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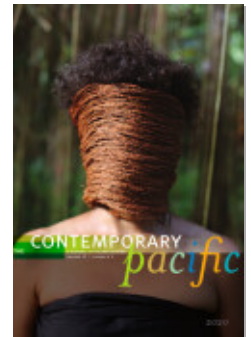
Timor-Leste

Michael Leach

The Contemporary Pacific, Volume 32, Number 2, 2020, pp. 605-611 (Article)

Published by University of Hawai'i Press

DOI: <https://doi.org/10.1353/cp.2020.0058>



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TIMOR-LESTE

On 30 August 2019, Timor-Leste hosted a major celebration of the twentieth anniversary of the 1999 popular consultation that saw it secure its independence from Indonesia. This significant date was also chosen for the exchange of notes between the East Timorese and Australian prime ministers, bringing the 2018 Australia–Timor-Leste maritime boundary treaty into effect. Meanwhile, Timor-Leste’s first experience of semi-presidential “cohabitation” saw the political impasse over the president’s refusal to appoint ministers continue throughout the year.

The year 2018 had ended with a presidential veto of changes to the Law on Petroleum Activities, which was designed to lift the legislated 20 percent limit on state ownership and allow the East Timorese government to become a major joint venture partner. President “Lu Olo” Guterres—a senior figure of the opposition Revolutionary Front for an Independent East Timor (FRETILIN) party—expressed concerns over the financial sustainability of the nation’s now US\$17.7 billion petroleum fund (La’o Hamutuk 2020b). For their part, some local nongovernmental organizations argued that changes to the law were actually aimed at preventing Timor-Leste’s Audit Court from reviewing large contracts—an accusation the government denied (La’o Hamutuk

2018). Parliament successfully reversed the presidential veto on 10 January 2019, as the FRETILIN opposition staged a parliamentary walkout, allowing the government a rare opportunity to assemble the two-thirds supermajority required to reverse the veto.

President Guterres then vetoed the 2019 budget on 23 January, arguing that it was gravely unsustainable and drew too heavily on the principal reserves of Timor-Leste’s sovereign wealth fund. This action placed the Greater Sunrise joint-venture payment in jeopardy, as the FRETILIN opposition has twenty-three seats—enough in normal circumstances to deny the government a parliamentary reversal of the veto. However, this tension was soon resolved on 31 January, when Parliament revised the 2019 budget to US\$1.4 billion by removing the US\$650 million joint-venture payment. The government was confident it could use the petroleum fund itself as the source of the payment, having altered the fund’s investment rules in the Law of Petroleum Activities amendments. Though opposition members of Parliament referred the legislation to the Court of Appeal, the changes were soon found to be constitutional, and the US\$650 million was paid to Conoco Philips and Shell on 16 April (La’o Hamutuk 2018–2020), making the government of Timor-Leste a 56 percent stakeholder in the Greater Sunrise joint venture.

The revised 2019 budget was promulgated by the president on 7 February 2019, to the relief of business groups concerned about the economic impact of a possible return

to the reserve “duodecimal” budget system, which issues monthly installments of one-twelfth of the previous year’s budget and was widely blamed for economic contraction in 2017 and 2018. This particular fear would recur eleven months later as the year turned to 2020.

Wider problems beset the Alliance for Change and Progress (AMP) government throughout 2019 and came to a head spectacularly early in 2020. These tensions started in mid-2018, with President Lu Olo’s refusal to install nine ministerial nominees from the largest party in the alliance, the National Congress of the Timorese Reconstruction (CNRT), citing judicial inquiries into misconduct or “poor moral standing” (Leach 2018). The president’s stance produced a political standoff that persisted throughout 2019 and was in its eighteenth month as the year closed. This resulted in an executive government dominated by ministers from the two smaller AMP parties, Popular Liberation Party (PLP) and Kmanek Haburas Unidade Nacional Timor Oan (KHUNTO), despite CNRT being the largest party of the parliamentary coalition.

CNRT was frustrated by its lack of access to ministries and had not been satisfied that Prime Minister Taur Matan Ruak—the leader of PLP—had adequately pursued this issue with the president. The disjunction between CNRT’s dominance of the parliamentary alliance and its limited presence in executive government was made worse by other tensions internal to AMP itself: most notably the general absence from government decision-making of CNRT chairman and former independence movement leader Xanana Gusmão, who had been more

concerned with the Tasi Mane south coast oil project. Tensions grew within the governing coalition throughout 2019, resulting in an extraordinary vote in January 2020 that saw CNRT abstain on the government’s own budget, which failed to pass the house as a result (Leach 2020a).

Throughout 2019, the political impasse between the FRETILIN president and the CNRT-dominated parliamentary alliance saw other pathologies of semi-presidential cohabitation emerge. For instance, Parliament refused to authorize presidential trips abroad to the Vatican and the UN General Assembly in New York, as well as a state visit to Portugal at the invitation of UN Secretary-General António Guterres, an important ally who had been prime minister of Portugal at the time of the referendum. Parliament also stripped the president of the power to appoint the president of the Special Administrative Zone of Social Market Economy in the enclave of Oecusse. This move was followed by the removal of FRETILIN leader Mari Alkatiri from the role and the appointment of Jose Luis Guterres. For his part, the president delayed appointment of a significant number of new ambassadors—including the nominated ambassador to Australia—and did not budge on the appointment of the impugned CNRT ministers, despite the lack of charges against them.

The maritime boundary treaty with Australia, signed in March 2018, came into effect on 30 August 2018 with the exchange of notes between the two prime ministers, creating a maritime boundary between the neighboring states for the first time (Leach 2019). The choice of

this significant date emphasized the Timorese leadership's perception that the treaty was also an act of restoring national sovereignty. Another important anniversary followed on 20 September, the day of the arrival of the Australian-led International Force East Timor mission in 1999, which brought an end to the violence that racked Timor-Leste after the independence vote. Australian Prime Minister Scott Morrison's visit to Timor-Leste for these events reflected the major improvement in bilateral relations between the two nations and the end of a five-year period without Australian ministerial visits to Dili.

Despite the major improvement in bilateral ties between the two countries, there are some remaining points of contention. The ongoing prosecution of espionage whistleblower Witness K and his lawyer Bernard Collaery, who exposed Australia's bugging of the East Timorese cabinet during oil and gas negotiations, was criticized by senior East Timorese leaders Xanana Gusmão and José Ramos-Horta. During Morrison's visit, Gusmão indicated that he would appear as a witness to give evidence on behalf of the two accused Australians. Australia could be further embarrassed by the espionage allegations, which were instrumental in overturning previous treaties and creating the new maritime boundary. As Ramos-Horta said at the time, "If Australia doesn't show political leadership, moral leadership on this issue, every time we talk to Australian leaders I will wonder if they have a tape recorder in their pocket [or] if my office has been bugged" (Massola 2019).

Some political activists in both

Australia and Timor-Leste called for Canberra to pay back oil and gas revenues it has received since the border treaty was signed in 2018 and accused Australia of undue delays in ratification (*SCMP* 2019). While these accusations made headlines, Timor-Leste's Parliament had itself delayed ratification until July 2019. In any case, Timorese nongovernmental organizations have pointed to the far larger question of up to US\$5 billion in revenues that Australia has received dating back to 2002, when revenue-sharing agreements began (Associated Press 2019). But it appears there is no official appetite in either country to consider repayment of historical royalties. Numerous submissions to a 2019 Senate Inquiry in Australia also urged the government to reverse declarations it made in the lead-up to the restoration of Timor-Leste's independence in March 2002 and to return to binding international maritime boundary dispute resolution mechanisms (Parliament of Australia 2019).

Commemorating a milestone in another significant bilateral relationship, in early September, a new bridge in the Bidau area of Dili was named after former Indonesian President B J Habibie, who had authorized the 1999 referendum (though it was notable that the Indonesian diplomatic presence at the twentieth anniversary celebrations consisted of relatively low-level diplomats). Notably, Gusmão visited Habibie on his deathbed several weeks later to bid farewell to the former Indonesian president in a tearful embrace caught by the media. Also, in September, the Vatican upgraded the diocese of Dili to an archdiocese, making its bishop,

Salesian Virgilio do Carmo da Silva, the first Timorese archbishop.

Even as Australia and Timor-Leste celebrated the restoration of good bilateral relations, new hurdles lay ahead, with implications for the wider region. Following the resolution of the maritime boundary dispute, Timor-Leste's focus shifted rapidly from the previously fractious bilateral relationship to furthering negotiations with commercial partners over the ambitious plan to develop the Tasi Mane oil and gas megaproject on Timor's south coast, rather than sending the gas for processing through existing pipelines to Darwin. To this end, the government acquired a 56 percent stake in the joint venture by buying out Conoco and Shell shares in April. The fact that the East Timorese government apparently passed up an opportunity to bid for Conoco's existing natural gas liquefaction plant in Darwin—sold to Santos for US\$1.4 billion in October (Paul 2019)—suggests how strongly committed it is to the downstream processing vision. For its part, Woodside Petroleum remained a joint venture partner but indicated interest in co-funding only the “upstream,” offshore elements of the project, not the downstream, onshore processing in Timor-Leste.

While the Australian government remained formally neutral on the question of Tasi Mane, the megaproject could yet bring challenges for the bilateral relationship. The East Timorese government projected that external financing would provide some 80 percent of the estimated US\$10.5–12 billion in required funding. Timor-Leste's ambassador to Australia stated that if other funding partners cannot be found, working with Chinese

companies is a strong possibility (Macdonald-Smith 2019). It is notable that in late 2019 China donated some US\$3–5 million in defense material requested by the Timorese government (RDTL 2019).

On the other hand, Timor-Leste's foreign minister, Dionísio Babo-Soares, emphasized that discussions on the Tasi Mane project continued with potential partners in Australia, the United States, Europe, and Asia. The East Timorese government also rejected reports that China's Exim Bank had offered a US\$16 billion loan to finance the megaproject (Mulyanto and Tobin 2019), though both countries acknowledged a willingness to cooperate to develop Timor-Leste's petrochemical industry.

Clearly, the entry of China's “One Belt, One Road” funding could complicate relations with Australia, reflecting similar dynamics now seen across the Pacific. For its part, however, East Timorese foreign policy has generally sought to balance its relationships with competing regional powers, in part to prevent the dominant influence of any single nation. Recent developments should be viewed in that light.

Fears of China's involvement in Timor-Leste also exaggerated the former country's aid and investment footprint, and some in the Australian media risked losing perspective on the issue (eg, Dupont 2019). China's aid to Timor-Leste remains modest compared to aid from Australia, the European Union, Japan, the United States, and even the former colonial power Portugal. Australia's own scandals involving potential Chinese influence—including the controversial ninety-nine-year lease of the Darwin port (Walsh 2019)—have not been lost

on Timor-Leste's leadership. China remains a rising player in the region, and its relations with small regional states are still evolving. Australian policy has been playing catch-up with these new realities.

Unlike Australia's Pacific neighbors, because of its strategic vision for oil and gas, Timor-Leste is unlikely to attack Australia over its climate change inaction. The consistent line from Timor-Leste's leaders is that they remain more interested in development outcomes than taking sides in power plays. But as with the Pacific nations, there is no doubt that China now provides leverage to smaller regional states. China could become a logical partner for downstream oil and gas processing if other parties are not willing to invest in the Tasi Mane project. This could easily result in a resurgence of bilateral tensions in the future. Whether this proves a significant enough concern for other regional actors to step in and co-fund the project remains to be seen. In any case, changes in the government and the pandemic-related collapse of oil and gas prices in early 2020 would come to cast considerable doubt over the megaproject's future.

Political tensions within the AMP alliance came to a head in December 2019, with CNRT rejecting the government's initial budget draft in Parliament. This forced the government into a humiliating redraft process, overseen by CNRT-affiliated senior minister Ágio Pereira.

In an extraordinary development the following month, the government's revised budget for 2020 failed to pass the Parliament, despite the governing alliance having an outright majority (Leach 2020a). Gusmão's

CNRT abstained on the vote in a major rebuke to Prime Minister Ruak's PLP, which dominates the executive government. The rejection was even more extraordinary because the budget had been reduced by some US\$300 million in an attempt to satisfy earlier CNRT concerns (La'o Hamutuk 2020a). In the end, the budget was only supported by PLP and the third partner of the AMP coalition, KHUNTO, with thirteen votes (Lusa 2020b). The FRETILIN opposition voted against the bill, while the majority of CNRT abstained, effectively killing the budget.

The immediate consequence was the resumption of the reserve duodecimal budget system, leaving the government to operate on a monthly fraction of the previous year's budget and with no funding for new programs. In the lead-up to the vote, Ruak pleaded with deputies not to force the country back into the duodecimal system, which was widely blamed for the economic contraction in 2017 and 2018 when the former FRETILIN minority government failed to pass its budget. The fact that a government with a clear majority replicated this scenario—in effect rejecting its own budget—is a political event without precedent. Because Timor-Leste's economy is highly dependent on government spending, this outcome would not be welcomed by the public. What happens next will be very important for political stability.

There was a clear element in these events of CNRT flexing its parliamentary muscles to bring the smaller alliance parties into line. Notably, CNRT argued in parliamentary debates in December and January that budget execution has been weak under the

inexperienced PLP and KHUNTO ministers (Lusa 2020a). While this was in large part a critique of the president's action, which sought to demonstrate that the system was not functioning well, CNRT's abstention was also in effect a vote of no-confidence in their coalition ally PLP. There was also friction between PLP and CNRT over the way development ministries and processes are run and over delays to funding projects CNRT promised during the 2017 election. Internal to PLP itself, there was also major discord between its young and educated upcoming ministers and its older cohort of military veterans of Falintil, the guerrilla fighters who resisted Indonesian occupation for a quarter of a century.

By early 2020, it was clear that the AMP alliance had come to an end and that the current government, as currently composed, would likely follow suit within months. By May, in a remarkable series of events, the Ruak government would once again enjoy a parliamentary majority, but this time backed by Fretilin and smaller parties, with the CNRT in opposition (Leach 2020b).

MICHAEL LEACH

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VANUATU

As far as politics was concerned, 2019 was an interesting year that saw three elections, a couple of cabinet reshuffles, and the transfer of a parliamentary seat from one constituency to another. A Council of Ministers decision in September 2018 was finally gazetted in September, legalizing the transfer of a parliamentary seat from the Port Vila Constituency to the Efate Rural Constituency (G Willie 2019a). The total number of seats remained the same at 52, but the Port Vila Constituency seats decreased from 6 to 5, and the Efate Rural Constituency seats increased from 4 to 5 (G Willie 2019a). This change came into effect in January 2020 when the term of the eleventh legislature ended.

In accordance with the People’s Representation Act (Cap 146), a by-election was held on 2 September 2019 following the passing of Efate Rural Constituency MP Jerry Kanas