

## Timor-Leste in 2020

### *Counting the Costs of Coronavirus*

#### ABSTRACT

The impact of the Covid-19 pandemic on Timor-Leste in 2020 was great, and the ripple effects may be felt for years. Paradoxically, it was not that the population was directly impacted—indeed, the small half-island nation stands out with only a score or so of cases, and no deaths—but that the oil-dependent economy and the status of financial reserves took a major hit with the collapse of oil and stock prices. In the interest of managing the pandemic, the incumbent prime minister declared a state of emergency, withdrawing his earlier resignation and thus averting a political crisis. Still, as the new economic realities surrounding oil-related mega-infrastructure projects hit home, we see churn among the concerned ministers and technocrats, amid a major rethink of the way ahead, and with many of the choices invidious in the challenging new economic environment.

**KEYWORDS:** COVID-19, political crisis, oil price crash, infrastructure review, Timor-Leste

SEVERAL FACTORS COMBINED IN 2020 to plunge Timor-Leste into a state of profound angst. The first crisis, breaking in January, was political, leading to the emergence of a new coalition government under incumbent Prime Minister Taur Matan Ruak. The transition also witnessed a reversal of fortune for José “Xanana” Gusmão’s Congresso Nacional de Reconstrução de Timor (National Congress for Timorese Reconstruction, CNRT), ceding its former weight in the Ruak-led coalition to long-running rival Frente Revolucionária de Timor-Leste Independente (Revolutionary Front of Independent Timor-Leste, FRETILIN), led by Mari Alkatiri. Second was the urgency

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surrounding management of the COVID-19 pandemic, also playing into the hands of the prime minister. The third and even more serious punch was the sharp plunge in oil prices in early 2020, especially acute because oil and gas revenues support 90% of government expenditure.

#### MANAGING COVID-19 AND USHERING IN THE EIGHTH CONSTITUTIONAL GOVERNMENT

It no doubt helped in the management of the COVID-19 pandemic that the half-island nation could mostly seal its border with neighboring West Timor. It mattered as well that just as Timor-Leste sought to strengthen its badly stretched health sector, it gained the critical assistance of the World Health Organization, along with an Australian medical center. As of late October, Timor-Leste had recorded 29 coronavirus cases (all imported), with only one active, and no deaths, obviously a tribute to the nation's people on a global scale. Yet the social costs of the crisis surrounding the pandemic have been severe, with rising unemployment, inequality, and poverty, only partially mitigated by government social relief, including a distribution of staple foods kicking off in late October. A state of emergency was first declared for 30 days beginning on March 28, and monthly extensions by presidential decree continued throughout the year.

Hardly had the new year begun than political crisis emerged around budget issues, leading to the collapse of Gusmão's three-party coalition, the *Aliança de Mudança para o Progresso* (Alliance for Change and Progress). Moreover, CNRT refused to back a national budget proposed by its coalition partner, the *Partidu Libertasaun Popular* (People's Liberation Party, PLP), which is headed by Ruak. In February, this led Ruak to tender his resignation, though he agreed to stay on until a new government was formed. In March, Gusmão informed President Francisco "Lu-Olo" Guterres, himself of FRETILIN, that he was prepared to form a six-party coalition government controlling 34 of Parliament's 65 seats. However, in March, as the pandemic raised its head, Ruak retracted his resignation pledge, saying he would stay in power to oversee the looming health crisis, and at the same time gaining government approval for a special US\$ 250 million fund to fight it.

At the end of April, Ruak nominated five members of FRETILIN and one of the *Partido Democrático* (Democratic Party) to fill long-vacant positions, including some in the government's Council of Ministers. Unexpectedly

breaking ranks with Gusmão and the CNRT, the youth-oriented Kmanek Haburas Unidade Nasional Timor Oan (Enrich the National Unity of the Sons of Timor, KHUNTO) threw its support behind the fledgling PLP–FRETILIN alliance, giving Ruak a mandate to govern until 2023.<sup>1</sup> By June the new coalition government (the Eighth Constitutional Government, as the current administration is formally known) was in place, with a parliamentary majority and presidential support. And on October 23, the Council of Ministers endorsed the 2020 General State Budget, breaking an impasse that had stymied the work of the previous government.

### THE MACRO ECONOMY

The nation's Petroleum Fund is fed by hydrocarbon revenues from Timor Sea oil fields, and drawdowns are critical to Timor-Leste's survival, with approximately 45% of its investments in US government bonds, 22% in US equities, and 15% in other global equities. Since the outbreak of COVID-19, however, US bond yields, as well as global stock prices, have fallen significantly. A concurrent collapse in oil prices means even less revenue entering the already dwindling fund.<sup>2</sup> According to a Portuguese news agency's report of March 27, citing Central Bank spokespersons, the fund lost almost US\$ 1.8 billion in value due to the behavior of the international stock markets.<sup>3</sup> Nor did the situation improve as the year progressed, with oil prices remaining depressed.

With Gusmão having abandoned his role as the key player in brokering Timor-Leste's US\$ 12–20 billion south coast infrastructure project, in July the newly sworn-in Ruak government began to tackle the vexing problem of the Greater Sunrise oil field operated by the Australia-based Woodside Petroleum. Timor-Leste's new cabinet approved the dismissal of Francisco da Costa Monteiro, the founding chief executive of the national oil company (TimorGAP), along with Alfredo Pires, the long-standing minister for petroleum and

1. Bardia Rahmani, "Timor-Leste's New Kingmakers: How an Outlawed Martial Arts Group Facilitated a Critical Shift in Timor-Leste's Political Scene," *The Diplomat*, June 1, 2020 <<https://thediplomat.com/2020/05/timor-lestes-new-kingmakers/>>.

2. Jarryd de Haan, "Trying Times for Timor-Leste," *FutureDirections*, March 18, 2020 <<http://www.futuredirections.org.au/publication/trying-times-for-timor-leste/>>.

3. [Portuguese news agency] Lusa, "East Timor: Petroleum Fund Loses US\$1.8bln Due to Covid-19," *Macau Business*, March 27, 2020 <<https://www.macaubusiness.com/east-timor-petroleum-fund-loses-us1-8bln-due-to-covid-19/>>.

mining, who was replaced by Victor Conceição Soares.<sup>4</sup> Soares stated in an interview that the previous leadership had put “the cart before the horse” by making political decisions before carrying out economic feasibility studies of the technologically complex oil field.<sup>5</sup> The minister appeared to refer to the 2018 purchase by Timor-Leste of a controlling stake in the Greater Sunrise field, today estimated by Woodside to be commercially unviable.<sup>6</sup>

Significantly, as the president of Parliament, Aniceto Longuinhos Guterres Lopes, declared in mid-October, although US\$ 14 billion had been drawn down from the petroleum fund over the previous 12 years, there were still great vulnerabilities in Timor-Leste’s agriculture and education sectors, as well as in people’s health, an assessment broadly endorsed by FRETILIN.<sup>7</sup> According to data released in November by the Timor-Leste Ministry of Health, 47% of the population suffered from malnutrition. With the World Bank forecasting the economy to contract by 6.8% in 2020, and with many thousands thrown out of work or obliged to return to their rural roots in the subsistence agriculture sector, the picture remained fairly bleak. And even for those operating in a market economy, as with coffee smallholders, the plunge in global coffee prices brought no respite.

## INTERNATIONAL RELATIONS

When it comes to international relations, China is never quite out of the picture, whether as a donor (not excluding military aid), or an interested partner in infrastructure, or, in mid-2020, sending charter flights to Dili loaded with medical supplies. In September, Chinese State Councilor and Foreign Minister Wang Yi and his Timor-Leste counterpart, Adaljiza Magno, agreed that the two countries should strengthen cooperation within the framework of China’s Belt and Road Initiative (albeit making no other commitments).<sup>8</sup>

4. Damon Evans, “Sunset at East Timor’s Greater Sunrise LNG after Woodside Write-Down,” *Energy Voice*, July 22, 2020 <<https://www.energyvoice.com/oilandgas/asia/254153/sunset-at-east-timors-greater-sunrise-lng-after-woodside-write-down/>>.

5. Interview with Lusa, quoted in Alex Martin, “Minister of Petroleum Says That Policy in Timor Put ‘the Cart before the Horse,’” *Our Last Game*, August 20, 2020 <<https://ourlastgame.com/minister-of-petroleum-says-that-policy-in-timor-put-the-cart-before-the-horse/>>.

6. Geoffrey C. Gunn, “Timor-Leste in 2019: Going for Broke,” *Asian Survey* 60:1 (2020): 161–62.

7. Evaristo Soares Martins, “Aniceto Guterres Request for the Revision of the State Strategic Plan,” *Tatoli*, October 16, 2020 <<http://www.tatoli.tl/en/2020/10/16/aniceto-guterres-request-for-the-revision-of-the-state-strategical-plan/>>.

8. Xinhua, “China, Timor-Leste to Strengthen B&R Cooperation, Jointly Uphold Multilateralism,” September 21, 2020, <[http://www.xinhuanet.com/english/2020-09/21/c\\_139385858.htm](http://www.xinhuanet.com/english/2020-09/21/c_139385858.htm)>.

Summing up, the impact of the COVID-19 pandemic on the Timor-Leste macroeconomy, the chain of events leading to the establishment of a new government and the breaking of the budgetary deadlock, and the major rethink about top-down development all appear to have brought more stability, though many questions remain as to a future vision in managing the Greater Sunrise project.