



**Reflections on the 20th Anniversary of
Timor-Leste's Restored Independence:
Fundasaun Mahein's call to the historic leaders of RDTL**

Mahein nia Lian No. 157

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Introduction

After celebrating the 20th anniversary of the restoration of Timor-Leste's independence, Fundasaun Mahein (FM) presents the following report to members of the VIII Constitutional Government, the Office of the President of the Republic, deputies of the National Parliament, the General Command of the National Police of Timor-Leste and the Commander of the Defence Forces of Timor-Leste. We particularly wish to congratulate and welcome our returning President, Dr José Ramos Horta on his successful election. We deeply appreciate the experience and vision you bring to the office of the President of the Republic and look forward to working with you to address the most urgent challenges facing our country, especially the strengthening of Timor-Leste's democratic institutions, productive economy and standard of living for all our people.

In this document, we have outlined several key issues and problems which we believe require urgent attention from Timor-Leste's historic leaders. During the 20 years since the restoration of our independence, we have collectively achieved many things, including creating a lasting peace free from major violence and maintaining our neutrality and sovereignty. FM also welcomes improvements to infrastructure, especially bringing reliable electricity supply to most areas of the country and improving national roads and communications. Soon, Timor-Leste will have a new container port, which will smoothen international trade and enable supply of cheaper goods to consumers, while plans for renovating Dili and Baucau airports will improve air connectivity and strengthen national security. Timor-Leste's state security forces have improved their capacities thanks to state investment and international cooperation programs.

Despite these achievements, structural violence in the form of poverty, corruption and impunity continues to harm the lives and wellbeing of many of our people, and delay Timor-Leste's transformation into a prosperous and secure nation. Political impasses and international crises have further exacerbated our internal socio-economic problems. Too many of our people continue to live in sub-standard homes, lacking adequate sanitation, decent income and access to quality education and healthcare, which means that many children of our nation face significant barriers to achieving a comfortable, secure life.

Meanwhile, politically connected groups profit from lucrative state contracts which allows them to build luxurious homes, import fancy cars and invest in properties in Bali, Australia and Portugal. The streets of Dili are now full of expensive cars and trucks with dark windows, which contrasts sharply with the sight of *ai-leba* and *tiga roda* men and boys walking the dusty streets each day under the hot sun. As a result of the lack of social progress, growing inequality and perceived corruption, many Timorese people have expressed dissatisfaction

with the political status quo, which was strongly expressed in the recent Presidential election, as well as during the Government's COVID-19 response, which many felt disregarded the impacts of restrictions on poor people's livelihoods.

From FM's perspective, Timor-Leste is facing combined crises of financial uncertainty, political instability, poor domestic productivity, youth unemployment, internal migration, poor nutrition and health, sub-standard education and literacy, and environmental fragility. While we recognise that these problems are extremely complex and cannot be resolved immediately, failing to take serious action to address them now guarantees that increased economic suffering, horizontal and vertical social conflict and political instability will occur in the future. Not only will this harm the lives and wellbeing of Timor-Leste's population – it directly threatens the security, integrity and sovereignty of our state which so many of our beloved Timorese people died and suffered to make a reality. Therefore, we present the following analysis to our historic leaders and key decision makers, which we hope can stimulate reflection and collaboration among you, while offering suggestions for tackling some of our country's most difficult and urgent problems.

Political egoism, guerrilla politics and the Rule of the Deal

Beyond Timor-Leste's significant achievements in improving infrastructure and ensuring peace, we can all agree that our country still faces major political challenges which limit economic development and improvement of our people's wellbeing. FM has written previously that political egoism – especially among the 1975 generation of resistance leaders – is at the heart of Timor-Leste's political problems.¹ Many have lamented the fact that the inability of certain major resistance leaders to compromise and work together has resulted in a semi-permanent state of political crisis. Of course, political struggle is nothing new, and is even desirable to ensure that no single figure or party dominates decision making. However, for most of our independence, Timor-Leste has faced domestic political instability, which has been driven in large part by personal rivalry between major leaders.

The "guerrilla politics" of Timor-Leste's historic leaders has not only contributed to political and social instability – it often also results in younger voices and technical experts being marginalised from major decisions. Elder leaders often announce their decisions without consulting first with others, continuing with the secretive, paranoid approach they learned while fighting in the jungle. While we appreciate that elder leaders believe that they must oversee our country's development, it is also important that decisions be made democratically, in consultation with other stakeholders, especially grassroots representatives

¹ <https://www.fundasaunmahein.org/2022/02/18/generational-politics-political-egoism-and-timor-lestes-future/>

and those with specialised technical knowledge. Similarly, plans for improving infrastructure, economic development and public services cannot only be based on the vision of individual political leaders, but must also involve comprehensive technical and economic analysis to ensure that projects are viable and well-adapted to Timor-Leste's needs and context.

While Timor-Leste is nominally a Democratic Republic under the Rule of Law, in reality, the “Rule of the Deal” continues to dominate across our state institutions, from the highest levels of government to simple daily administrative processes.² The lack of adherence to formal rules and procedures means that elites and well-connected people can violate rules and access services and benefits using personal connections, while people who lack such advantages continue to face bureaucratic obstacles and inadequate access to basic services. Since more privileged people can simply pay to access services or perform a bureaucratic task, there is little incentive to improve the broken systems which impede the state's basic administrative functions and limit people's access to healthcare and education.

We have also seen how elite impunity continues to undermine the Rule of Law in our country. There has been no accountability for actions by political leaders which contributed to the 2006 crisis which caused mass suffering and trauma, while laying the foundations for Timor-Leste's ongoing political instability and brewing social resentments. Corruption at the highest levels of the state is widespread but rarely punished, which filters down into all state institutions and contributes to a culture of impunity and indiscipline in the public sector and state security institutions.

As a result of the political deals which have attempted to resolve elite tensions, Timor-Leste now faces a major political dilemma: how to move away from a corrupt patrimonial system which maintains “stability” by distributing benefits among interest groups while excluding the majority of people, without provoking a major social and political crisis? FM fears that policies of appeasing veterans, and, increasingly, martial arts groups, with state subsidies and other benefits, while possibly buying temporary peace, are unsustainable over the long-term, and, if ended, may provoke a backlash which can be extremely dangerous for the country.

Veterans Fund: political patrimonialism over inclusive development?

FM is not opposed to a Veterans Fund in principle – we deeply appreciate the veterans of our independence struggle and believe that they deserve to receive support from the state they helped to create, including support for livelihoods, pensions and disability payments. A

² <https://www.fundasaunmahein.org/2021/09/16/politicization-of-public-administration-threatens-development-and-security/>

fund which can stimulate productive investments in key economic sectors and promote enhanced skills and capacities among the population would be very useful for improving our socio-economic conditions. However, we worry that the Government's recent budget rectification is another example of patrimonial policies which aim to secure political support and "buy peace" with an influential group, while failing to provide clear public benefits.

The proposed budget rectification – including the Veterans Fund – was rushed through Parliament with little discussion and approved by the outgoing President in the last days of his term, based on the questionable justification of "urgency". While the rectified budget includes some programs targeting the poorest members of our society, economic sectors and education, most of the increased allocation is to create the \$1 billion Veterans Fund. This Fund has been proposed with little transparency about how it will address the urgent issues facing our people, while the information presented by the Government about the structure of the Fund is extremely limited. As a result, it is impossible to know whether the Fund will contribute to Timor-Leste's equitable development, rather than simply providing more benefits to a group which is already disproportionately rewarded by the State.

Looking at other programs and policies aimed at supporting veterans, we can see that there are limited positive impacts for Timor-Leste's overall development. While concrete data are lacking, many observe anecdotally that the monthly payments received by veterans are mostly used for consumption of imported goods. Thus, while the pensions are important for supporting the subsistence of many poorer veterans, they probably have contributed little to growing productive economic sectors inside the country. Similarly, well-connected veterans have set up companies to win government contracts but have then failed to carry out the work adequately or invest in growing their businesses and contributing to national development. FM is therefore worried that the latest Veterans Fund may not be used for productive investments but will result in further inequality and drain the state's limited resources.

Although Timorese people still have great respect for our heroic veterans and resistance leaders, many will see policies which privilege select veterans as politically motivated and contributing to social inequality and injustice. This could contribute to increased social tensions and political instability in the future, which is a major threat to our people's security and state sovereignty. Therefore, Fundasaun Mahein asks Timor-Leste's leaders and policy makers to carefully consider how policies aimed at rewarding veterans can avoid contributing to inequality and resentment, while promoting prosperity, justice and security for all.

Reconciliation of past violence and Martial Arts Groups

Another major challenge our country faces today is ongoing resentment about violent actions committed by different Timorese groups against each other during the resistance against the Indonesian occupation. Many people experienced or witnessed suffering at the hands of fellow Timorese, with many acts of violence being committed by Fretilin, Falintil, UDT and Apodeti members against other Timorese people. In some cases, the unresolved anger about violent actions in the past has led to revenge killings – for example, last year's shooting in Lahane by a PNTL officer of a veteran and his son was partly explained by the fact that the police officer's father had been killed by Falintil.

Timor-Leste's leaders talk constantly about their own role in the resistance, and the need for reconciliation and friendship among them, and even with the Indonesians. However, they have not made sufficient efforts to support reconciliation, forgiveness and healing among the Timorese population. Most Timorese people suffered and sacrificed greatly during the struggle for independence, but only a few have been rewarded by the state with high positions and economic benefits. If their suffering is not recognised, and efforts are not made to reconcile groups who still hold grudges against each other because of violence committed in the past, their resentment and hatred will continue to grow. FM is worried that failure to deal with this resentment represents a "time bomb" which could go off anytime, especially if government policies continue to favour a minority while excluding the majority. We therefore believe that urgent efforts are needed to facilitate reconciliation and healing within communities affected by violence, including providing forums for people to speak about their suffering and enacting policies which provide material and psycho-social support for victims of violence.

Another legacy of the Indonesian occupation is the various martial and ritual arts groups which continue to flourish in Timor-Leste. Much has already been written about the role of these groups in communities and the potential risks they pose for security and stability in Timor-Leste. FM sees that the influence of martial arts groups in Timor-Leste can be positive or negative, depending on how they are managed and the overall conditions we create in our society. Our major concern is that if the historic political parties and leaders fail to create policies which raise the standard of living and provide opportunities for the majority, certain martial arts leaders with political aspirations will continue to gain mass support.

An event was held in Dili this week on 26 May which brought together many martial arts groups aiming to promote peace and friendship between them. The event was attended by the Prime Minister, illustrating how the Government is attempting to normalise martial arts groups and reduce their involvement in criminality. After the event, many martial groups

members walked along the streets, blocking traffic. This showed both a lack of care for their impact on others, and also that martial arts members now feel they can show themselves in public more openly than before. Thus, while FM supports initiatives that aim to promote peace and reduce criminal activity and violence, we are concerned that the Government's approach may instead embolden members of these groups who seek political power and are willing to use extra-legal violence.

We therefore ask the Government and other policy makers to pay close attention to this issue, which could become a bigger problem for Timor-Leste in the future if not dealt with correctly. As mentioned above, it is especially important that the Government and political parties work together to create good conditions for the majority, which can ensure that martial arts groups which seek political power can find less support among the population. In this way, they can continue playing their more positive role in the community, such as promoting fitness, camaraderie and community activism, while potentially becoming a tourist attraction and participating in international competitions in the future.

Financial sustainability, productive sectors and essential services

Timor-Leste's dependence on the Petroleum Fund to pay for state activities and support the domestic economy is unsustainable given current State Budget withdrawals, the lack of additional revenues from oil and gas exports and limited growth of non-oil economic sectors. The lack of improvement in key sectors such as agriculture, manufacturing and tourism is evident, while the majority of visible growth in commercial activity is centred around importation of cheap consumer goods from China and elsewhere, which generates few added benefits for Timor-Leste's economy. Meanwhile, although we continue to produce significant quantities of grains, fruits, vegetables and meat, much of Timor-Leste's fertile agricultural land has fallen into disuse, while agricultural GDP has not improved since independence, reflecting the lack of priority given to agricultural development in state planning.

Unfortunately, rather than listening to these concerns and taking concrete actions to establish the basis of an inclusive non-oil economy based on high productivity agriculture, modern industries and an advanced services sector, Timor-Leste's leaders have become accustomed to "resolving" problems simply by spending more money from the Petroleum Fund. This includes social handout programs such as *Sesta Bázika*, distributing benefits to powerful constituencies through construction contracts and dreaming up megaprojects which aim to win political support, but lack clear economic viability. The most important example of such a megaproject is the Tasi Mane project, which aims to create a self-sustaining onshore petroleum industry in Timor-Leste which can capture more of the value created from oil

activities around our southern coast, while growing the economy by creating spin-off industries and employment.

While FM appreciates the grand vision of this project, many analysts have expressed doubts about its viability, both for technical and financial reasons, and because of uncertainty around the oil and gas resources located in the sea and southern coast area. It is also worrying that huge amounts of public money have already been spent without producing any returns, such as Suai Airport and the south coast “highway”, while many other urgent issues which are fundamental to improving our people’s lives continue to be neglected. To complete the Tasi Mane project as currently envisioned, Timor-Leste will need to spend a large proportion of its current petroleum wealth, and likely take external loans, which endangers the country’s financial sustainability. The project will also displace thousands of people and take up valuable agricultural land along the south coast, which will negatively impact people’s daily lives and the agricultural sector as a whole.

The current Government has expressed the need to evaluate and adjust the Tasi Mane project to ensure its viability, but President Horta and other political figures continue to promote the project in its original form, illustrating how the project has become politicized. While FM sees that such a project could bring major benefits to Timor-Leste if done correctly, especially if more commercially viable oil and gas deposits are found within Timor-Leste’s territory. However, to achieve this the project must be designed according to serious cost-benefit-risk analyses and existing resources, not political goals and the grand dreams of resistance leaders.

Megaprojects, patrimonial payments and social handouts are not viable solutions to Timor-Leste’s complex economic problems – instead, such programs enable current rulers to delay having to address them, while fostering inequality and corruption. Spending money from the Petroleum Fund to support domestic consumption is leading Timor-Leste down an unsustainable path, as this approach has failed to stimulate growth of domestic productive sectors which can reduce our dependency on imports and improve Timor-Leste’s balance-of-payments. Without huge withdrawals from the Petroleum Fund to support domestic consumption, poverty and food insecurity would rapidly increase. Timor-Leste could potentially face this situation within the next decade, or even sooner, which would be a disaster for our people and could potentially lead to major social conflict.

In addition to developing the domestic productive forces, strengthening our educational institutions and health systems is also necessary for ensuring our long-term prosperity and security. Currently, too many Timorese people suffer from chronic poverty-related health conditions, especially malnutrition, which hinders their ability to learn and develop into

productive citizens. Even though there has been some improvement in provision of healthcare outside the capital city, the National Hospital in Dili lacks many basic facilities such as air conditioning, functional toilets and taps for handwashing. Meanwhile, the neglect of public educational institutions since independence means that a huge percentage of Timorese young people have passed through the public school system without developing advanced reading or mathematical skills, which are essential for participating in a modern industrial economy. These complex, interconnected socio-economic, health and educational issues require integrated planning and coordinated action from our state decision makers.

International crises and Timor-Leste's strategic development

In recent times, international shocks such as COVID-19 and the ongoing Russia-Ukraine crisis have revealed the vulnerability of international trade and the global financial system. Inflation has increased sharply across much of the world, while economic sanctions instituted by western states against Russia have resulted in increased oil and gas prices, and, as a result, the price of many other goods. As a result of rising inflation, debt and unprecedented fiscal expansion in the United States during the last decade, but accelerating since 2020, policy experts, academics and international organisations have warned that the US dollar may lose its world reserve currency status.³ Meanwhile, several countries have increased their use of alternative currencies for international trade in oil and other commodities,⁴ while alternative international financial transaction systems are increasingly challenging US dominance over international trade and finance.⁵

Other analysts have noted that increased US military assertiveness and economic pressure against Russia and China is partly aimed at preserving its dollar hegemony. However, increased tensions between major military powers risks provoking additional financial and economic crises, in addition to the physical danger presented by a major war. Disruption of international supply chains, economic sanctions and export bans in some countries have contributed to rising food prices, with the result that many analysts are now predicting severe hunger and even famines in food import-dependent parts of the world due to increased prices for wheat, fertiliser and other important agricultural products. These international developments raise major implications for Timor-Leste's financial policies, particularly related to our national currency and management of the Petroleum Fund.

³ <https://www.ft.com/content/3e0760d4-8127-41db-9546-e62b6f8f5773>
<https://www.youtube.com/watch?v=8m-lk5bH-ns>

⁴ <https://www.wsj.com/articles/saudi-arabia-considers-accepting-yuan-instead-of-dollars-for-chinese-oil-sales-11647351541> <https://www.moneycontrol.com/news/opinion/is-increase-in-non-dollar-trade-a-death-knell-for-globalisation-8318831.html>

⁵ <https://africa.businessinsider.com/politics/china-and-russia-are-working-on-homegrown-alternatives-to-the-swift-payment-system/gezpemk>

At the same time, these international crises strongly demonstrate the urgent need for increased national self-sufficiency, especially in food and essential agricultural products. As noted above, Timor-Leste is currently only taking advantage of a small fraction of our agricultural potential. Even though we face challenges with water management and mountainous terrain, there are many areas with high potential for agriculture, especially flat lands in Atabae, Liquicá, Metinaro, Baucau, Lospalos, Maliana, Same, Natarbora and Suai. Also, most of our people are familiar with agricultural work, meaning that they can be easily put to work in food production with the right incentives and investments.

Unfortunately, for various reasons, our young people are less attracted to farm work.⁶ Instead, they are increasingly moving to Dili to access education and the hope of comfortable office jobs. It is also understandable that farmers do not want their children to suffer in the fields like they did, and instead send them to Dili to seek an easier life. However, many office jobs are not particularly productive, meaning that their contribution to Timor-Leste's national development is minimal. The ever-increasing youth population and lack of private sector growth also means that there are not enough such jobs to provide full employment. Meanwhile, urban housing and infrastructure are already inadequate to support the existing population, let alone hundreds of thousands more rural-urban migrants. It is therefore essential that our decision makers implement plans to attract more people to stay in rural areas and work in agriculture.

While economists have debated the precise role played by agriculture in development, historical experience in many countries suggests that high productivity, technologically advanced agriculture is necessary for facilitating the transformation from a subsistence-based society to a modern economy with a high standard of living.⁷ This is because industrial agriculture serves as the base for developing other industries, by providing large quantities of food for urban citizens, driving technological advancement and reducing the labour-intensiveness of agriculture so that more people are available to work in emerging industries.⁸ While limitations of suitable land, water and technological know-how present challenges to developing large-scale industrial farming in our country, Timor-Leste is still only using a small fraction of our agricultural potential. It is possible to create medium-scale industrial farming and some larger farms with intelligent planning and the correct incentives and inputs.

Development means transformation, progress or change, and not simply repeating the same practices from generation to generation. All advanced countries have gone through this

⁶ <https://www.ekonbakom.com/2022/05/youth-in-agriculture.html>

⁷ https://fsi-live.s3.us-west-1.amazonaws.com/s3fs-public/Timmer_wendt_lecture.pdf

⁸ <https://www.adb.org/sites/default/files/publication/30380/ewp-363.pdf>

process of modernisation and industrialisation. The examples of South Korea, China and Vietnam illustrate how higher standards of living for the majority can be rapidly achieved through technological advancement and industrialisation based on inherent national characteristics. At the same time, there are also many lessons to be learned from these countries related to protecting the environment and worker's rights.

Modernisation brings many problems and contradictions, especially related to land displacement, labour and natural resource exploitation and clashes between traditional and modern socio-cultural systems. However, from FM's perspective, the only viable way for Timor-Leste to eliminate poverty and end our unsustainable dependency on the Petroleum Fund is to modernise our agriculture sector, which will then serve as the base for developing other industries and creating an advanced economy. This is not an easy task – it requires political compromises, extensive consultation with a wide variety of stakeholders, and a strategic agricultural policy based on the understanding of structural transformation and adoption of technologies and expertise from abroad. It also entails long-term planning, which is extremely difficult in a parliamentary system and market-based economy. However, if our leaders fail to do this, we fear that Timor-Leste will not escape financial dependency and technological backwardness, which we fear will lead into economic and socio-political crisis in the future.

International cooperation is essential for Timor-Leste's security

Timor-Leste must increase its self-sufficiency to better withstand international shocks, but our development also relies on continued cooperation with international partners, including foreign governments and international organisations. Timor-Leste's history is fundamentally tied to international solidarity and cooperation, from the activist movements which supported our independence, to the peacekeeping operations and United Nations administration which oversaw our democratic transition and the creation of our state institutions. Since our independence, we have benefited from collaboration with dozens of countries and organisations in the areas of diplomacy, trade, security cooperation, infrastructure, economic development and culture.

Fundasaun Mahein is pleased to see that our new President, Dr Horta, plans to continue Timor-Leste's non-aligned approach to international cooperation, including by welcoming continued support from Australia, New Zealand, Japan, South Korea, China and other partners across a range of areas. We see that US involvement in projects such as renovating Baucau airport, repurposing Dili port and supporting education and sanitation through the Millennium Challenge Corporation can bring benefits to our country and people. World Bank and ADB plans for modernising Dili's water supply will improve many people's

lives. Likewise, Chinese state support for infrastructure has been extremely beneficial, and the 'One Belt One Road' initiative aimed at expanding regional connectivity through major infrastructure investment represents a unique opportunity for Timor-Leste to improve our infrastructure, which is essential for our future development.

FM recognises that Timor-Leste is a small country in a region where much larger powers compete to advance their strategic military, political and economic goals, and that this influences the political and economic choices available to our leaders. Several times in the past, Timorese people have become the victims of imperial rivalries and geopolitical deals made among bigger neighbours. Our strategic location and heightened competition between rival blocs suggest that international interest in our country is likely to continue over the coming years. While these interests bring many risks to small countries such as ours, especially if bigger countries attempt to force us to "take sides" in the emerging contest, if we continue with our careful and intelligent foreign policies which allow for mutual benefit while maintaining neutrality, Timor-Leste can benefit from our foreign partners' interest in supporting the development of our economy, security sector and state institutions.

Conclusion

To conclude, while Fundasaun Mahein remains optimistic about Timor-Leste's future, we see that there are several serious challenges which our leaders must overcome before we can fully realise the promise of independence. Resolving the long-term, structural problems of malnutrition, education, health, sanitation, transport infrastructure, economic development and state capacity requires cooperation between leaders and integrated planning based on actual constraints and possibilities. We also see that economic development – specifically, industrialisation of agriculture and development of the manufacturing and services sectors – is fundamental to achieving all additional goals. If our people remain poor and our industries and services do not increase in productivity and value, we can never achieve financial sustainability and escape dependency on limited petroleum wealth and international support for technical issues. If we fail to diversify economically and raise our people's living standards, financial and social crisis will inevitably follow, which will destroy the dream of independence and the legacy of the historic resistance leaders.

From FM's perspective, the only way to achieve this economic vision is to transform the agricultural sector from low productivity, manual systems, to advanced technological ones. Relying on regional integration and the "globalisation" model of development will not work, as Timor-Leste lacks competitive advantages which can allow us to benefit from increased trade without first building our own industrial capacity. If we fail to develop agricultural

productivity, we will continue to rely on importing large quantities of food, which will drain our foreign reserves while limiting technological development.

Therefore, we need a comprehensive, integrated plan for the structural transformation of our economy, including the development of agriculture and other industries and services. This must be developed in consultation with stakeholders representing labour and industry, as well as technical experts and international advisors. The plan must realistically account for Timor-Leste's natural resources, physical and non-physical constraints and socio-cultural specificities, and aim to modernise our society and economy while preserving key aspects of our cultural heritage and protecting labour rights and the natural environment. This plan must also include a comprehensive education reform program, including targets for improving maternal and child nutrition, school access and facilities, teacher quality and higher education curricula. A strong emphasis on mathematics, literacy, engineering, science and languages will prepare our young people for participating in a modern, productive economy.

Such a development plan will increase our self-sufficiency, prosperity and sovereignty, but international cooperation will also continue to be crucial for securing our developmental aims and national prosperity and security. All successful industrial development has relied on foreign technologies and expertise to some extent, which our international partners can provide. Continued diplomatic relations with regional and global partners, involvement in international initiatives, and security and defence cooperation are therefore essential for ensuring our national security and maintaining friendly relations with a wide variety of international partners. In this way, Timor-Leste can continue to reap the benefits of these partnerships while avoiding taking sides in international competition. By taking these steps, our historic leaders will secure our people's prosperity, and cement their legacy long into the future.

We sincerely hope you will consider our analysis and recommendations. Thank you for your attention.

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