture, digital transformation, and human resource development. Additionally, it is recommended that Timor-Leste be integrated into ASEAN's programmes designed to reduce development disparities within the region.

During the 2022 40th and 41st Association of Southeast Asian Nations (ASEAN) Summits, chaired by Cambodia, Timor-Leste was 'admitted in principle' as ASEAN's 11th member and granted 'observer status' (ASEAN, 2022). Preparations are currently underway for Timor-Leste to attain full membership, which is expected to significantly benefit the country's development. Full membership is likely to attract both foreign and domestic investments, leading to expanded employment opportunities and providing Timor-Leste with access to ASEAN's large market for its exports. Additionally, joining ASEAN could help transform Timorese public administration into a facilitator of development, enhancing governance effectiveness, transparency, and making its investment regime more stable and predictable. This would promote entrepreneurship, increase national private sector engagement, and enable the country to compete in the regional and global markets, while also ensuring a smooth transition from least-developed country (LDC) status.

Full ASEAN membership is anticipated to strengthen Timor-Leste's economic and social ties with ASEAN, which already plays a major role in its economy. Between 2004 and 2022, over 60% of Timor-Leste's imports came from ASEAN markets, primarily from Indonesia, Singapore, Viet Nam, Malaysia, and Thailand. However, its non-oil exports, such as coffee, are largely directed toward non-ASEAN countries, with only limited exports to Indonesia and Malaysia.

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Beyond trade, many Timorese citizens receive medical treatment in hospitals and clinics across ASEAN, and thousands of Timorese students study in ASEAN higher education institutions each year. Numerous bilateral agreements have been signed between Timor-Leste and individual ASEAN Member States. Investors from ASEAN countries have also begun constructing hotels, restaurants, telecommunications facilities, and health clinics in Dili. Discussions are underway to establish a free trade zone along the border between Timor-Leste and Indonesia.

Since the restoration of independence in 2002, Timor-Leste has made significant progress. It is one of the more democratic, stable, and peaceful countries in the region, with a free press and a relatively high representation of women in Parliament. However, a substantial development gap still exists between Timor-Leste and the rest of ASEAN. Table 1 compares development indicators for Timor-Leste with those of ASEAN. Despite being categorised as a country with Medium Human Development, Timor-Leste's Human Development Index

(HDI) has not improved since 2010, averaging an annual growth rate of -1.01% between 2010 and 2022. In terms of HDI ranking, Timor-Leste dropped 18 ranks between 2015 and 2022, highlighting a considerable gap between it and most ASEAN Member States. In contrast, ASEAN as a whole showed an average annual HDI growth of 0.62% during the same period, with an average rise of three ranks between 2015 and 2022 (UNDP, n.d.).

Moreover, Timor-Leste has the lowest Human Capital Index (HCI) in ASEAN, at 0.45, which is even lower than that of ASEAN's three LDCs: Lao PDR (0.46), Myanmar (0.48), and Cambodia (0.49). Although Timor-Leste's HCI increased by four percentage points between 2010 and 2020, it remains very low (World Bank, 2023). Closing this development gap should be a high priority for Timor-Leste in order to fully benefit from ASEAN membership and to strengthen its engagement with ASEAN's dialogue partners.

Timor-Leste's economic growth depends on diversifying its economic base, as growth has so far been sluggish and

Table 1: Comparison of Development Indicators of ASEAN and Timor-Leste

Dimensions	Development Indicators	Timor-Leste	ASEAN (lowest - highest)
Overall human development	1. Human Development Index in 2022 ^a	0.566	0.600–0.949
Human capital	2. Human Capital Index & Rank in 2020 ^b	0.45 & 128	0.46–0.88 & 126–1
Income and poverty	3. GDP per capita, PPP (constant 2021 international \$) ^c	4,604	5,069–127,543
	4. Poverty headcount ratio at \$2.15/day in 2022 (in 2017 PPP prices) (%) ^d	13.71	0.51–9.34
	5. Poverty headcount ratio at \$3.65/day in 2023 (in 2017 PPP prices) (%) ^e	44.4	0.8–37.2
Employment	6. Unemployment rate in 2022 ^f	2.9	1.1–5.2
	7. Proportion of youth (aged 15–24) not in education, employment, or training (%) in 2021 ^g	30.5	4.1–25.8
Access to finance	8. Commercial bank branches (per 100,000 adults) in 2021 ^h	5.52	2.91–15.8
	9. Automated Teller Machines per 100,000 adults in 2021 ^h	13.39	27.05–108.1
	10. Credit to private sector as share of GDP (%) in 2022 ^k	12.6	30.4–124.4
	11. Ease of doing business score in 2020 ^l	39.4	46.8–86.2
Health and nutrition	12. Maternal mortality ratio per 100,000 live births in 2020	203.9	7.4–218
	13. Under 5 mortality rate per 1,000 live births in 2021	50.5	2.1–42.5
	14. Prevalence of stunting, height-for-age (% of children under 5) in 2022	45.1	3–28.8
Education	15. Adult literacy rate (percentage of people ages 15 and above) in 2020 ^f	69.9	80.5–98.6
	16. Gross enrollment ratio, primary (%) in 2020 ^f	110.7	95.8–119
	17. Youth literacy rate (% of population ages 15–24) in 2020 ^f	85	94–99.8
Digital access and skills	18. Individuals using the internet (% of population) in 2021 ^f	39.4	44–98
	19. Mean download speed (Mbps) in 2024 ^m	2.5	9–101
	20. Readiness for Frontier Technologies Index and Rank in 2021 ⁿ	0.09 & 144	0.19–0.95 & 127 - 5
	21. Mobile broadband subscribers (per 100 people) in 2021 ^f	30.3	56.4–147.5
Gender equality	22. Gender Parity Index (GPI) in 2020 ^o	0.981	0.968–1.023
	23. Global Gender Gap Index in 2023 ^o	0.693	0.650–0.791
	24. Proportion of seats held by women in national parliaments (%) in 2023 ^o	36.9	11.8–30.3

Dimensions	Development Indicators	Timor-Leste	ASEAN (lowest - highest)
Living conditions	25. Proportion of urban population (in %) living in slums, informal settlements, or inadequate housing facilities in 2020 ^f	33.9	5.7–58.2
	26. People using at least basic drinking water services (% of population) in 2022 ^g	87	78–100
	27. Access of population to safely managed sanitation services (%) ^f	56.7	68.7–100
	28. Access of population to electricity (%) in 2022 ^h	99.7	73.7–100
Social safety nets	29. Proportion of population covered by social protection as percentage of GDP (%) in 2019 ⁱ	7	1.1–6.7
Environment and climate change	30. WorldRiskIndex 2020 ^u	15.7	2.2–22.7
Governance	31. Government Effectiveness Score in 2022 ^v	22.6	5.7–100

Source:

^aUNDP (n.d.), Human Development Index (HDI). <https://hdr.undp.org/data-centre/human-development-index#/indicies/HDI> (accessed 30 December 2023).

^bWorld Bank Data Bank available at <https://databank.worldbank.org/source/human-capital-index> (accessed on 27 December 2023).

^cWorld Bank Data Bank available at <https://databank.worldbank.org/source/world-development-indicators/Series/NY.GDP.PCAP.PP.KD> (accessed on 29 December 2023).

^dWorld Bank Data Bank available at <https://data.worldbank.org/indicator/SI.POV.DDAY>.

^eWorld Bank Data Bank available at <https://databank.worldbank.org/source/world-development-indicators/Series/SI.POV.LMIC>.

^fIndependent Group of Scientists Appointed by the Secretary-General (2023), Global Sustainable Development Report 2023: Times of Crisis, Times of Change – Science for Accelerating Transformations to Sustainable Development, New York: United Nations.

^gGovernment of Timor-Leste (2022), Timor-Leste Labour Force Survey 2021, Dili: Directorate General of Statistics, Ministry of Finance, Secretary of State of Vocational Training and Employment and International Labour Organization.

^hILO (2022), Youth not in employment, education or training in Asia and the Pacific: Trends and policy considerations, Geneva: International Labour Organization.

ⁱWorld Bank (n.d.), Commercial Bank B ranches (per 100,000 adults) – Timor-Leste. <https://data.worldbank.org/indicator/FB.CBK.BRCH.P5> (accessed 28 December 2023).

^jIMF (2023), Financial Access Survey. <https://data.imf.org/fas> (accessed 28 January 2024).

^kWorld Bank (n.d.), Domestic Credit to Private Sector by Banks (% of GDP). <https://data.worldbank.org/indicator/FD.AST.PRVT.GD.ZS> (accessed 28 December 2023).

^lCompiled from World Bank (various years), Doing Business. <https://archive.doingbusiness.org/en/doingbusiness>.

^mCable.co.uk (n.d.), Worldwide Broadband Speed League 2024. <https://www.cable.co.uk/broadband/speed/worldwide-speed-league/> (accessed 23 January 2024).

ⁿUNCTAD (2021), Technology and Innovation Report 2021: Catching Technological Waves. Innovation with Equity, Geneva: United Nations/United Nations Conference on Trade and Development.

^oWorld Bank (n.d.), School Enrollment, Primary (gross), Gender Parity Index (GPI) – Timor-Leste. <https://data.worldbank.org/indicator/SE.ENR.PRIM.FM.ZS?locations=TL> (accessed 9 January 2024).

^p(2023), Global Gender Gap Report 2023: Insight Report, Geneva: World Economic Forum.

^qWorld Bank Gender Data Portal available at <https://genderdata.worldbank.org/en/indicator/sg-gen-parl-zs>.

^rWorld Bank Open Data available at <https://data.worldbank.org/indicator/SH.H2O.BASW.ZS?locations=XM>.

^sWorld Bank Open Data available at <https://data.worldbank.org/indicator/EG.ELC.ACCS.ZS>.

^tADB (2022), The Social Protection Indicator for Asia. Tracking Developments in Social Protection, Manila: Asian Development Bank.

^uBündnis Entwicklung Hilft (2021), WorldRiskReport 2021 – Focus: Social Protection. Berlin: Bündnis Entwicklung Hilft.

^vWorld Bank (n.d.), Worldwide Governance Indicators. <https://www.worldbank.org/en/publication/worldwide-governance-indicators/interactive-data-access> (accessed 30 December 2023).

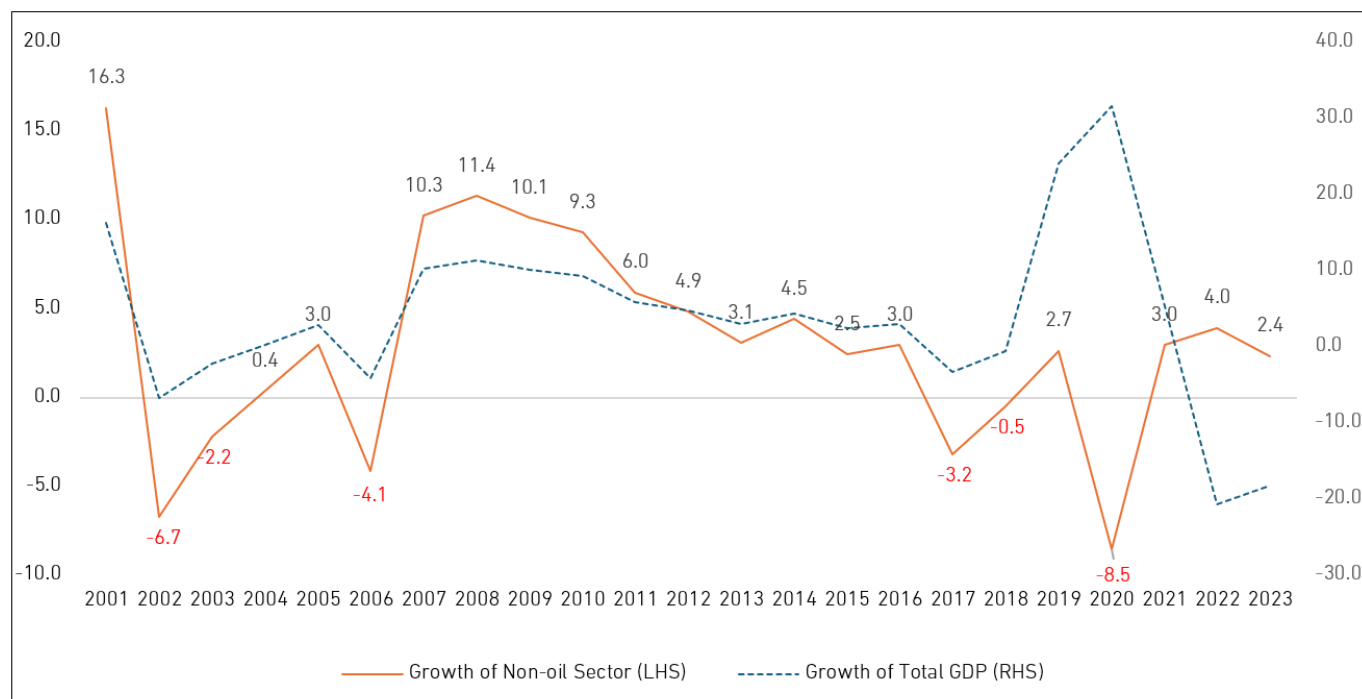
volatile, heavily reliant on pro-cyclical public spending primarily funded by oil revenue. In fact, real non-oil GDP has experienced six episodes of negative growth, all of which were caused by delays in budget approvals due to political gridlock, highlighting the fragility of the country's economy. Oil revenues still account for as much as 89% of Timor-Leste's total revenues, with approximately 90% of GDP supported by public investment, a scenario that is unsustainable in the long term. This heavy reliance on oil revenues makes the country highly vulnerable to global market price fluctuations, which have negatively impacted its economic stability.

Timor-Leste's development indicators remain low, largely due to external shocks such as the volatility of global commodity prices, environmental degradation, climate change, political risks, and, more recently, the COVID-19 pandemic. These factors have hindered the country's progress toward achieving a more inclusive and sustainable economy.

The challenges faced by Timor-Leste are common to fragile and conflict-affected situations (FCAS) and small developing island states (SIDS), such as a small population, a narrow economic base, and vulnerability to external shocks, including the volatility of global commodity prices, natural disasters, climate change, and political risk. Timor-Leste's economic growth is largely dependent on public spending, funded mainly by the Petroleum Fund, which, at the current expenditure rate, is expected to be depleted (Minister of Finance, 2023). To achieve sustained economic growth and converge with its ASEAN peers, Timor-Leste must identify new drivers to diversify its economy beyond oil.

This diversification effort includes expanding and broadening the government's revenue base, reducing large fiscal deficits, integrating more Timorese citizens into the formal economy, and supporting the development of key growth sectors such as the blue economy.

Figure 1: Growth of Total GDP and Non-Oil Sector, 2001–2022 (%)



Source: Government of Timor-Leste (2024).

Investing in food security, eco-tourism, and enabling private sector participation, along with human capital development, are essential steps to drive economic growth and create decent jobs. As Timor-Leste continues the process of gaining full ASEAN membership, several areas of mutual interest offer opportunities for collaboration between the two regions.

Potential Areas of Collaboration between Timor-Leste and ASEAN

Blue Economy

Timor-Leste's considerable marine and maritime assets present significant opportunities for the development of an inclusive and sustainable economy. The country boasts a coastline of 730 kilometers and an Exclusive Economic Zone (EEZ) spanning 75,000 km². Sectors that could benefit from the marine and maritime resources include fisheries, education, research and development, and coastal and marine tourism. In the Program of the 9th Constitutional Government (2023–2028), the incumbent government aims to 'strengthen internal coordination to promote the growth of the national Blue Economy.' The programme outlines plans to draft the 'Timor-Leste Blue Economy Policy' and prepare short and medium-term action plans, including the implementation of eleven initiatives during the government's term. Despite these intentions, there is currently no comprehensive policy framework for the blue economy, only isolated policies and regulations that have been developed separately for various sectors.

Developing the blue economy is also a high priority for ASEAN. During the 38th ASEAN Summit on 26 October 2021, the ASEAN Leaders defined the Blue Economy for ASEAN as 'the sustainable, resilient, and inclusive use, governance, management, and conservation of oceans, seas, and coastal resources and ecosystems for economic growth across various sectors such as fishery, aquaculture, marine transport, renewable energy, tourism, climate change, and research and development, while improving human well-being and social equity.' This approach is highly compatible with inclusive and sustainable development and requires multisectoral efforts from various stakeholders.

Given the shared interest in developing the blue economy, there is significant potential for collaboration between ASEAN and Timor-Leste. Below are some ways ASEAN could support Timor-Leste in this endeavour:

- **Raising Awareness:** Develop national programmes to raise awareness about Timor-Leste's marine and maritime potential for sustainable and inclusive long-term development.
- **Prioritising Investment:** Identify priority areas for investment, particularly sectors with high growth potential that have been underdeveloped, such as fisheries, renewable energy, maritime transportation, and food security to achieve self-sufficiency.
- **Addressing Environmental Threats:** Implement measures to tackle immediate challenges such as illegal, unreported, and overfishing, which threaten marine ecosystems. In addition, focus on pollution control, as Timor-Leste lacks a wastewater treatment system, faces rapid deforestation, and sees rising numbers of endangered species.

- **Building Capacity:** Strengthen institutional and human capacities to support the blue economy. There is a notable skills gap in areas such as marine aquaculture, conservation, fisheries, ship maintenance, maritime safety, and marine-based manufacturing.
- **Forming Partnerships:** Foster partnerships to support the development of the blue economy. Timor-Leste should engage in the global and ASEAN Blue Economy Cooperation Framework to deliver more impactful and sustainable outcomes.
- **Establishing a National Database:** Create, maintain, and regularly update a comprehensive national database on marine and maritime resources and activities to support informed decision-making and planning.

These steps would help Timor-Leste harness its marine and maritime assets more effectively and contribute to sustainable, long-term economic growth while aligning with regional and global initiatives.

Sustainable Agriculture

The share of Timor-Leste's agriculture sector has declined from 24.6% in 2010 to 20.2% in 2023, yet it remains a vital part of the nation's economy. According to the 2019 Agricultural Census, 66% of Timorese households (141,100 out of 213,400) rely on subsistence agriculture, engaging in crop cultivation or raising livestock and poultry within their own agricultural holdings. However, the sector's growth has been hindered by low productivity, limited investment, innovation, and the absence of effective policies. Agriculture holds significant potential for future economic growth, not only because it supports the livelihoods of the rural poor but also because it helps minimise their exposure to uninsured risks such as illness, hunger, crop failure, civil unrest, and family bereavement. Despite its importance, investment in agriculture has remained stagnant in Timor-Leste, consistently ranging between 1.5% and 2.2% of the total annual budget.

At the 44th Meeting of the ASEAN Ministers of Agriculture and Forestry on 25 October 2022, the 'ASEAN Regional Guidelines for Sustainable Agriculture in ASEAN: Developing Food Security and Food Productivity with Sustainable and Circular Agriculture' were adopted. These guidelines outline five principles and twenty-eight key strategies to guide member countries in transforming their agriculture sectors to become more productive, economically viable, environmentally responsible, inclusive, and sustainable. An action plan has also been developed to implement these guidelines.

ASEAN could support Timor-Leste in creating its own action plan and defining its financing requirements, based on the ASEAN Regional Guidelines for Sustainable Agriculture. This collaboration would strengthen food security and work towards achieving self-sufficiency, gradually reducing Timor-Leste's dependence on food imports.

Digitalisation

The proliferation of digital technology across all sectors presents an opportunity for developing countries like Timor-Leste to invigorate their economies and leapfrog into modern economic activities. However, the digital divide remains a significant challenge in Timor-Leste. As of 2021, less than 40% of the population used the internet, the lowest percentage amongst ASEAN countries. Additionally, the number of mobile broadband subscribers remains very low, also the lowest in the region. A recent survey revealed that Timor-Leste's mean broadband download speed is 2.50 Mbps, ranking the country 217th globally. According to the latest UNCTAD report, Timor-Leste is the least prepared to adopt frontier technologies and is at risk of missing current technological opportunities that rely on digitalisation and connectivity. Its score is 0.09, far below the average for Small Island Developing States (0.31) and Least Developed Countries (0.12), including the three ASEAN LDCs.

With the connection between Port Hedland and Dili via a submarine fibre optic cable nearing completion, Timor-Leste has a unique opportunity to accelerate its digital transformation. This can be achieved by enabling private sector participation, developing regulatory and legal frameworks for digital financial services, and facilitating the adoption of digital technologies to improve efficiency and productivity. Building digital skills across various government ministries and agencies is also essential. Enhanced digital connectivity, supported by the right regulatory framework, will foster business operations, attract investment, and broaden access to the regional market.

ASEAN is fully committed to embracing digitalisation, as seen in the ongoing negotiations for the ASEAN Digital Economy Framework Agreement (DEFA). While full integration between ASEAN and Timor-Leste is still in progress, ASEAN can support Timor-Leste in building basic digital infrastructure. One potential area of support is enhancing Timor-Leste's electronic single window system to facilitate trade. Eventually, Timor-Leste's system could be integrated with the ASEAN Single Window, promoting greater regional trade integration.

Human Resource Development

Timor-Leste has the lowest Human Capital Index (HCI) compared to the three ASEAN LDCs: Lao PDR's HCI is 0.46, Myanmar's is 0.48, and Cambodia's is 0.49. Adult literacy, youth literacy, and net enrolment rates at the secondary education level are amongst the lowest in the region. However, Timor-Leste's gross enrolment in tertiary education in 2018 was 35%, higher than Cambodia (13%), Lao PDR (13%), and Myanmar (18.8%). Despite increased enrolment in secondary and tertiary education, concerns remain about the quality of graduates. Years of neglect in human capital development have led to low productivity levels across all sectors.

Therefore, the focus should shift towards developing essential skills and competencies to unlock Timor-Leste's potential and accelerate long-term economic diversification.

Timor-Leste should leverage opportunities for regional cooperation in educational exchanges, both for teachers/lecturers and students, and learn from ASEAN's success stories and best practices. Establishing targeted training programmes for skills needed by Timor-Leste, through partnerships with regional higher education institutions, is vital. Timor-Leste could also participate in existing mechanisms such as the ASEAN University Network (AUN), which was established in 1995 by ASEAN Ministers responsible for higher education to foster regional talent. Partnerships between Timor-Leste's domestic academic institutions and ASEAN counterparts could also promote collaborative research and development in enabling technologies, particularly in low-productivity sectors like food production, storage, distribution, herbal medicine, and epidemic prevention and mitigation. Timor-Leste should seize the opportunity to revise its curriculum and align its educational system with ASEAN standards to help students develop critical thinking, creativity, and digital literacy, ultimately preparing them for the region's evolving economic landscape.

Narrowing the Development Gap

Timor-Leste's current situation parallels that of Cambodia, Lao PDR, Myanmar, and Viet Nam (CLMV) when they joined ASEAN in the 1990s. Following the accession of CLMV, ASEAN introduced the Initiative for ASEAN Integration (IAI) to support these newer member states in fulfilling their ASEAN obligations and narrowing development gaps. Similarly, ASEAN could implement programmes and initiatives to enhance Timor-Leste's capacity to fully participate in the regional bloc.

Several areas where ASEAN could support Timor-Leste under its development gap-narrowing initiatives include strengthening the capacities of civil servants to adjust existing regulatory and institutional frameworks, as well as developing new ones, to align with ASEAN

treaties, conventions, agreements, and instruments under the three ASEAN Community pillars. Given the need for translation between Portuguese and English in this process, intensive English courses for all line ministries and agencies are essential to enable effective participation in the numerous ASEAN meetings.

Additionally, both the public and private sectors require capacity-building to meet ASEAN commitments. This could be achieved through internships, on-the-job training, government official exchanges at the technical level, and other learning-by-doing methods to facilitate smooth integration into ASEAN. Furthermore, it is crucial to train government officials in negotiation, presentation, and public speaking skills to ensure effective representation and participation in ASEAN's processes.

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