




The Benefits of Economic Integration for Timor-Leste: Past, Present and Future

The Coordinating Minister for Economic Affairs

ABOUT US

The Coordinating Ministry for Economic Affairs

The Coordinating Ministry for Economic Affairs (MCAE) of Timor-Leste plays a pivotal role in shaping the nation's economic landscape. As of May 2025, the Vice Prime Minister, Francisco Kalbuadi Lay, serves as the Coordinating Minister for Economic Affairs, overseeing a broad portfolio aimed at fostering sustainable economic development. MCAE's responsibilities include policy coordination and implementation, investment promotion, regional and international integration, sectoral development and employment.

PROSIVU

Partnership for Inclusive Prosperity

PROSIVU is funded by the Government of Australia and works with the Government of Timor-Leste to support sustainable public financial management, inclusive economic growth and better public administration. PROSIVU is supported by the Australian Government and implemented by DT Global.

MONASH UNIVERSITY

Monash is a modern, global, research-intensive university, delivering education and research excellence in Australia and across the Indo-Pacific. Monash University partners with leading organisations across diverse fields and industries to create solutions and generate impactful change. Its researchers make highly significant contributions that bring real and positive change to the lives of people all over the world.

This publication has been funded by the Australian Government through the Department of Foreign Affairs and Trade. The views expressed in this publication are the author's alone and are not necessarily the views of the Australian Government.

Table of Contents

Forward by the Vice Prime Minister

Our Strategic Development Plan sets a bold and clear ambition: for Timor-Leste to achieve upper middle-income status with a healthy, well-educated, and safe population by the year 2030. To realize this vision, we must build an economy that is outward-facing, resilient, and deeply integrated with the global community. As a young and dynamic nation, we recognize that openness to trade and international cooperation is not merely an option, but a vital necessity to overcome the limitations of our domestic market size.

Since the restoration of our independence, our commitment to global integration has yielded profound benefits. Our international partnerships in the oil and gas sector have laid strong economic foundations, funding the institutions of our modern society and building a Petroleum Fund that continues to serve as a bedrock for our national development. Furthermore, the integration of our people through overseas employment and study has transformed lives, with remittances now serving as the largest non-oil income earner for the country, directly reducing poverty and stimulating local business.

We are now at a critical juncture where we must look beyond non-renewable resources to ensure sustainable prosperity for future generations. While our trade openness has successfully brought valuable imported goods and services to our people, we continue to strive for trade balance that is sustainable in the long run.

This timely report charts a clear, strengths-based pathway forward. As we stand on the threshold of full ASEAN membership and embrace our WTO commitments, we are presented with unprecedented opportunities for regional market access, institutional reform, and cross-border collaboration. The successful implementation of these agreements will be the catalyst for modernizing our regulatory frameworks and enhancing our regional competitiveness.

The projections in this report are deeply encouraging, indicating that focused economic integration could add nearly $1 billion to our GDP and create over 80,000 new private sector jobs, with women and rural municipalities standing to benefit significantly.

Therefore, the IX Constitutional Government firmly believes that this era presents a unique opportunity to unleash our economic potential and transition toward a diverse, healthy, and well-educated middle-class society. By strategically investing in high-quality agriculture, coffee, and international tourism—while attracting targeted Foreign Direct Investment (FDI)—we will reduce our reliance on imports and invigorate our non-oil exports.

Internally, the Government remains steadfast in its commitment to improving the business environment and digital infrastructure. Accelerating our digital transformation will connect our youth and small business to the global marketplace, overcoming existing barriers to trade and innovation. Through a renewed focus on workforce development, we ensure that both domestic businesses and foreign investors can partner with us with confidence.

I extend my sincere gratitude to the Government of Australia through the PROSIVU Team, as well as my dedicated staff within the Coordinating Ministry for Economic Affairs, for their comprehensive work in producing this valuable analysis.

Let us use the insights within these pages to forge a more prosperous, diversified, and integrated Timor-Leste.

H.E. Mr Francisco Kalbuady Lay

Deputy Prime Minister, Coordinating Minister for Economic Affairs (MCAE) and Minister of Tourism and Environment

1. Overview

As is well known, the Timor-Leste Strategic Development Plan, produced in 2011, sets a bold ambition of achieving upper middle-income status with a healthy, well-educated and safe population, by the year 2030. The choice of this goal is a recognition that economic growth is vital for society to prosper. Inclusive growth builds wealth that leads to improved livelihoods, better food and nutrition, higher quality health and education and other government services, improved infrastructure, capacity to cope with natural disasters, and expanded economic opportunities.

This report makes the connection between working towards that goal and developing an economy which has an outward focus, an economy which is engaged with and integrated with the rest of the world. It is well recognized and proven from international experience that countries grow better when they are open to the rest of the world. Openness to trade has been shown to be very highly connected to strong economic growth, and already Timor-Leste's experience confirms this.

This report will begin with a brief outline of why economic integration is important. It then summarises the extent to which Timor-Leste is already economically integrated and how this has benefited the country. This will include highlighting the areas where Timor-Leste has shown strength in economic integration, and hence where there is potential growth in the future. It will then expand on selected key sectors where further investment in economic integration can produce benefits for the economy and the people. This will include seeking to quantify these potential benefits, as well as providing a brief description of the policy reforms that will be needed in order to produce this growth and the associated benefits.

2. Why Economic Integration is Important

Trade has changed the world

The world has changed dramatically in the past 50 years. For most countries, economies grew and poverty declined rapidly, and it is clear that trade was a major contributor to this.

- Trade (exports + imports) grew from 25% of World GDP in 1970, to 56% by 2019
- Comparisons across countries show that higher levels of trade are associated with faster growing economies and much lower poverty rates.

Table 1: Long Term Trends in Trade and Poverty

Year	Trade as a share of GDP	Global Poverty Rate[1]
1970	25%	50%
2020	56% ↑	8% ↓

Trade is Especially Important for Small Economies

Why is trade so important, especially for small nations? Essentially, size matters. Small economies need trade as it helps them overcome the disadvantages of being small: a lack of expertise, limited financing, small local markets making economies of scale difficult. "The cost of smallness can be avoided by being open" (Trade, Growth and the Size of Countries, Alesina, Spolaore, Wacziarg, 2005). Let's start with the production side. The most efficient / low cost means of production in a modern economy typically takes place through large scale production, where it is justified to invest large amounts in specialised equipment and digital solutions, and there is a concentration of human expertise. The problem is that a small country's economy cannot generate sufficient domestic demand to give producers the required economies of scale to make their products competitive. A small nation will thus become competitive by specialising in a few areas, and making these their export focus, and relying on imports in other areas, where others can specialise (Lederman and Lesniak, 2017).

Real examples from the Timor-Leste economy

Offshore drilling for oil and gas and the processing of the crude product relies on a great deal of specialist expertise, and is extremely capital intensive, only worthwhile if there are vast oil reserves worth billions of dollars. Thankfully for Timor-Leste, the offshore fields have been plentiful, and the

[1] https://blogs.worldbank.org/en/opendata/estimates-global-poverty-wwii-fall-berlin-wall

industry has generated close to $30 billion of revenue for the Timor-Leste government over the last 20 years, and a similar in magnitude to the total GDP for the same period. This is only made possible because the product is made available on international markets, and because of the vast expertise and capital of large international oil companies to exploit the resource.

Coffee is much less capital intensive, but the industry still benefits from the fact that it is big enough for several coffee exporters to exist, and many farmers spread through the country. The expertise that develops around these various producers and processors makes the industry viable and competitive on the international coffee market. And while Timorese may drink a lot of coffee, there is nowhere near enough demand in the country for all the coffee production to be consumed locally. The coffee industry can only survive at its current size because of exports.

Imports: Timor-Leste relies on several other countries to produce specialised commodities. Timor-Leste does not have the size or expertise to produce cars and trucks, or computers and mobile phones, among many other consumer goods. Large firms throughout the world specialise in manufacturing these products, and Timor-Leste benefits through being able to import them.

Life in Timor-Leste would be very different if we did not benefit from oil and export revenues and the wide range of imported goods and services.

3. Timor-Leste and Economic Integration

Timor-Leste’s policy environment has always been focused towards economic integration. Since restoration of independence in 2002, Timor-Leste's policy's orientation has been towards encouraging economic integration. There have not been large tariffs, import quotas or other protections for local production. There has been a relatively easy flow of people in and out of the country for work and other purposes. Since 2002, Timor-Leste has taken the view that the country needs to be open to the rest of the world if it is to thrive. As noted, this is especially important for small countries with a low population base: the economy is not big enough or diverse enough to support the full range of economic activities that make up a modern economy.

The standard measures of trade openness for a country capture exports and imports as a percentage of GDP. The following table shows these measures for Timor-Leste, compared to 8 ASEAN countries. Data is unavailable for Laos and Myanmar.

Table 2: Trade Indicators - ASEAN Comparisons 2023

Country	Exports to GDP Ratio	Imports to GDP Ratio	Trade to GDP Ratio	Exports minus Imports, ratio to GDP
Brunei Darussalam	77%	60%	137%	17%
Cambodia	67%	67%	135%	0%
Indonesia	22%	20%	41%	2%
Malaysia	69%	63%	132%	6%
Philippines	27%	41%	67%	-14%
Singapore	174%	137%	311%	37%
Thailand	65%	64%	129%	1%
Timor-Leste	23%	66%	89%	-43%
Viet Nam	87%	79%	166%	8%

Source: World Development Indicators

The comparison table shows:

- Exports for Timor-Leste are 23% of GDP, well below most ASEAN countries, although similar to two thriving ASEAN neighbours, Indonesia and Philippines.
- An imports to GDP ratio of 66% for Timor-Leste is very similar to those of Cambodia, Malaysia and Thailand, not far behind Viet Nam. Only Indonesia and Philippines have much lower ratios.
- The trade-to-GDP ratio shown in the last two columns is the most commonly used indicator of openness of an economy. Trade is defined as exports + imports. The message from this indicator is that Timor-Leste is a relatively open economy, although not as open of several of the ASEAN countries. As can be seen from the patterns in the other indicators, trade in Timor-Leste is dominated by imports.

- The final column of the table shows the one place where Timor-Leste stands out compared to all these ASEAN countries. The statistic highlights the large trade deficit Timor-Leste faces, with exports-to-GDP ratio 43% below the imports ratio. For other ASEAN countries exports exceed imports, except Philippines, which has a much smaller 14% deficit.

This report will go into more detail about what openness to the rest of the world actually looks like for Timor-Leste in the present and what the potential is for the future. We will look at the different aspects of openness, identify the areas of strength in economic engagement, and discuss how to build on these strengths to produce strong, inclusive economic growth. The analysis will cover a range of sectors and look at the policy reforms that will be needed in order to produce growth in these sectors.

4. Exports and Imports of Goods and Services - Trade

4.1 Oil and Gas Revenues[2]

Timor-Leste has been blessed with natural resources in the Timor Sea. These have been the basis of a steady stream of oil and gas revenues since 2005, that laid the economic foundations of the Timorese society and the government as it is 20 years later. All of this economic activity has been international in focus: foreign-owned oil companies have extracted the oil and gas from under the sea, and the product has been sold on the international markets. The funds earned by taxes and royalties have then been invested in international money market, particularly US stocks and bonds, with generally very good returns.

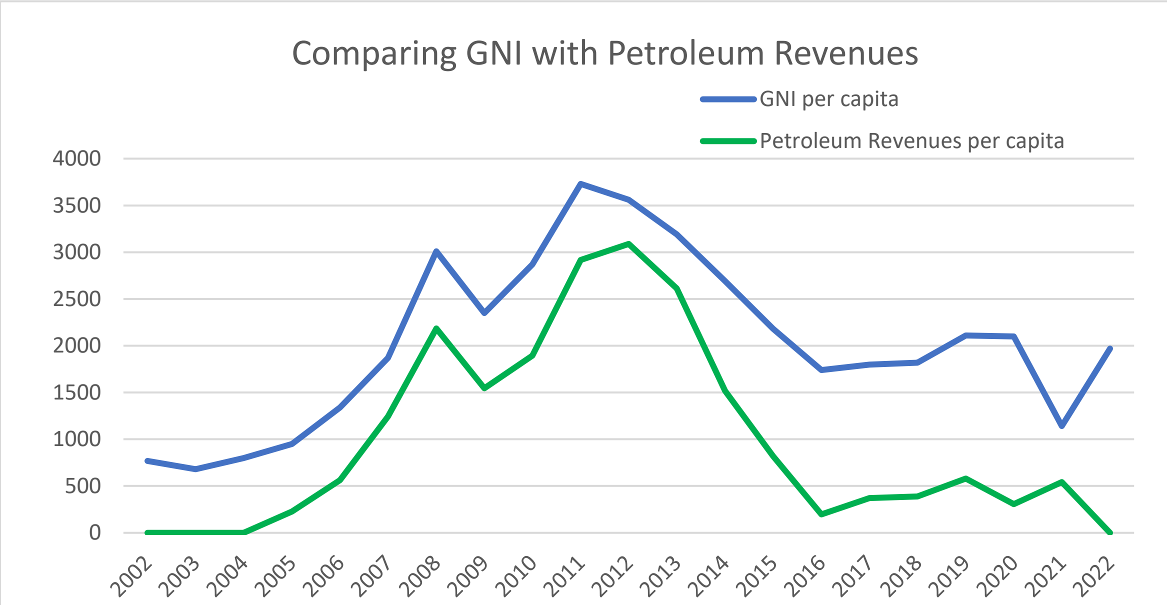
Thanks to this international engagement in oil and gas, the Timorese economy has grown, there have been sizeable investments in improving the quality of people's lives through electricity, water and sanitation, improved roads and many other investments. The government has been able to fund its ambitious agenda of building the institutions of a modern society, that give a solid basis for ongoing growth and prosperity for all. And the country now (in 2025) has national savings (the Petroleum Fund) of around $18 billion. With annual returns averaging 4.3% over the years, this produces returns on investment of up to $1billion per year, the equivalent of $700 per year for every Timorese person.

[2] Due to technical statistical definitions, for most years Timor-Leste's revenue from offshore Oil and Gas activities have not counted as export revenue. To accommodate this, here we use the term revenues rather than exports.

The challenge into the future is ensuring that these benefits of the oil and gas sector are invested well to create a prosperous economy for future generations.

To illustrate the importance of international engagement through oil and gas, Figure 1 shows a measure of Gross National Income (GNI) for Timor-Leste since 2002, alongside revenues from petroleum activities (royalties and taxes from offshore activities in the Timor Sea). There are some obvious patterns of GNI per capita: significant growth from 2006 to 2011, and large decline from 2011 to 2016.

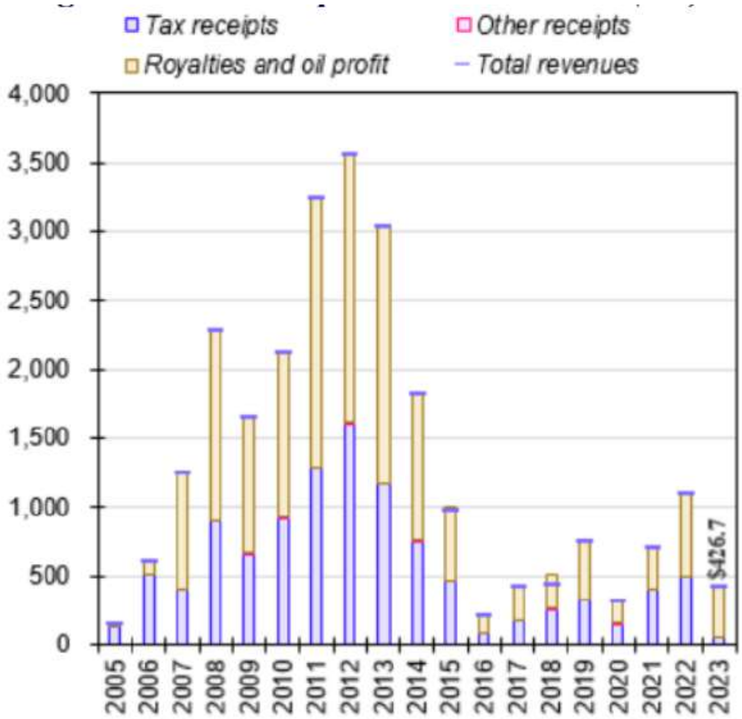
Figure 1: Comparing GNI with Petroleum Revenues



It is clear that the majority of the national income (GNI) and the up-and-down patterns in GNI are driven by movements in petroleum revenues. Annual Petroleum revenue grew by close to $3,000 per person between 2004 and 2012, and GNI per capita grew by just under $3,000. And then, as Petroleum revenue dropped by more than $2,000 per capita from 2012 to 2016, GNI experienced a very similar decline. Both have then remained fairly stable since 2016.

Consider the revenues into the Petroleum Fund shown in Figure 2.

Figure 2: Revenues into the Petroleum Fund



2

Source: Petroleum Fund Annual Report 2023

The graph shows:

- The beginnings of growth of the oil and gas sector was in 2005.
- Revenues reached its peak around 2012, with annual revenues exceeding $3 billion in 2011, 2012 and 2013. Compared to GDP values of well below $2 billion in that period, this is a massive injection of revenue.
- Petroleum revenues declined significantly in recent years as oil reserves have diminished.

Looking Forward: Leveraging Oil and Gas

The Greater Sunrise oil and gas fields offer an exciting future revenue stream for Timor-Leste. The revenue stream will help provide the resources for the Government to invest in a sustainable long-term future for the economy. In addition to new offshore activities, the Government of Timor-Leste has taken several steps towards onshore mining and minerals activities. Licences have been issued for exploration in several sites across the municipalities, and initial samples from investors indicate significant possible future revenue. However, it is still too early to quantify the potential returns from these activities (e.g. see the Estralla Resources Annual Report 2024, which shows promising exploratory findings, but $0 Sales Revenue to this point).[3]

In addition to generating income, a strong oil and gas sector opens up other opportunities for economic diversification and ongoing economic integration. We will touch on these briefly here.

Building Local Skills

Projects in the oil and gas sector can produce skills that Timorese workers will be able to use in other fields into the future. Human capital development through local content requirements on projects is very important. This is a commonly used strategy in a number of projects around the world. For example, a project that involved a major construction activity will require a range of skilled labour in various trades, that are transferable to other parts of the construction industry. A very successful program in Mongolia called Build4Skills seeks to integrate TVET into infrastructure projects. "*Build4Skills will ensure that trainees learn in workplace-based settings, enhance certification standards and the recognition of prior learning, and include a digital tool for labor market monitoring and analysis*" (Edel, 2020, p.291). Research has shown that the skills transfer needs to be designed well to be effective; it is more than simply having quotas for local content (e.g. see IFC, 2011, and two Briefing notes from Engineers Against Poverty). A few key principles will be discussed here.

First, the aim is that every person who works on this project is able to progress to the next level of skill. An unskilled labourer can achieve some basic skill qualifications. Similarly, someone with a basic level of skills and experience can progress towards becoming a certified practitioner in their particular trade. The aim is that by the end of the project, the human capital of all Timorese workers has been developed to new and higher levels. This includes actively ensuring that women have equal access to training programs and opportunities for formal certification in these skilled trades.

Secondly, formal certification is an important component of this capacity development focus. Certification of skills typically happens through the TVET system. It is the means of demonstrating that this person has skills which are transferable to another project. It is important in larger scale projects,

---

[3] https://investorhub.estrellaresources.com.au/announcements/6553096

that the businesses do not simply train for the skills they need for their project without any view to transferability of those skills into the future. External certification does not exclude on-the-job training: it just means coordination between the company and a certified TVET provider to design a learning process that covers required technical content as well as supervised experience, and provides quality assurance over the whole process. Within Timor-Leste, the mechanisms are in place for these kinds of partnerships, overseen by the certification regulator INDMO. The key is to focus on enabling these partnerships and for each stakeholder to know their role, with the goal of effective skills development and efficient delivery.

Associated Business Opportunities

There are other spill-over business opportunities that come as a result of major oil and gas activities. The Government's diversification strategy builds in part on this spill-over potential. Even offshore oil and gas activities create opportunities for businesses that support these activities. For example, marine transport is needed in order to deliver workers and supplies. The spill-over occurs when that marine transport business begins to provide ferry services or to support blue economy tourism operations which require marine transport. This is one of many examples of a business that begins with a relatively direct and narrow focus to support oil and gas activities, but which can easily generalize from that to supporting a tourism activity or other sectors.

In fact, businesses that begin with their core functions to support international oil and gas activities are potentially in the best position to diversify into other sectors. From a financial and risk point of view, they have a core business built around oil and gas that is reliable and relatively profitable. This gives a financial and organisational base that allows them to take the risk and move into other sectors which are more in their infancy, with weak linkages, and hence where the risks are higher.

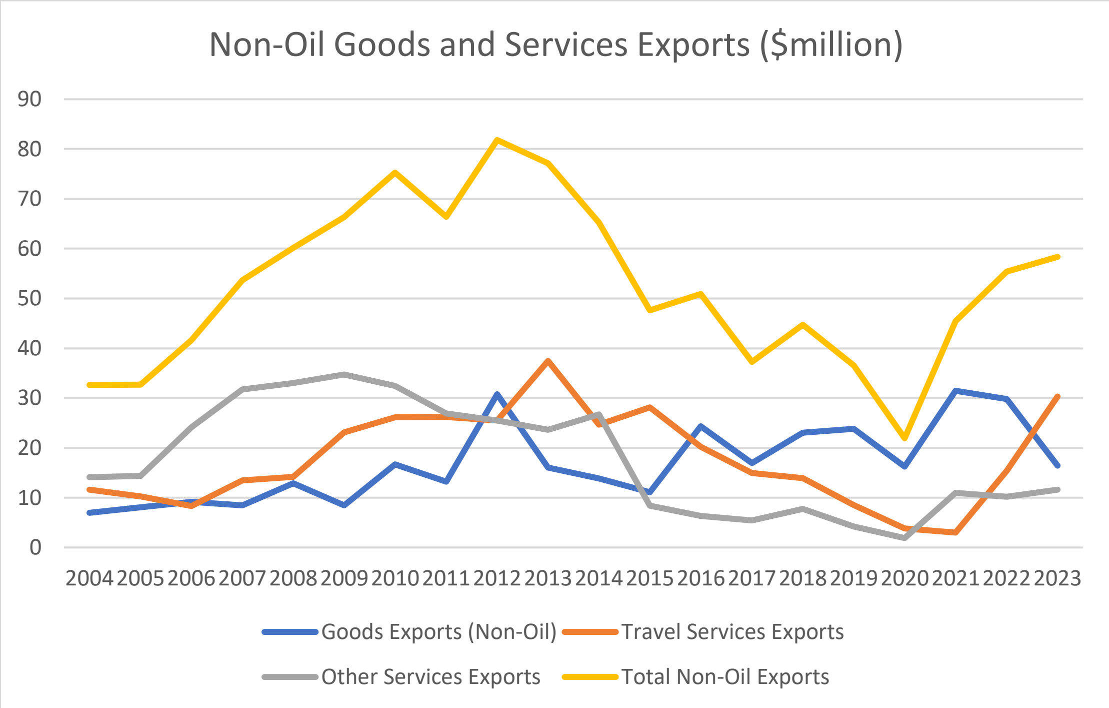
While there are already real examples of these spill-over business diversifications in Timor-Leste, the policy question is how to increase the level of activity and its impact. The key is a sector-led intentional approach, seeing oil and gas-related businesses as allies to the broader economic diversification agenda. An intentional approach asks questions like: what activities related to oil and gas are currently happening? How are different private sector and government stakeholders involved in those activities? How they can be leveraged both in terms of human capital development as well as broader business growth and diversification?

An obvious next step in this direction would be greater consultation with businesses currently operating in the oil and gas sector, working with them to understand opportunities and in turn to provide incentives to take these opportunities.

4.2 Non-Oil Exports: Overview

Over the last 20 years, non-oil export income has been relatively small compared to the amounts received from oil and gas, peaking at $120 million in 2018, compared to oil and gas income that exceeded $3,000 million in some years. Further details of non-oil exports are given in Figure 3.

Figure 3: Non-Oil Goods and Services Exports ($ million)



Source: National Accounts 2004-2023, INETL-IP

Total exports fluctuated between $40 and $120 million per year, reaching its peak in around 2018-2019. There was a temporary drop in 2020 due to the effect of COVID-19 on trade. The biggest component of exports in recent years has been travel services exports. These increased from $20 million in 2012 to almost $80 million in 2018. This mostly comprises money spent by foreigners who travel to Timor-Leste. Its growth and relatively high proportion of the total suggests an emerging source of revenue, through business and tourist travel, as well as official visits from foreign dignitaries. Tourism offers the greatest growth potential. Goods exports have fluctuated at around $20 million for the last decade. This is mainly coffee exports, but other export commodities are emerging, including konjac, candlenuts, coconut oil, vanilla, among others. Relative to the rest of the economy, exports of goods are a little more than 1% of GDP.

4.2.1 Non-Oil Exports: Coffee

The coffee industry is important to Timor-Leste. Apart from being the largest commodity export outside the oil and gas industry, census data shows that coffee is a key source of income for almost

19% of households in Timor-Leste. Another 18% grow coffee but currently do not sell, and in a growing industry many of these would be able to develop quickly into coffee sellers.

Coffee producers tend to cluster together in particular areas. For example, in around one third of sucos in Ermera, more than 90% of households in that suco report growing coffee. Of course this is partly for geographic reasons, and partly historical. But the concentration of coffee households in particular areas can brings potential benefits of households learning together and working as community. Interventions would do well to pay particular attention to the dynamics of how communities interact with each other, and how outsiders can best earn their trust.

Figure 4: Proportion of Households in each Municipality that grow and sell coffee

Source: Census (2015)

Extension programs can have relatively cost-effective impact by targeting areas with a high concentration of coffee growers.

One challenge facing the coffee sector is the wide geographic spread of coffee producing households, and difficulties with accessing main roads etc. Overall improvements in infrastructure nationally will go some distance to dealing with this. But what remains is a relatively expensive coffee supply chain, partly due to these access costs, but also more broadly, because of the high costs of doing business in Timor-Leste generally. As an export commodity, demand for the product is very price sensitive, and much Timor coffee will find it difficult to access some markets because of cost. There are also a number of trade barriers to overcome, such as limited access to Sanitary and Phytosanitary (SPS) certification, which is important for some market access.

Apart from a range of broader reforms that address trade barriers and the costs of doing business in Timor, one effective solution to this situation is to focus on expanding supply of specialty quality coffee that can command a price premium, where buyers are less sensitive to price. However, not all coffee can be specialty quality: the industry will need look for efficiencies that allow production of cost-competitive commercial grade coffee. These efficiencies generally come from higher volumes that can achieve economies of scale in the various stages of production.

Poverty is prevalent among coffee selling households, mainly because coffee farmers typically live in rural and remote areas, with small amounts of land available for farming, so their incomes are low. The evidence shows, though, that investment in the coffee sector has potential to significantly reduce poverty rates.

Many of these observations point to the obvious potential benefits of investing in the coffee sector as a priority sector. Growth in the coffee industry is likely to directly benefit a sizeable proportion of the population through helping them engage in productive economic activity, and to have a direct impact on exports.

The low levels of engagement of coffee growing households with the formal banking sector is potentially important. With coffee income reaching households in relatively large amounts during harvest time only, the lack of mechanisms for savings (and possibly borrowing) is a problem, and one with significant welfare implications.

Land tenure may be a factor influencing the decision to grow more coffee or to grow coffee for selling. Those with formal land certificates are more likely to sell. This issue needs more investigation before drawing any clear conclusions, though.

Looking Forward

Here we consider an investment that is focused on helping farmers to move from traditional coffee-growing practices to more modern practices aimed at improving productivity and delivering consistent quality for the market. A scenario is run that aims for the following outcomes:

- Those who currently sell coffee are able to double their annual production, and
- Half of the households who grow coffee but not for selling, are able to move into coffee selling, and achieve the same levels of production as those already selling.

These results might seem ambitious, but with good levels of investment in the sector, they are very achievable within 5 to 10 years. For example, a mid-term review of the CACAO project with CCT farmers (RDSM Consulting, 2018) is demonstrating very good yield improvements per tree (up to triple the yields) through simple and affordable improvements in practice. It is likely that international coffee companies will play a key role in leading this kind of transformation - another aspect of economic integration bringing noticeable benefits to a broad base of rural, traditional households. International companies can lead the way with access to markets and funds to invest in modernisation.

What Would Be the Overall Impact of these Improvements?

Such an improvement in production would have a large overall effect. Based on existing data and projecting these realistic growth targets, we would have 57,000 farmers selling $1,200 worth of coffee per year, producing total income of $68.4 million for farmers, more than triple the current level.

The direct contribution of this increase in household incomes to National Income / Gross Domestic Product would be around 50% higher than this, allowing for the value adding that takes place to coffee before it is exported or sold as finished produce domestically. In other words, the GDP impact of the coffee sector would be more than $100 million per year, an increase of around $70 million on current levels. Almost all of that benefit would show up in export revenue, a substantial boost to goods exports and to reducing the gap between imports and exports.

The benefits do not stop there. With more income to farmers and those involved in the rest of the coffee supply chain, there are flow-on effects on other parts of the economy. These are called indirect effects. They are difficult to predict, but for a sector growth whose benefits are largely shared by low income rural households (coffee farmers), the consumption impact will be very high (i.e. most of what is earned, they spend locally), so a multiplier / indirect effect of 2 is very realistic. In other words, the GDP impact of the coffee sector would be over $200 million.[4]

A Great Return on Investment?

Identifying potential economic gains at this level is only one side of the story. What kind of investment would be necessary in order to produce that gain? How does it compare with alternative investment options the people of Timor-Leste could follow?

We have some guidance on this question through two existing projects working with coffee farmers – the New Zealand-aid funded CACAO project, working with CCT, and a recent Asian Development Bank-funded project working with Olam. Both projects have a goal of increasing yields and volume of production (and hence incomes) among coffee farmers, along with various other goals. Importantly, from their project information, we can extract broad estimates of the cost of such interventions. CACAO is a $15m project, targeting 19,000 farmers / households, while the ADB project is a $1.2m program targeting over 4,000 farmers, but over only two years. So, both will involve spending less than $1,000 per household.

Suppose we designed an intervention over several years that scaled up these activities to reach the 77,000 households who are currently growing coffee (for sale or personal use), and assume $2,000 is spent per farmer – more than double the spending of these programs, to make sure it is well resourced and the intervention is sufficiently intense to produce the desired gains.

---

[4] N.B. For simplicity, all calculations are real, in 2023 dollars.

Based on modelling using the Timor-Leste Survey of Living Standards dataset, this long-term investment of $154 million ($2,000 x 77,000) would eventually produce GDP benefits of $200m per year for the next 25 years. It would generate a much higher volume of work and self-employment for each household.[5] These economic impacts are summarised in Table 3 below.

Table 3: Potential Return on Investment for Coffee Farmer program

	Coffee Sector Investment
Up-front Investment	$154 million
Real GDP impacts over 25 years	$5 billion ($200million per year)
Employment Impacts (average Fulltime Equivalent p.a.)	77,000 jobs
Real GDP impact per $1 spent	$30 per $1 invested
Employment Impacts (Dollars spent per one fulltime job created p.a.)	Invest $2,000 per job created

[5] We assume one full-time equivalent job per household, a very conservative assumption given the volume increases and the economic multiplier effects.

4.2.2 Other Goods Exports Opportunities

As noted earlier, merchandise exports are currently very small, and concentrated on only a few commodities. Table 4 below shows that after coffee, there is no commodity with more than $500,000 worth of exports.

Table 4: Top 4 Commodities Exported 2019-2023 ($ thousand)

Commodity	2019	2020	2021	2022	2023
Coffee	18,323	12,298	27,612	26,106	14,472
Candlenut / Kaami'i	450	193	680	360	477
Copra/ Nu Maran	27	167	436	702	383
Konjac / Maek	2,520	2,322	1,572	76	131

Source: Annual Trade Statistics, INETL-IP (2024)

Alongside this reality is a wide range of potential for growth in exports. This includes with candlenut, konjac, vanilla, turmeric and other spices, as well as cassava flour, a range of herbal teas, peanuts and peanut butter, red rice, and others. Beyond these niche agricultural products, other nascent industries show great potential - forestry and value-adding timber products, fisheries, seaweed, and other blue economy commodities.

In all these commodities there is already some local production and expertise, and enthusiasm to build local livelihoods and momentum in exports. But in each case, it is a challenging task to build the consistent volumes and export quality at an internationally competitive price.

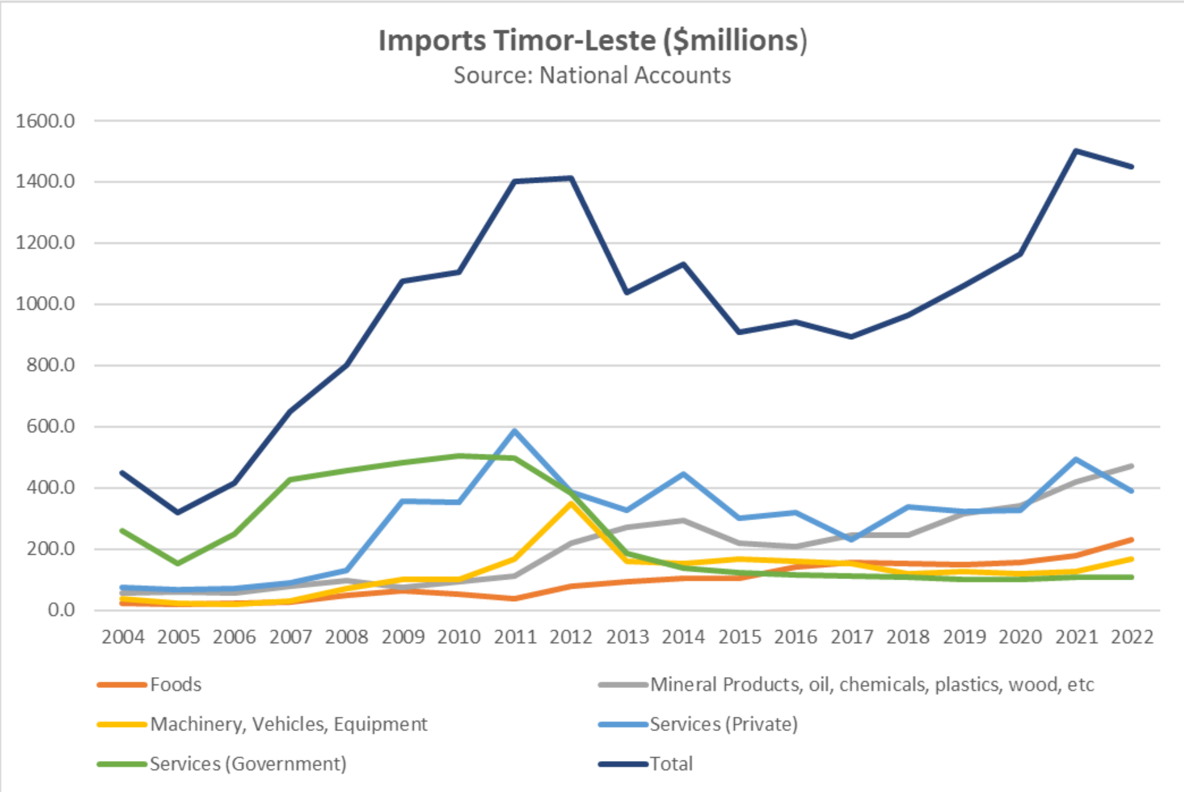
Given the very small level of production and exports in these commodities at this point, this report does not seek to build projections of future growth into the overall analysis. To do so would be speculative, with too much uncertainty about where the growth will come from.

This is not to dismiss the potential here: over the next 10-20 years it is likely that several of these commodities will emerge as major export commodities. This transformation is, however, a long term project that will require significant public support and sizeable private investment.

4.3 Imports

Imports are vital for a modern economy: they give consumers access to products and expertise that could not be produced locally (e.g. cars, refined petroleum, machinery, IT equipment, specialist financial or legal expertise), and they provide valuable inputs into the productive capacities of local industry (e.g. Agricultural inputs, packaging). Figure 5 shows patterns in imports over time.

Figure 5: Imports into Timor-Leste ($ millions)



Source: INETL Trade Reports

Some implications of the data presented in Figure 5 are explored below.

- **Total Imports:** There was substantial growth in imports in the early years. Imports of around $400 million in 2004 jumped to $1,400 million in 2012. Once inflation is taken into account, there has been a modest decline in real imports since the peak in 2012. So, while imports vastly exceed exports, the level of imports is not especially high. Table 4 shows that Timor-Leste's imports are quite typical of ASEAN countries. There is also no indication of increasing import dependence in the last 10 years, quite the opposite.

- **Services Imports:** There was significant growth in both government and private demand for services between 2004 and 2011, but both have declined significantly in the past 10 years.
- **Minerals Imports:** The significant growth in the mineral products imports category (from around $100 million in 2010 to more than $400 million in recent years) is an encouraging sign of a stronger domestic economy, with increased demand for these inputs into electricity generation and to manufacturing and construction activity.
- **Food Imports:** The value of food imports has more than doubled in the last 10 years. This is a noticeable increase in imported food consumption per person as overall food consumption has increased. Alongside declines in agriculture production over this period (World Bank, 2023), this suggests a growing dependence on imported food, one indicator of food insecurity.
- **Imports vs Exports:** A comparison of Figures 3 and 4 shows the relative dominance of imports over exports: non-oil exports sit around $100million per year, while imports are up to 14 times higher, reaching $1,400 million. This very big trade imbalance has been sustainable while oil and gas revenues have been strong, but the imbalance is not sustainable in the long run.[6]

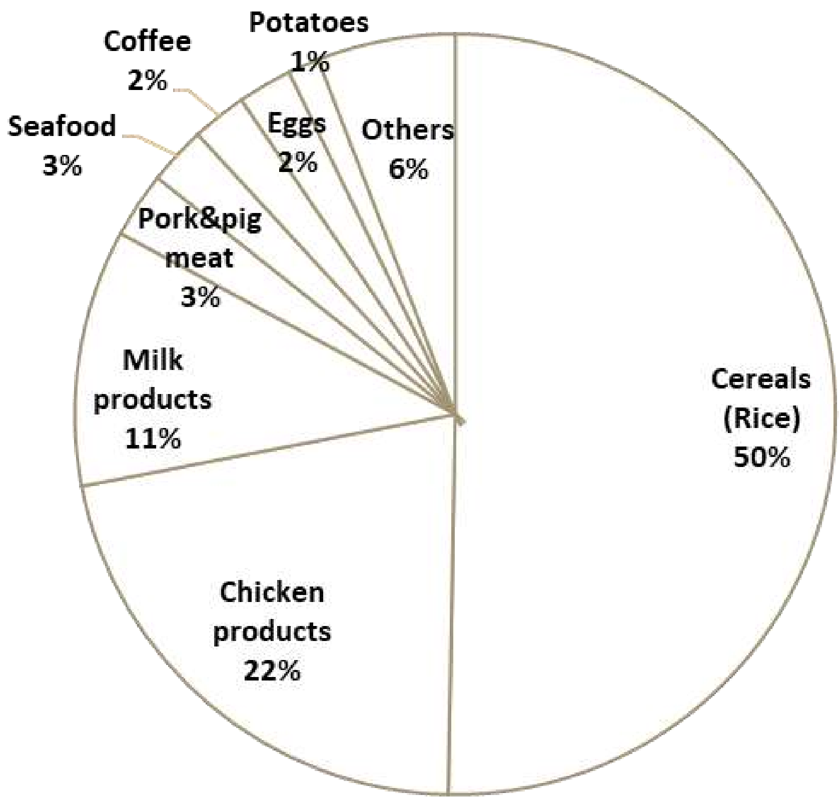
[6] Membership of ASEAN and its associated Trade Agreement (ATIGA) will require Timor-Leste to move towards zero tariffs with other ASEAN countries over the next 8 years. This is likely to benefit imports more than exports, where export-readiness is weaker, producing a potentially worse trade imbalance.

One Way Forward: Selective Import Substitution

Import substitution offers an opportunity for increased local production and reduced reliance on imports. In the first instance, it is about shifting local demand way from imported goods and services towards locally produced equivalents.

The obvious area for import substitution is in food and agricultural commodities. Currently Timor-Leste currently relies heavily on imported food. In some cases, this is because the imported good can be produced very efficiently overseas, and local production could not compete in cost. But in several cases, local production could eventually compete in cost and quality, as shown with the emergence of local bottled water production in recent years. This requires investment to build a supply of locally produced goods that is reliable, consistent in quality and competitive in price. In turn this will improve local food security, and reduce imports, helping address the current trade imbalance.

Figure 5: Share of Food Imports (2019)



Source: INETL Trade Reports

Figure 5 shows there are a few areas where there is a relatively large demand currently met by imports, that could be moved to domestic production. These include rice (the biggest import by far), meat and meat products (chicken, eggs, and other meat), seafood, selected vegetables and fruits (especially potato, garlic and onion, mangos, apples, and oranges), milk products and coffee.

Rice is a high priority for food security for Timor-Leste. A recent FAO study[7] showed what needs to be done to improve the situation for rice farmers. First and foremost is an investment in irrigation infrastructure. Secondly, paid inputs are needed in order to improve productivity and farmer incomes. There are clear and affordable paths forward which are able to produce significant improvements in yields, farmer incomes and quality product that can compete with imported rice.

After rice, it makes sense to focus on chicken and eggs especially, but also on other meats and fish. These are the areas where the agriculture sector has experienced significant growth in recent years. Building on and accelerating this momentum will be a valuable contribution to food security.

In most cases, there is little scope to target exports for these food products. However, the domestic market in each case is large, and the benefits for local producers and consumers will be substantial. This will also go some way towards addressing the sizeable trade imbalance.

Considering more broadly than food, the opening up of markets through ASEAN accession will provide other opportunities for import substitution. For example, there may develop opportunities to import raw commodities and intermediate goods at a low price, and develop agricultural processing facilities to value-add to the final product. This increases local economic activity in the higher-value stages of production, and improves the trade imbalance.

[7] FAO (2025), Rice Improvement study.

5. Movement of People - Travel

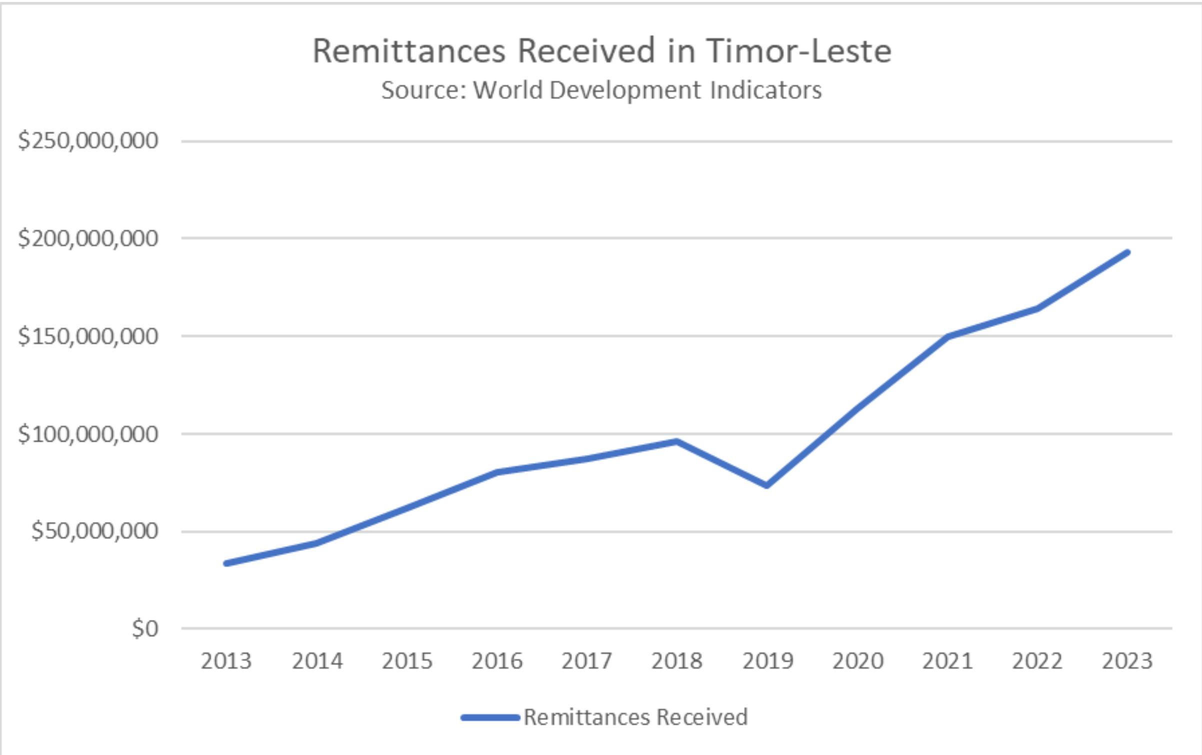
Economic integration also takes places through people moving in and out of Timor-Leste. The movement of people has numerous economic benefits, which we will briefly outline here.

5.1 Overseas Employment

Timorese leave Timor-Leste for many reasons: diaspora scattered throughout the world during the Indonesian occupation; those migrating to the UK, Ireland and Portugal by use of the Portuguese passport; people pursuing overseas study opportunities; and those taking part in the formal labour mobility programs with Australia and Korea.

Many of these temporary or permanent migrants contribute to the local economy, either through remittances to family, through re-investing in business opportunities in Timor-Leste, or through creating entrepreneurial opportunities or adding to the skilled and experienced workforce when they return to Timor-Leste. To give one window into this contribution, consider the history of remittances received in Timor-Leste, shown in Figure 6.

Figure 6: Remittances Received in Timor-Leste



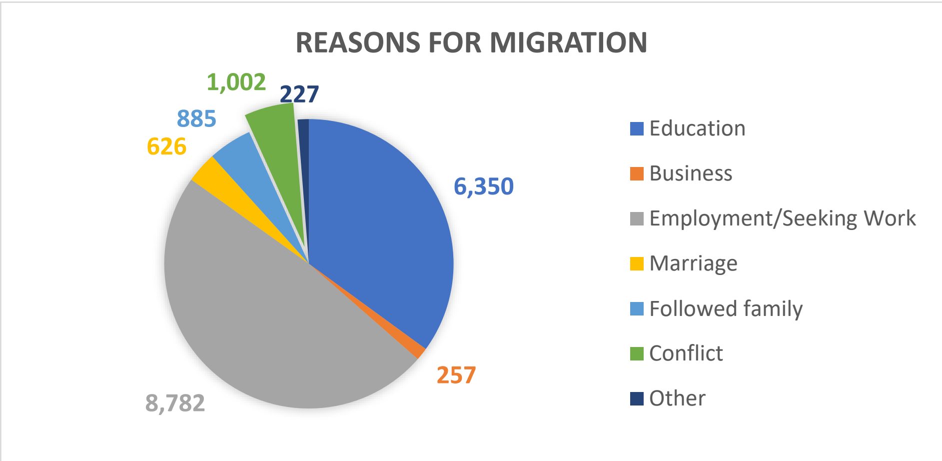
Remittances have grown from around $40 million in 2013 to almost $200 million by 2023. This growth is continuing, with more recent data reported in the Central Bank of Timor-Leste 2024 Economic Performance Report stating that, in 2024, transfers from abroad are estimated to be around $245 million, a $41 million (20%) increased compared to 2023. This reflects the growing number of Timor-Leste citizens who work and live overseas, partly due to growth in the Government-sponsored overseas employment schemes. Benchmarking against National Accounts data for household private consumption expenditure, more than 20% of household spending is financed by overseas remittances.

Labour mobility and economic integration are deeply intertwined, with significant impacts on national and international economies. The desire to work abroad is undeniable for many Timorese, driven by a lack of job opportunities, particularly for unskilled and semi-skilled workers, lower wages, a weak business enabling environment and other factors. This drives a significant number of individuals to seek work in others countries. The main destinations for most Timorese are United Kingdom and Ireland, Portugal, and through Pacific Australia Labour Mobility (PALM) scheme in partnership with SEFOPE to Australia and a similar program with South Korea. Based on the SEFOPE Labour Market Outlook Report 2022, between 2000 and June 2023, 11,165 Timorese workers have been sent to Australia and 5,761 workers to South Korea. This program facilitates temporary migration for work in agriculture, hospitality and other sectors. In addition, the program provides opportunities for Timorese to acquire new skills, to earn better income, a large portion of which is later sent as remittances to their family in Timor.

Overseas employment is the primary driver of the flow of remittances. Remittances have a big economic impact on Timor-Leste as a source of income to many. Remittances can contribute to a reduction of poverty through increased household / private consumption. According to the World Bank Data, personal remittances contributed 9.3% of GDP in 2023[8]. Remittances can help support households or families to meet their basic needs, thus leading to improving their living conditions, access to better education and better healthcare and potential investment in small businesses. Using remittances to invest in education can contribute to long-term human capital development. Remittances can also help stimulate the local economy, as consumption will increase demand for goods and services and stimulate further economic growth.

There are various reasons for people to migrate. Based on Census data, we can identify the main reasons for migration: see Figure 7.

Figure 7: Reasons for Migration

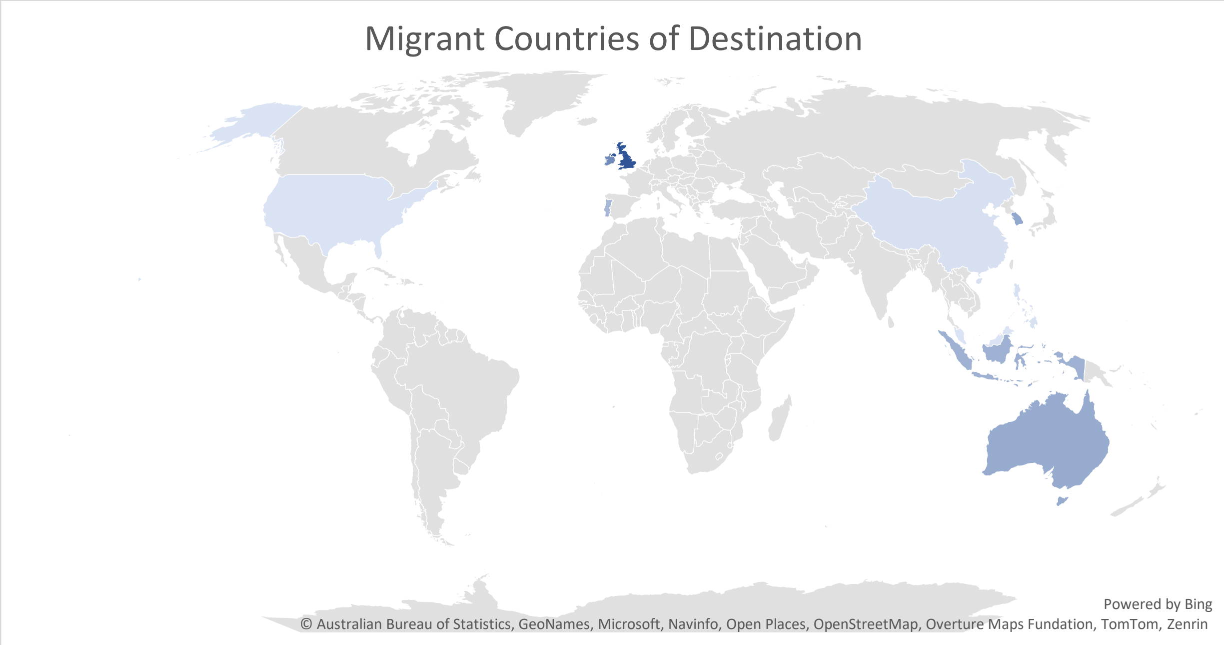


The data presented in the graph is taken from Census 2015, since Census 2022 does not show the breakdown. It is estimated that more than 18,000 people were migrants in 2015, and the top three reasons stated were employment or in search of employment (48%), followed by education 35%, 5% to follow a family and 6% is due to conflict (for example, the political crisis in 2006).

Taken from the same census year, the map below (Figure 8) shows the top ten destination countries. The dark blue represents the bigger numbers and the smallest are in light blue. These top 10 from biggest to smallest are: UK, Ireland, South Korea, Australia, Indonesia, Portugal, China, Philippines, USA and Malaysia. Only three of these countries are ASEAN countries. There are also other countries not represented in the map that have very low numbers of Timorese migrants.

[8] https://data.worldbank.org/country/timor-leste

Figure 8: Destinations of Timorese Migrants



As stated previously, remittances in Timor-Leste have been increasing over the years. Based on data from the Central Bank of Timor-Leste (BCTL), an increase in workers abroad has led to quite large increases in remittances in recent years[9].

Figure 9: Quarterly Remittances by Sending Country

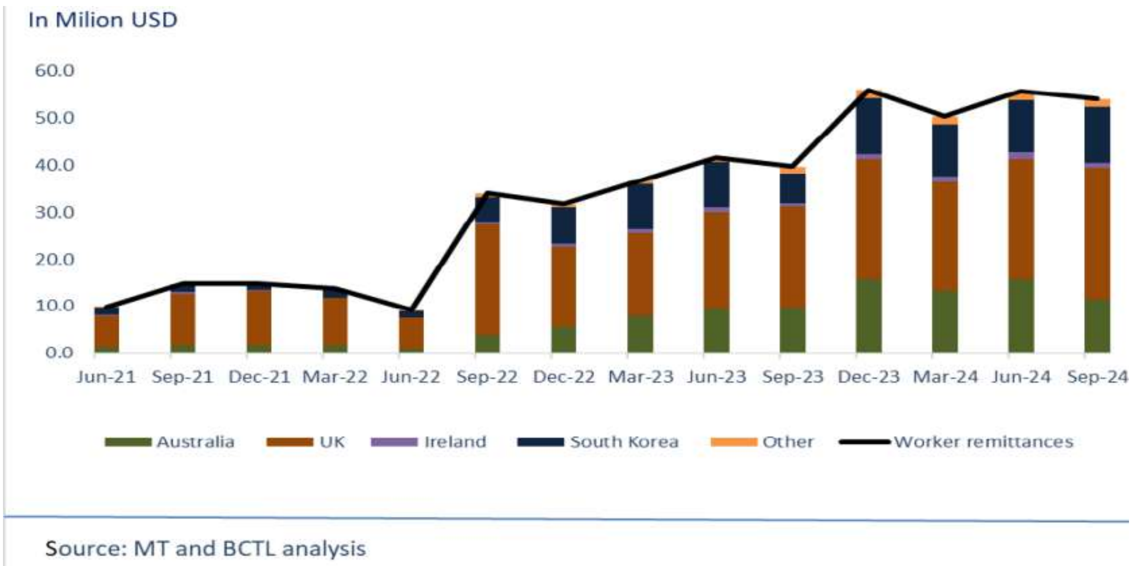


Figure 9 above shows the amount of remittance from June 2021 until September 2024. The largest share of remittances comes from UK followed by Australia and South Korea. This highlights an important point: policies and strategies for getting the most benefit from overseas employment need to focus more broadly than the formal government-sponsored labour market programs. The privately-

[9] https://www.bancocentral.tl/uploads/documentos/documento_1733793754_7520.pdf

funded diaspora who have migrated to UK and Ireland and other places, represent much bigger numbers and much larger remittance flows than through the formal programs.

Benefits and Challenges

The recent Central Bank report highlights that 43% of Timorese lives below the national poverty line.[10] If a poor household can benefit from a family member who works overseas, they are likely beneficiaries of sizeable remittances. Based on PALM Scheme data, a short-term worker sends an average of $1,061 a month to their families,[11] which is more than $12,000 yearly. This is around 10 times the minimum wage in Timor-Leste, and injection into household finances which is almost guaranteed to lift that whole family out of poverty.

Other than producing an immediate impact on household income, remittances can also contribute to:

- **Reducing the poverty rate**. Remittances contribute to an increase in consumption, as people are able to meet their basic needs, access better nutrition, education and health care, potentially breaking the poverty cycle.
- **Increase in small business activity**. Remittances can also help individuals and communities to start and build small businesses by providing access to finance, a commonly reported obstacle to business growth. That way, the remittances can set a household up for further ongoing income based on business profits.

Although remittances have contributed significantly to Timor-Leste's economy, this source of income is vulnerable to external factors. Changes in the policies of destination countries, particularly regarding immigration, present one obvious challenge. Demand for workers is also vulnerable to economic downturns affecting the destination countries, along with political instability and global crises.

Workers abroad also face challenges when they return to Timor-Leste. These workers acquire new skills while working abroad, which they hope to utilise when they return home. However, finding jobs when they return home remains a challenge. Timorese workers in the UK or the PALM program mostly work in manufacturing and agriculture sectors, as well as a few in other areas like hospitality. Their skillsets vary, and are often not easily transferable. For example, agriculture in Australia is much more mechanised than in Timor-Leste, and so the skills that the workers acquire in Australia may not be applicable to a Timorese agriculture setting.

A potential challenge arises from disproportionately focusing on low-skilled and semi-skilled labour, which means it does not address the skills shortages in the Timor-Leste labour market. Sustainable economic development requires a significant investment in improving the skills of the broader

---

[10] https://www.undp.org/timor-leste/economic-transformation
[11] https://www.palmscheme.gov.au/sites/default/files/2024-03/Expanding%20and%20improving%20the%20PALM%20scheme%20-%20January%202024.pdf

workforce, and while there are some skills benefits from overseas employment, these risk being over-stated.

Currently, remittances in Timor-Leste serve as the largest non-oil income earner for the country, hence it is vital to invest in policies and future opportunities that address these challenges. Here are some obvious policy areas that will capitalise on the opportunities and address these challenges. They are built on the need for a strategic approach:

- Continuing to expand formal overseas employment opportunities.
- Updating and Implementing the Policy on Diaspora.[12]
- Reintegration Programs for returned workers that focus on providing access to job opportunities and support services.
- Encouraging investment, not just consumption. Programs and training can incentive workers to save and invest their money, with a view to seeing more small and medium sized enterprises emerge. Greater investment in the productive sector will lead to more job opportunities, creating benefits beyond the workers and their immediate families.
- Investing in education and skills development. Overseas employment programs can create lasting impact if they are coupled with training that helps build a workforce with the skills they need to meet the demands of domestic and international markets. Where possible, these skills need to be transferable to the domestic labour market.
- Alongside these policies aimed at producing economic benefit, it is important to continue support for workers that ensures they are well protected while working abroad and providing fair and ethical recruitment processes.

[12] https://timorleste.un.org/sites/default/files/2022-08/Diaspora%20Policy%20Executive%20Summary.pdf

Overseas Employment and ASEAN

As noted, currently very few overseas workers are based in ASEAN countries. Despite the fact that Timor-Leste has many links to Indonesia, for example, the Census 2022 data shows that around 2.5% of Timorese working overseas are in Indonesia, and only 3.4% in any ASEAN country.

The ASEAN Agreement on the Movement of Natural Persons (MNP) facilitates the temporary cross-border movement of skilled and semi-skilled workers involved in trade in goods, services, and investment among ASEAN member states.[13] For Timor-Leste, this presents opportunities to expand employment options for its skilled workforce regionally.

The MNP framework offers its skilled workforce potential access to temporary employment opportunities in ASEAN, enhancing employment prospects beyond domestic limitations, which aligns with the strategic pillar of increasing access to labour migration schemes by expanding destination countries.[14] One of the specific actions of the National Employment Strategy is to ensure that the domestic workforce is competitive and able to participate in the ASEAN Economic Community. However, to leverage these benefits, Timor-Leste must develop workforce skills that meet ASEAN standards and pursue mutual recognition of qualification through frameworks like the ASEAN Qualification Reference Framework (AQRF).[15]

Additional benefit under the ASEAN MNP Agreement will be possible if Timor-Leste can advocate for fellow ASEAN members to give preferential access to specific labour mobility opportunities, with a focus on developing skills and experience that will be brought back to the Timorese labour market. For example, Indonesia currently provides preferential treatment for Timorese studying at Indonesian universities. A natural extension to this could be to provide opportunities for graduate employment in selected industries or government agencies for 1-2 years, with an expectation that the workers would return to Timor-Leste at the conclusion of the program.

[13] https://agreement.asean.org/media/download/20240329064603.pdf
[14] National Employment Strategy 2017-2030
[15] https://unctad.org/system/files/official-document/tncd2019-05-03_Informal%20summary%20of%20discussions.pdf

5.2 Overseas Study

Figure 7 above shows that a large number of Timorese spend time studying overseas, mostly for university, but also some for senior high school. Many receive scholarships, others benefit from the fact that Indonesia treats Timorese citizens as if they were Indonesians for the purposes of entry and fees for university. Census 2022 data shows that 40% of students overseas are in Indonesia, 17% Portugal, with Australia, Philippines, UK all having around 5% of students. Ireland has 2.4%, and the remainder are scattered across several countries in small numbers.

The Benefits

Several countries have invested in overseas education for their young emerging leaders in the early days of growing high quality local institutions. For example, in the 1970s and 1980s, many Malaysians opted to study overseas in Australia and other English-speaking countries. These students returned to build the businesses and educational institutions of the future. The majority of leadership in that country were overseas-educated. For Malaysia, this was a transitory stage, for a generation. Their local educational institutions have been built up to a high international standard, to the point that they are a receiving rather than sending country, attracting international students from several other countries in Asia.

Looking Forward

ASEAN integration helps create new links with neighbouring countries that offer affordable future study opportunities. Increasing numbers of Timorese are choosing study in Malaysia, Cambodia, Philippines. A targeted strategy of forging links with these and other ASEAN countries through higher education brings a great deal of potential benefits.

Timor-Leste could also work towards strengthening local higher education institutions by partnerships with overseas universities. An obvious starting point is twinning arrangements (commonly 2+2 models) with overseas university, where Timorese would have two years of education in a local institution (foundation and freshman year), then transfer with full credit to complete their studies in an overseas university. This improves accessibility of overseas education, produces high quality graduates, and develops capacity of the local institution.

5.3 Foreign Workers in Timor-Leste

Why Foreign Workers?

In moving towards economic diversification, away from reliance on non-renewable resources, the government has recognised the need to address educational attainment gaps and skills shortages. The Timor-Leste Skills Strategy 2022 explicitly focuses on aligning training with domestic and international vocational career opportunities.

Developing a skilled and experienced workforce takes time, especially in more senior and professional roles. Foreign workers play an important role in 'filling the gaps' and in bringing in fresh perspectives, international best practice and links to trading partners, all of which help create new business opportunities.

The presence of foreign labour can provide some of the critical human resources needed to boost productivity and economic development. The rapid expansion of economic sectors like the construction, wholesale and hospitality sectors have created a demand for skilled workers that cannot be met locally.[16] The presence of skills gaps implies that the local workforce may not have the expertise or qualifications needed to fill these positions, necessitating for the hiring of foreign workers with the required skills. Hence, companies often hire foreign workers despite higher costs because they cannot find enough locals with the required qualifications and experience. This has led to growing employment of foreign workers in recent years, from 11% of the workforce in 2019 to 14% in 2022[17].

[16] The Enterprise and Skills Survey 2022
[17] ibid

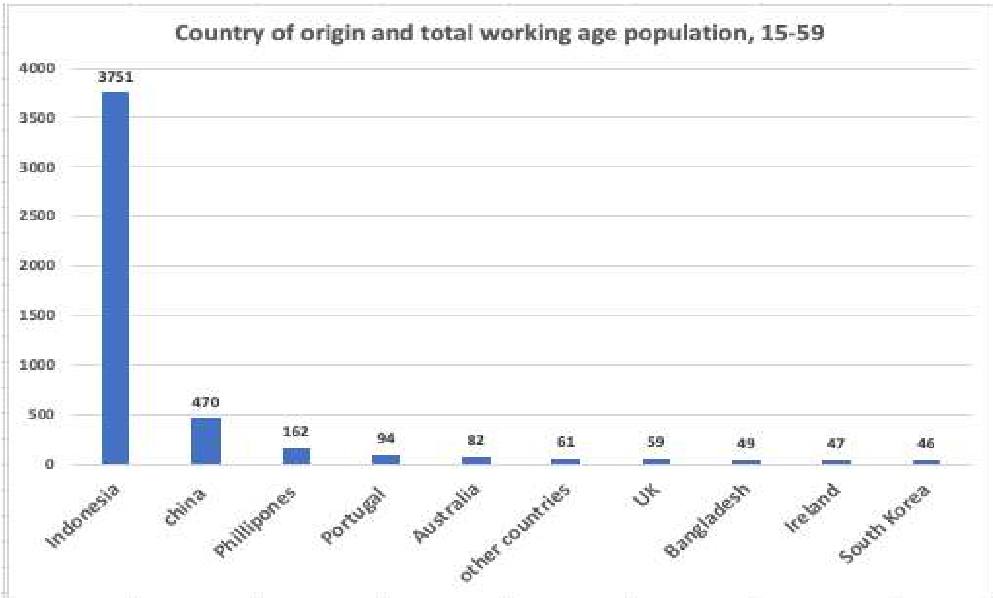
Additionally, the presence of skilled foreign workers often transfers expertise and best practices to local employees, helping to reduce the skill gap over time. This knowledge transfer can occur informally, through on-the job training, or more formally via structured mentorship and capacity-building programs. Such exchanges improve local capacity and contribute to long-term development of the Timorese workforce and reduce the skills gaps between nationals and foreigners[18].

Lastly, foreign expertise is crucial for the successful execution of large-scale infrastructure projects such as airports, ports and road networks. These are foundational for economic diversification[19] and attracting investment in sectors like tourism, manufacturing, and services.[20]

The Current Situation

Figure 10 shows that foreign workers in Timor-Leste primarily come from neighbouring and regional countries, with the largest groups originating from Indonesia, China, the Philippines, Portugal, and Australia. The Census 2022 estimates that there are 5,022 working-age foreigners in Timor-Leste, with 54% female.

Figure 10: Countries of Origin for Overseas Workers in Timor-Leste



Source: Census 2022

---

[18] Fundasaun Mahein (2018) The Impact of Migration on Timor-Leste and Its Security Sector (https://www.fundasaunmahein.org/wp-content/uploads/2018/07/MNH-16-Migrations-English-Final.-pdf.pdf)

[19] https://www.un.org.tl/en/media-center/blogs/leveraging-government-s-infrastructure-programme-to-boost-jobs

[20] https://timor-leste.gov.tl/wp-content/uploads/2017/07/National-Employment-Strategy-2017-20301.pdf

The construction, wholesale and retail, and hospitality sectors dominate the private sector economic landscape, collectively accounting for 66% of enterprises in Timor-Leste[21]. This concentration suggests potential areas for targeted skills development. Foreign workers fill important skilled and semi-skilled roles in these sectors. The top foreign nationalities and their most common occupations are shown in Table 5.

Table 5: Main Occupations of Foreign Workers in Timor-Leste, by Country of Origin

Country	Occupation
China	Construction workers, managers, wholesale and retail
Indonesia	Construction, trade workers, hospitality, retail, administrative role
Philippines	Hospitality, retail
Portugal	Administrative, managerial
Bangladesh	Construction, trade workers
Australia	Specialist roles, managerial
South Korea	Specialist roles, technical and managerial
India	Technical and managerial
UK	Specialist roles, managerial

Source: Census 2022

This distribution reflects both the demand for skilled and semi-skilled labour in construction and services, and the reliance on foreign expertise in managerial and technical roles. There has been dramatic increase in the number of foreign workers in managerial positions, crafts and related trade and associate professionals.

Figure 11: Percentage of Foreign Workers in Timor-Leste by Employment Category

Source: Enterprise and Skill Survey 2022

[21] The Enterprise and Skills Survey (ESS) 2022

Looking Forward

In various trade negotiations, Timor-Leste is laying out the conditions under which businesses can utilise foreign workers. These Visa reforms, targeting skills, quotas for foreign companies to bring in their management works quite well, but feedback from businesses suggest that some improvements are needed. It will be important to set up mechanisms for consulting with investors, in order to identify the obstacles, and ultimately amend the regulations and processes.

More specifically, during WTO negotiations, Timor-Leste made the following commitments:

- **Employees of a foreign commercial presence**: Subject to a labor market test, foreign service suppliers established in Timor-Leste may hire or transfer foreign employees qualified for supervisory (executives), directing (managers) or technical (specialists) functions.
- **Contract Service Suppliers and Independent Professionals**: Subject to a labor market test, foreign natural persons who have obtained a contract to supply a service in Timor-Leste shall be granted entry for a period of up to 60 days per year.

To this point, there is a lack of regulation to ensure the implementation of these commitments. This will be an important step in providing certainty to investors, as well as safeguarding jobs for Timorese nationals.

Evidence suggests that in selected industries, a number of local and foreign-owned firms rely on unskilled and semi-skilled foreign workers, while at the same time there is a surplus supply of local labour. It is important to address this situation, but simply ‘banning’ semi-skilled and unskilled foreign workers may do more harm than good. There is a need to understand the businesses' inclination to prefer foreign workers, and then to address the blockages. For example, if there are skills gaps in the local workforce in semi-skilled occupations, this can be addressed with targeted provision of subsidies for skills development of local workers.

5.4 International Tourism: Small, Under-developed, with Big Potential

The Importance of Tourism

Around the world, tourism plays an important role for the economy of many countries. It facilitates employment creation, and revenue generation for the local economy as well as for the government. It can also stimulate other sectors to grow. In 2019, the tourism sector contributed around 10.4% of global GDP, although after COVID-19 it declined temporarily, accounting for only 7.6% in 2022. Almost 300 million jobs are supported by the travel and tourism sector.

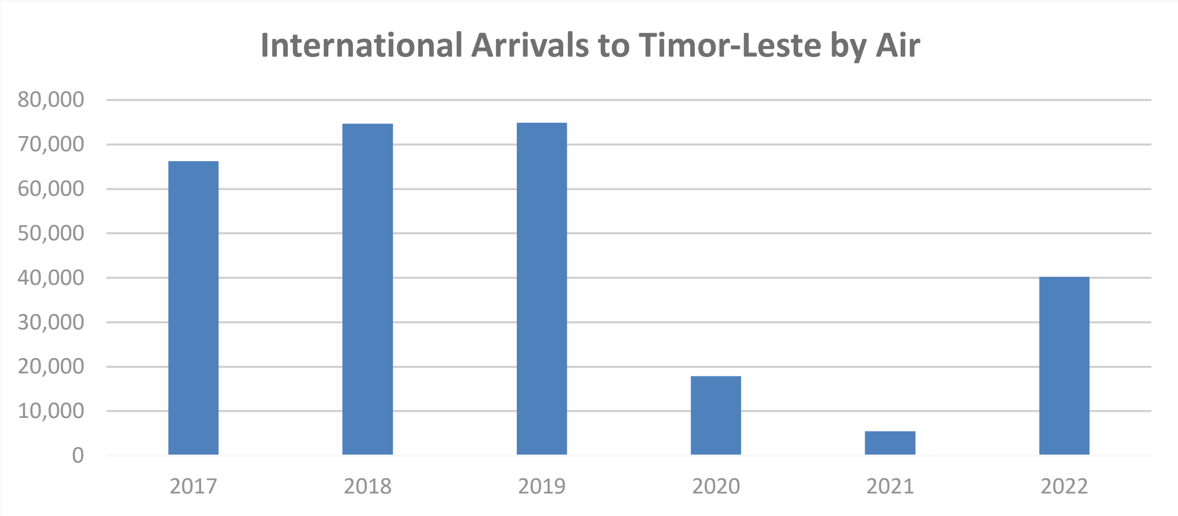
Tourism is a key sector for Timor-Leste's long-term economic development and sustainability. The National Strategic Development Plan 2010-2030 (SDP) and the Guide for Economic Reform and Economic Diversification (2015) recognize the importance of tourism as a path to reducing petroleum dependency and diversifying the economy, create jobs, and help generate government revenue. According to the National Tourism Policy (2017), the target was to attract around 200,000 visitors yearly, generating $150 million of revenues and creating employment for 15,000 people. The IX Constitutional Government Program places tourism as the "driver for the development of economic activities and contributes to safeguarding Timor-Leste's natural and cultural heritage."

The Current Situation

Data shows that the tourism sector in Timor-Leste is still underdeveloped. Exports from the tourism sector in 2023 were $28 million, representing 1.7% of non-oil GDP. This is the same level that it was in 2015. This means that besides the COVID-19 dip, tourism export revenue had been stagnant for almost a decade. There is promising growth in 2024, with tourism and travel export revenue growing by 18.2%, contributing a small amount to an improvement in the trade balance.

According to national statistics, around 40,000 foreigners visited Timor-Leste through Airport Nicolau Lobato in 2022. Although it is big increase compared to the 2021 level, it still had not reached the pre-pandemic level of more than 70,000 visitors per year.

Figure 12: International Arrivals to Timor-Leste by Air



Source: Ministry of Transport and Communications, Timor-Leste

The majority of foreign visitors are not leisure travellers. According to The Asia Foundation Travelers Survey, in 2023, there were around 18,200 leisure travellers to Timor-Leste. In total, they spent around $13 million. The same report also says that the median length of stay per trip is 3 days.

The accommodation and food services sector is the most direct beneficiary of these visitors. According to the Business Activity Survey (2023), around 6,500 people work in this sector, comprising more than 10% of the total formal private sector. The industry value added is $35.1 million, representing 5.9% of the total value added in the private sector. The real contribution of tourism for income and jobs is almost certainly much bigger than this data suggests, considering that the majority of Timor's economic activities are in the informal sector, and employment is largely informal employment. Some restaurants, coffee, or guest houses operate informally, particularly outside of Dili.

There are many positive aspects to the accommodation and food services sector. First, it is already private sector driven, with minimum government intervention. Hotel, culinary services and accommodation, and the aviation industry are largely driven by private sector initiative. There is a wide variety of offerings such as hotels, motels, backpackers, guesthouses, eco-lodges, homestays, and camping. The hotel industry is expanding, especially with the recent emergence of Palm Spring Hotel and JL World. There are also a variety of offerings in Municipalities like Baucau, Liquica, Viqueque, Bobonaro.

Other positive signs include the expansion of organized activities like Coffee Experience Tours, Mountain Biking, and others. The presence of Aero Dili, and the potential of Batik Air to open new route between Dili - Kuala Lumpur can offer new opportunities for the country.

The experiences of travellers to Timor-Leste is overwhelmingly positive. 88% of travellers who were surveyed by The Asia Foundation say that they would recommend Timor-Leste to their friends. Based on several interviews and experiences shared across social media platforms, visitors describe their experiences in Timor-Leste to be genuine, authentic, fantastic, safe, kind, etc.

The Challenges

The number of tourists and the industry's contribution toward GDP is still very low compared to peer countries in ASEAN and Pacific. For example:

- In Fiji the tourism sector directly or indirectly accounts for 40% of GDP. In 2023, 929,000 travellers visited Fiji, almost the same as its population (936,000).
- In 2019, Lao received 4.7 million tourists, and tourism represented 9.1% of the GDP, employing more than 300,000 people.

The Timor-Leste tourism industry faces many challenges. Compared to many popular destinations in Southeast Asia, Timor-Leste is expensive. The Travelers Survey conducted by The Asia Foundation estimates that the median spend per holidaymaker for each trip to Timor-Leste is $3,319 for a three-day visit, including air travel. This is 135% of the average annual salary in Indonesia, making Timor-Leste unaffordable for the average Indonesian tourist. There are different aspects to these high costs. The cost of flights is the most obvious one. For example, a Dili - Bali round trip costs between $500 and $600, much higher than most other similar length trips in Southeast Asia. The price of hotels is between $50 and $200 per night, relatively high compared to southeast Asian alternatives. The price of renting a car from Dili to other municipalities is around $100-150 per day. There are several examples of tourist packages that is relatively expensive. For example, according to recent advertisements, it costs $75 to experience coffee in Aileu or a day tour in Maubisse, and it costs $150 for a one-day motorbike adventure.

These high costs are affected by multiple factors:

- The use of the US dollar,
- The small market size and distance from larger markets increases transportation and other costs.
- The lack of options for flights means a lack of competition.
- The broader business enabling environment results in high business costs in Timor-Leste, affecting the everyday functioning of the private sector.

Another challenge facing Timor-Leste is the quality of services. While the prices of goods and services are relatively expensive, the quality of service is seen as relatively low than neighbouring countries, in part due to gaps in skills training and lack of experience among workers.

The Potential

While tourism is relatively small in term of its proportion in the overall economy, it offers significant potential for the country's future. There is space for the country to expand its tourism sector, to generate more employment and to drive economic growth.

Economic Integration, ASEAN and Tourism

Tourism has been a key sector for ASEAN countries since its inception. In 2023, the number of visitors to ASEAN countries exceeded 109 million people, recovering well from the COVID-19 pandemic.

Since the late 1970s, ASEAN has made significant progress in developing a tourism institutional framework. For example, the Committee on Trade and Tourism was established as one of the five permanent Committees under the purview of the ASEAN Economic Ministers. In 2002, ASEAN's heads of government signed the ASEAN Tourism Agreement. Among other objectives, the agreement aims to facilitate travel within ASEAN and reduce restrictions on tourism trade, and enhance cooperation among member states. There is also the ASEAN Tourism Forum, an annual event to promote and showcase tourism products and Southeast Asia as a unified travel destination.

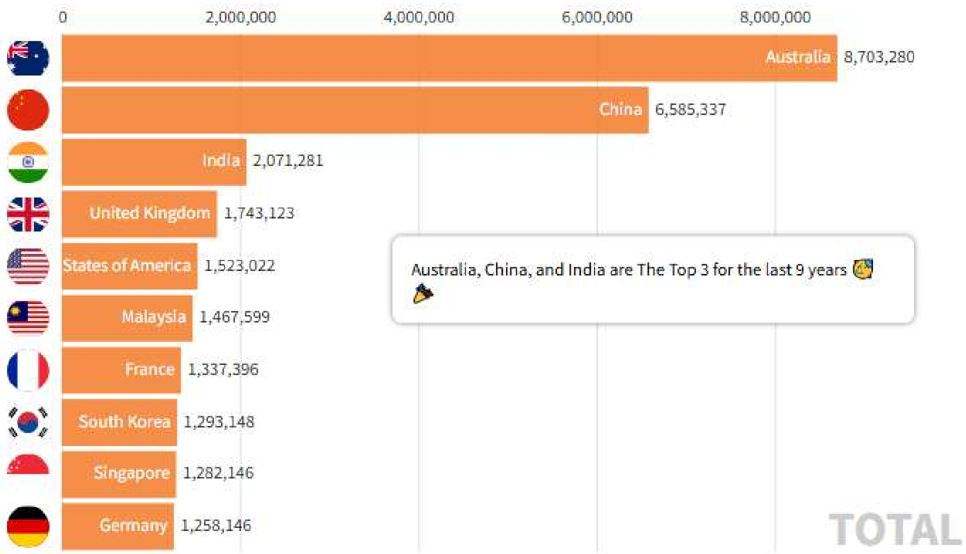
ASEAN countries have also made significant progress in developing institutional frameworks for specific tourism products. Some policies are specific for the policymakers and governments, while others provide guidelines for the private sector. Examples include: ASEAN guidelines on Hygiene and Safety for Professionals and Communities in the Tourism Industry; ASEAN tourism standards; Toolbox for Six Tourism Labor Divisions. These are tools and guidelines that can be beneficial for private sector in Timor-Leste to learn from.

There are many ways that ASEAN accession and regional economic integration can be beneficial to Timor-Leste to attract tourism. The key ones are described below.

Market Access: Market access is the most important factor that drives Timor-Leste to integrate into the regional market. ASEAN accession has the potential to expand Timor-Leste's access to the tourism market, which is more than 100 million tourists every year. Timor-Leste can use the ASEAN platform and its forum to promote its tourism sector, encouraging visitors from ASEAN member states as well non-ASEAN countries. Another potential benefit for Timor-Leste is spill-over effects. For example, some international tourists who travel to Indonesia, Thailand or Malaysia can be encouraged to extend their visit to include Timor-Leste. The key here is that there is a big market in ASEAN that Timor-Leste can attract. Strategic Air Service Agreements with other countries can help facilitate access to this market.

The graphic below shows the distribution of visitors to Bali by country of origin. The vast number of visitors suggest great potential for these spill-over effects - attracting Bali visitors to extend their holiday with a visit to Timor-Leste.

Figure 13: Bali Visitors by Country of Origin (2014-2023)



Know How: While tourism is still in the early stages of development for Timor-Leste, ASEAN countries like Malaysia, Thailand, and Indonesia are already big global players. Timor-Leste's private sector have the opportunity to learn from their experiences through different levels of exposure. The private sector in Timor-Leste can work to follow the standards and guidelines that already exist in these countries, in order to provide a similar quality tourist experience. Increased know-how also can improve efficiency and making Timor-Leste more competitive.

Institutional and Policy Frameworks: This is the most important element for the Timor-Leste Government. As noted earlier, ASEAN has already established numerous institutional and policy frameworks to guide the actions of its member states and to facilitate collaboration among them. These frameworks can push Timor-Leste to improve the policy environment.

Australia

Australia is already the biggest market for Timor-Leste tourism, representing more than 60% of the leisure travellers to Timor-Leste. This is partly due to the fact that many Australian travellers are less price sensitive than those from ASEAN countries. Air connectivity is also a positive factor.

In 2024, more than 7 million tourists travelled overseas. Indonesia is the biggest market for Australia (predominantly Bali), attracting 1.5 million Australian tourists, followed by New Zealand. Fiji, which is also a small country, attracted 395,000 Australian tourists in the year to June 2024. For the time being, Australia is the most realistic market for Timor-Leste, considering the relatively high cost of travelling to Timor-Leste, with costs comparable to Fiji and New Zealand.

Ways Forward

The Government has an extensive set of strategies and plans for expanding tourism. Here we highlight a few key areas and ways of approaching the sector.

Demand-Driven Interventions

- Expanding tourism demand starts with setting clear and realistic targets and plans.
- Tourism Promotion can be strengthened, targeting specific markets: Australia, New Zealand, Singapore, Malaysia, China and European visitors who travel to Bali. The private sector have capacity to attract tourism through various marketing platforms. The role of government is to coordinate and provide incentives for the private sector to undertake this marketing.
- Having an online platform as a one stop shop can serve that purpose.
- A number of initiatives can be taken to target niche markets, particularly adventure tourists, diving and other blue economy tourists.

Supply-Driven Interventions

- Addressing Connectivity:
    - Improving connectivity between Timor-Leste and specific markets - Australia, Bali, China, Malaysia.
    - Having a secure and reliable public transport system inside the country is critical to reducing risks and improving access to destinations outside Dili.
    - The high cost of flights will be addressed in the long run by market forces - higher volumes will create more competition and bring the prices down. In the short term, consideration can be given to a subsidy for selected routes, or subsidies that more precisely target leisure tourists. For example, a voucher can be issued with purchase of flights that provides subsidised access to car rental or tours outside Dili for the non-resident traveller.
- Working together with private sector to improve the quality of services in key sectors like hotels and accommodation services, and expand market choice for visitors.
- Bring Know-How through attracting foreign investors to facilitate transfer of skills. This kind of investment will be made more attractive with ASEAN integration.

- Integrate skills development within Labour Mobility programs with specific targets in the service industry such as Hotel and accommodation, tour and travelling and tour guides.
- Addressing Uncertainty over land ownership. Land security is a key issue with the development of tourism sites.
- Investing in Renewable Energy to drive the price of electricity down. This has been identified as a key cost driver in hotel and accommodation services.

The Future Potential

Beginning from a relatively low base, there is sizeable potential for growth in international tourism. Based on estimates from International Visitor Surveys and cross-country analysis, it is realistic to see the sector grow towards the vision outlined in the Tourism Policy. In the medium term, a realistic goal is at least 100,000 tourists per year. While the average tourist spend is more than $3,300 per person, a sizeable portion of this spend does not contribute to national income or local employment - most flight costs, for example, will be paid to non-Timorese airline companies, not contributing to Timor-Leste GDP. A reasonable estimate of the national income benefit is 50% of the total spend, which is $1,600 per tourist. This means a total GDP impact of $100million, likely to create more than 10,000 local jobs in hospitality, accommodation and food services, transportation and direct tourism services. This would make tourism the largest formal sector employer in the country. Further details of this analysis is given in Section 9 of this report.

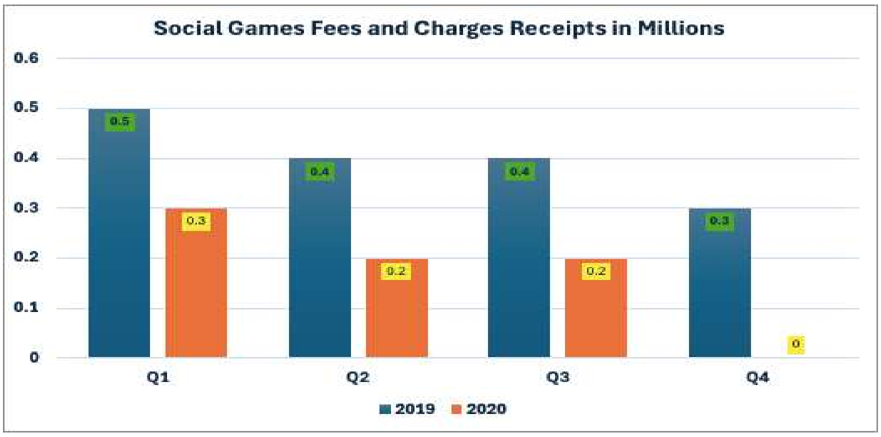
5.5 Leveraging Casino Tourism to Attract International Visitors

Current Casino Market Overview

The Asia-Pacific casino tourism market has demonstrated robust growth, driven by rising disposable incomes, middle-class expansion, and the development of integrated resorts. The market is projected to double in size over the next 10 years[22]. The region's casino market accounted for 37% of the global market growth in recent years[23]. Key contributors include established hubs like Macau, Singapore and the Philippines, while emerging markets such as Vietnam, South Korea, and Japan (with its first integrated resort in Osaka) are gaining traction. In addition, emergence of online gambling, bolstered by mobile penetration and affordable internet, saw a surge in online casino revenue from US$7.4 billion in 2020 to US$12.1 billion in 2022[24].

Timor-Leste's casino tourism sector is nascent but rapidly evolving. The existing casino market is small, operated by a small number of licenced local and foreign-owned casinos, lotteries and sports betting operators, which cater primarily to the domestic market. Based on official figures published by the Ministry of Finance (MoF), the official revenue turnover of the land-based casinos was around US$16 million in 2019 with $1.6million paid in taxes. Turnover dropped sharply in 2020 to $700,000 in 2020 , due to social distancing and other COVID-19 measures that restricted economic activity.

Figure 14: Ministry of Finance- Expenditure and Revenue Annual Report



[22] https://www.credenceresearch.com/report/asia-pacific-casino-tourism-market

[23] UNODC (2024) Casino, money laundering, underground banking and transnational organized crime in East and Southeast Asia: A hidden and accelerating threat https://www.unodc.org/roseap/uploads/documents/Publications/2024/Casino_Underground_Banking_Report_2024.pdf

[24] https://www.mordorintelligence.com/industry-reports/asia-pacific-casino-gambling-market

The broader gambling market includes lotteries, sports betting and informal gambling like cockfighting and other forms of gambling. The total size of the sector is not clear, but even just considering Casinos, the level of turnover is quite substantial.

The export value of casino tourism can be substantial with the right enabling environment and marketing strategies to bring in additional revenues from international visitors looking for a unique casino tourism experience in Timor-Leste.

Potential for Growth

Tourism is viewed as one of key sectors for economic diversification and development. The National Tourism Policy and Strategic Development Plan outline the vision of building a robust tourism sector. While they do not explicitly mention about casino tourism, there is space for casino tourism to contribute significantly to vision, leveraging the global trend of integrated resorts (IRs) as tourism anchors.

In early 2025, Timor-Leste's government approved the country's first-land based casino resort, a landmark development led by Asia-Pacific Strategic Investments Ltd (APS), a Singapore-based real estate and hospitality developer. APS plans to invest approximately US$60 million to build a five-star hotel integrated with a "respectable, high-security, law-abiding casino", marking the nation's entry into land-based casino gaming[25]. In addition, APS's plan includes marketing Timor-Leste's natural attractions, such as marine tourism, yachting, whale watching and wildlife watching - in tandem with the casino resort. This comprehensive tourism offering is expected to attract international tourists, increase hotel occupancy, and stimulate related sectors such as hospitality, retail, and transport, contributing to the government's ambitious targets for international visitors and tourism-related revenue.

Alongside land-based developments, Timor-Leste has also entered the offshore online gambling market. In April 2025, the government granted its first offshore gaming licence to Golden River Universe Lda (GRU), a subsidiary of Grand Dragon Lotaria (GD Lotto), which operates in multiple countries[26]. This licence is part of a broader strategy to position Timor-Leste as a regional hub for offshoring gaming and digital economy growth, with plans to invest

[25] https://igamingbusiness.com/casino/property-development/timor-leste-government-oks-first-casino-resort/
[26] https://www.yogonet.com/international/news/2025/04/22/102285-timorleste-grants-first-offshore-gaming-license-to-golden-river-universe

over US$100 million over 10 years in infrastructure and operations, including a centralized offshore gaming center in the Oecusse special administrative region[27].

Although casino tourism is not explicitly described in the strategic documents, the approval of the first casino resort and offshore online gaming licence indicate that government views casino tourism as part of broader tourism strategy to attract international tourists seeking unique, high-value experiences in Timor-Leste. While Timor-Leste cannot achieve the level of gambling turnover like Singapore and Macau, we can project a modest annual boost to economy based on 2019 casino turnover. The ASEAN market for Casino resort tourism is very large, and if Timor-Leste can claim just a small fraction of this market, it will result in a big boost to employment and tax revenues. For example, the table below shows potential growth as the number of visitors grows over time. These are very realistic numbers: just one modest sized integrated resort with, say, 200 guests as average occupancy will produce around 20,000 visitors to Timor-Leste each year. sizeable economic activity, employment growth and a large boost in tax revenues as the sector grows. Importantly, this growth will not happen without international visitors, again demonstrating the importance of economic integration.

Table 6: Potential Growth in Casino Tourism and its Economic Impacts

Year	Estimated Number of Casino Visitors	Amount spent per visitor	Estimated turnover	CGR tax 10%
Year 1	5,000	$10,000	$50 million	$5 million
Year 2	10,000	$11,000	$110 million	$11 million
Year 3	15,000	$12,000	$180 million	$18 million
Year 4	20,000	$13,000	$260 million	$26 million
Year 5	25,000	$14,000	$350 million	$35 million
Year 6	30,000	$15,000	$450 million	$45 million

Ways Forward

While the economic benefits of casino tourism are obvious, it also raises social and public health concerns. These include gambling addiction and financial hardship, potential for crime

[27] https://macaonews.org/news/lusofonia/timor-leste-online-gambling/

and corruption, money laundering, and other issues that can adversely affect society. According to the UNODC Report, the boom of land-based and online casinos in the Special Economic Zones (SEZs) across Southeast Asia has become a safe haven and breeding ground for criminal networks. As a newcomer to the industry, Timor-Leste can learn from the mistakes and best practices in the region to devise sound policies to unlock the full potential of casino tourism while mitigating its harmful effects. These include:

1. **Improving Institutional and Policy Framework**: Adopting a comprehensive legal and regulatory framework that clearly defines licencing requirements and procedures, operational standards, taxation and profit-sharing mechanisms, contract enforcement powers and penalties, and dispute resolution mechanisms. The gambling industry is currently governed by the 2016 Gambling Law. There are moves to update this Law: The Law currently does not cover casinos or online gambling, and has minimal focus on protecting society from the harmful effects of gambling on individuals and families.
2. **Robust Regulatory Body:** Enforcing the existing regulatory body with independence, resources and authority to issue and revoke licences, monitor casino operations, enforce regulations, and investigate and prosecute violations will be crucial in ensuring that casino tourism contributes positively to the economy while safeguarding the well-being of the residents and visitors.
3. **Responsible Gambling Measures:** Introducing responsible gambling measures such as licenced casinos to implementing comprehensive responsible gambling programmes, self-exclusion programmes, entry fees, age restrictions, etc to minimise potential harms associated with gambling.
4. **Introducing Competitive Tax Rate:** The existing tax structure, including a 10 % tax on gaming prizes and 15% on social contributions, may be perceived as high compared to other regions. Introducing a more competitive tax rate could incentivize foreign operators to invest in casino tourism. By lowering the tax rates on gaming prizes and social contributions, government can attract more foreign investors and create a more competitive market for casino tourism.
5. **Strategic Infrastructures Investments:** Prioritising investments in infrastructure that support casino tourism such as improved airport facilities, transportation networks, reliable utilities (of water, sanitation and electricity), and telecommunication infrastructures such as high-speed internet connectivity, data centers, online payment processing to deliver a reliable and engaging online gambling environment.
6. **Integrated Tourism Packages:** Developing tourism products that integrate casino tourism with other tourism experiences in Timor-Leste, such as cultural tours, ecotourism, etc to

attract high-value tourists from Indonesia, Malaysia, China and Australia, showcasing the unique blend of casino entertainment and diverse tourism experiences available in Timor-Leste.

7. **Partnerships with Airlines and Tour Operators:** Establishing partnerships with airlines and tour operators to promote travel packages could help to attract wider ranges of visitors from the region and beyond. By offering convenient and affordable travel options, more tourists may be enticed to explore the unique blend of culture, history and entertainment that Timor-Leste has to offer. This strategic marketing can help position the country as a top choice for tourists looking for an unforgettable casino tourism experience in a stunning tropical setting.
8. **Training and Workforce Development:** Develop training programs to equip the local workforce with the necessary skills for hospitality and gaming sector. This can help create job opportunities to locals and ensure that the industry is staffed with qualified personnel, enhancing service quality and economic benefits.

> *"Gambling is not something that interests me unless it targets foreigners. I don't want some poor Timorese to lose everything in gambling with all the human and sometimes tragic consequences. But if foreigners want to gamble online and Timor offers an online gambling possibility, fine,"*
>
> President Jose Ramos-Horta, Gambling Insider, 2 August 2024

Case Study: Singapore's Integrated Resorts

Singapore legalized casino gambling in 2005 through the Integrated Resorts (IRs) model with all kinds of amenities - hotels, restaurants, shopping, convention space, theatres, museums and theme parks. The IRs attracted significant private investment, with future expansion plans also approved.

Two flagship Integrated Resorts have helped transform the city-state into a premier global tourism destination of 13.2 million visitors and S$22.3 billion in Tourism Receipts in 2011[28]. The IRs support more than 40,000 jobs in retail, hospitality, transportation, security, interior decorating, fashion and others[29], including with small and medium enterprises.

Singapore applies a two-tiered tax system with different rates on the gross gaming revenue (GGR), 18-22% for mass market and 8-12% for premium (VIP) market[30]. The casino tax revenues are channel into the Government Consolidated Fund, which finances the full spectrum of government programs and services. Government collected S$3.15 billion in 2023 and S$3.26 billion in 2024 from casino taxes[31].

Case Study: Macau as the 'Las Vegas' of Asia

Macau's economy is driven by services exports, particularly casino services. Gambling was legalised in the 1850s, but it was not fully liberalised until 2002. Macau's casino industry is the largest in Asia-Pacific and the world in gross gaming revenue (GGR). The gambling revenue reached US$28.35 billion in 2024, a 23.9% increase from 2023.[32]

The gaming sector is a major source of employment, with official figures around 52,971 full-time employees, 14 % of the total labour force, in 2024[33]. Macau applies a 40 % tax on casino gross gaming revenue (CGR) and collected around US$11 billion, in 2024.[34]

To minimize social concerns associated with its gambling industry, Macau has implemented a comprehensive set of policies and programs such as responsible gambling promotion and education, self-exclusion and exclusion programs, treatment and support services, and corporate social responsibility activities[35]. This reflects a commitment to balancing the economic benefits of the gaming industry with the protection of public health and welfare.

---

[28] Ministry of Trade and Industry Singapore (2012) Integrated Resorts, https://www.mti.gov.sg/Resources/feature-articles/2012/Integrated-Resorts
[29] Ibid
[30] Inland Revenue Authority of Singapore (IRAS) (2022) Casino Tax Rates, https://www.iras.gov.sg/quick-links/tax-rates/casino-tax-rates
[31] Ministry of Finance (2024) Analysis of revenue and expenditure- Financial year 2024,
[32] Gaming Inspection and Revenue Bureau Macau (2024)
[33] Government Information Bureau Macau (2024)
[34] Financial Service Bureau (2024)
[35] Gaming Inspection and Coordination Bureau Macao SAR, Responsible gambling, https://www.dicj.gov.mo/web/en/responsible/responsible01/content.html

6. Movement of Money - Investment

Foreign Direct Investment (FDI) internationally is very large. For lower-middle income countries, FDI is typically much larger than aid investment, being more than double the size of Official Development Assistance in 2021 (Development Initiatives, 2022).

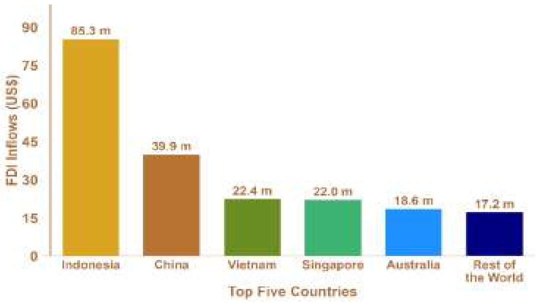
Investment can happen in two directions: Timorese firms and individuals can invest overseas, and foreigners can invest in Timor-Leste's economy. At this stage of Timor-Leste's development, it is important to focus on attracting investment from foreigners - this brings expertise, accelerates growth and creates expanded employment opportunities.

Foreign Investment in Timor-Leste: The Current Situation

For Timor-Leste, despite the fact that the private sector is relatively small, foreign investment in the private sector is quite extensive. There are two sources of information about foreign investment: the 2024 Central Bank (BCTL) report which looks specifically at Foreign Direct Investment (non-resident investment and ownership of businesses operating in Timor-Leste), and some analysis the authors have undertaken of the Business Activity Surveys conducted by INE-TL, looking at the citizenship of business owners and employees.

Based on the BCTL report, FDI inflows in 2023 were $205m, more than 12% of non-oil GDP. Despite being a large proportion of Timor-Leste's private sector investment, it is relatively low, in the bottom 15% of countries in the world (based on World Development Indicators), so there is scope for considerable growth in FDI.

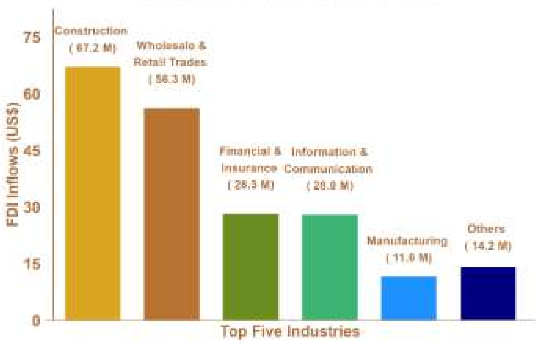
Figure 15: FDI in 2023 by Country of Origin



In term of countries of origin, 41.5% of FDI in Timor-Leste is from Indonesia, followed by China (19.4%). Vietnam and Singapore represent 10.9% and 10.7% respectively. The total of Australia's investment in TL was $18.6M, 9.1% of total FDI in 2023.

Source: BCTL (2024)

Figure 16: FDI in 2023 by Sector



FDI's distribution across the economy reflects the composition of the wider economy, with a bias towards construction, wholesale and retail trade. There is minimal FDI in key sectors identified for economic diversification (agriculture and tourism), despite the fact that agriculture is the largest sector outside government, and travel services are already the largest component of export revenue.

Source: BCTL (2024)

The Central Bank reports that the vast majority of the $205 million of FDI is reinvested earnings, meaning that most of the profit of a foreign-owned company is reinvested in the business, not transferred overseas. This is a positive sign that foreign businesses, once established, can be profitable and usually have confidence to continue investing in expanding their operations.

Based on author analysis of the Business Activity Survey datasets:

- Almost one in three formal non-Oil businesses are either fully or partly owned by foreigners.
- The majority of foreign businesses have Indonesian (41%) or Chinese ownership (32%).
- The large concentration of foreign ownership is in wholesale and retail trade activities. They represent around 50% of surveyed businesses and almost 40% of these are either partly or fully foreign owned.
- The health industry has 61.1% of businesses, either partly or fully foreign owned, although less than 1% of all businesses are in this industry.
- Both foreign and locally owned firms seem to have a very similar number of employees per firm on - average firm size of 16.1 (foreign-owned) and 15.5 (locally-owned) employees.
- Across all businesses, 8.4% of workers are foreigners. That percentage is much higher for foreign owned businesses at 17.8% and relatively low at 4.2% for locally owned businesses.

ASEAN and Foreign Investment

ASEAN Accession provides new opportunities for attracting foreign investment. Timor-Leste is working towards fulfilling the ASEAN Comprehensive Investment Agreement (ACIA) commitments, which will provide certainty to investors, a key step towards attracting investors. This Agreement "*shall create a liberal, facilitative, transparent and competitive investment environment*"[36] among ASEAN member states. For Timor-Leste, adherence to the ACIA will prompt reform in several areas and improve the business environment generally, but especially help attract new investment.

But is it all positive?

There is genuine fear about the risks and threats associated with foreign investment. To look more deeply into this, it is helpful to first look at the guiding principles of the ACIA. They provide some insight into why local businesses and communities can be concerned about the risks of economic integration and openness to foreign investment. But they also can provide some reassurance.

Article 2
Guiding Principles

This Agreement shall create a liberal, facilitative, transparent and competitive investment environment in ASEAN by adhering to the following principles:

(a) provide for investment liberalisation, protection, investment promotion and facilitation;

(b) progressive liberalisation of investment with a view towards achieving a free and open investment environment in the region;

(c) benefit investors and their investments based in ASEAN;

(d) maintain and accord preferential treatment among Member States;

(e) no back-tracking of commitments made under the AIA Agreement and the ASEAN IGA;

(f) grant special and differential treatment and other flexibilities to Member States depending on their level of development and sectoral sensitivities;

(g) reciprocal treatment in the enjoyment of concessions among Member States, where appropriate; and

(h) accommodate expansion of scope of this Agreement to cover other sectors in the future.

Source: ASEAN Comprehensive Investment Agreement[37]

[36] ASEAN Comprehensive Investment Agreement (2012), https://asean.org/wp-content/uploads/2020/12/ASEAN-Investment-Comprehensive-Agreement.pdf
[37] Ibid.

The emphasis of points (a) to (e) is very much on the investor - making it easier for ASEAN investors to invest in ASEAN economies - consider words like "investment liberalisation", "free and open environment", "benefit investors and their investments", "no back-tracking". Not surprisingly, such language can create fear within Timor-Leste that foreign private sector investors can be given free rights to come and conduct business in Timor-Leste, with little regard to impacts on the community and the environment, or on local businesses.

But note point (f): special treatment is afforded to countries "depending on their level of development and sector sensitivities". This means that less developed countries can argue for protections from foreign investment if they can show this protection is important for the country's economic development. And this is especially the case in specific sectors that deserve protection. There is no specific guidance about what kinds of protection or what sectors, but the implication is that sectors that are critical to economic development and which particularly affect low income households deserve particular attention. For Timor-Leste, this might include agricultural production and community tourism, for example.

Another balancing factor is that openness to foreign investment from other ASEAN countries does not actually require any special favours to the investor. The ACIA Agreement is designed to ensure foreign investors are treated the same as a local investor. They still need to comply with all the laws, including protection of the environment, protections for workers, and impacts of their activities on local communities, people's health, etc etc. The best protection against harmful foreign investment is strong local laws and regulations that ensure that private sector activities add to the country's wealth and wellbeing, and as far as possible, "do no harm".

Much foreign investment creates new business opportunities for locally owned businesses, including small and medium sized businesses (SMEs). In other words, foreign businesses can "crowd in" local investment[38]. The extent to which the foreign-owned business integrates with the local economy will depend on the type of business and to a large extent, the commitment of that business to rely on local businesses when possible. Promotion of new investment opportunities in Timor-Leste will best prioritise the types of businesses that **crowd in** local businesses, and those whose owners have a commitment to working with local businesses.

Consider the following examples:

- A Foreign-owned tourism operator organises a group tour from another country, but the group use a foreign-owned airline and stay in foreign-owned hotels. Even in this case, there will be benefits for the local economy - the airport is busier, the tourists will venture outside

[38] M. Agosin and R. Mayer (2000), Foreign Investment in Developing Countries: Does it Crowd in Domestic Investment, https://unctad.org/system/files/official-document/dp_146.en.pdf

their tour and buy local food and souvenirs. If the tour company can rely on local businesses to deliver services, and can arrange some accommodation in local guesthouses, there will be further growth in local employment and new opportunities for small and medium businesses across the country.

- A foreign-owned retailer stocks almost exclusively imported products, employs foreigners as managers and leases their shops from a foreign-owned landlord. At first impressions there may be little benefit to the local economy. However, consumers get access to a wider range and likely cheaper consumer items than before. And as services are available, the investor can make more and more use of local businesses - they use locals to service their air conditioning units, they stock more and more locally produced foods, they use local businesses to transport supplies, etc.

Ways Forward for Foreign Investment

- Foreign investment in Timor-Leste remains largely at its early stages; there is much potential for it to grow and as the type of investment matures, to bring those other employment and livelihood benefits.
- In future, it is hoped that more investment will take place in areas that generate higher levels of local employment, such as in the services sectors to support tourism, and value-adding primary production, such as food processing, bamboo and timber products, and many other potential areas as discussed in this report.
- Investment Laws have been developed and are generally favourable. Business consultations to investigate possible unintended blockages would be valuable in creating a supportive environment.
- Work on the reform agenda prompted by ASEAN Accession and implementation of the ACIA commitments will be vital to opening up regional investment.
- Incentives and tax breaks for new investors are already quite generous, and further generic incentives are unlikely to attract any additional demand. However, there is scope for incentives that are designed to address known blockages or to encourage investment in the productive sectors.
- Workforce skills and experience are often a gap that forces foreign companies to import much of their skilled workforce. It can even be a disincentive to invest if the pool of potential semi-skilled workers is too small. Targeted partnership programs can be helpful: the Government can fund certified skills training while an investor provides employment in parallel with the training. Public funding of training makes sense, as the skills will be useful beyond the specific employer, so it is not realistic to expect and investor to fully fund such training.
- Further work is needed to improve processes for foreign workers, time to renew work visas, etc
- Investor support and promotion - continuing investment in an expanded role for Tradeinvest.

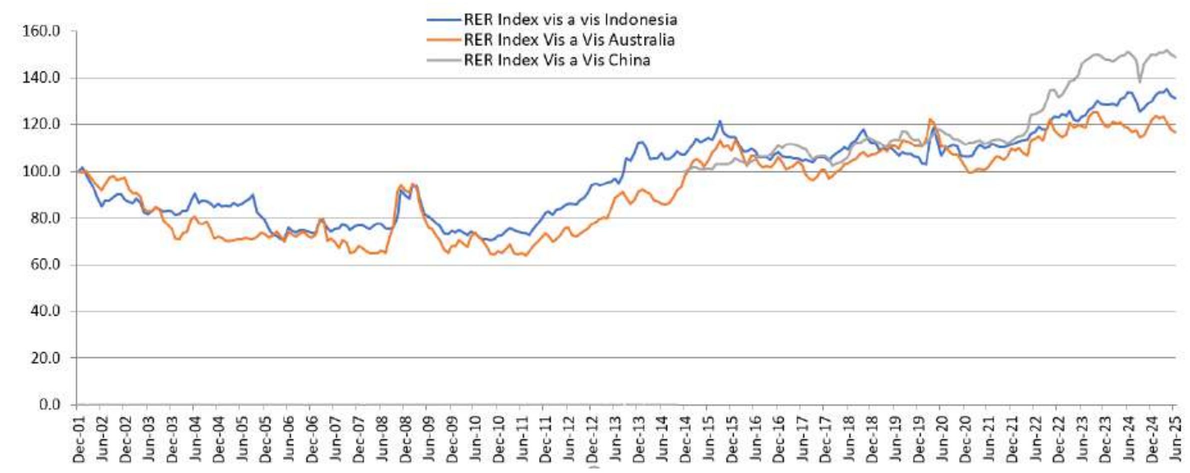
- Ultimately, the real challenges for foreign investment are the general business enabling environment. This sets the agenda for much of the microeconomic reform work the Government is undertaking.
- Foreign investors are sensitive to sovereign risk. A united commitment from all sides of government about the importance and value of foreign investment will be vital, and government initiatives must consistently work in support of that commitment.

7. Currency and Exchange Rate

In considering trade and international flows of money, the issue of exchange rates becomes relevant. Movements in the exchange rate have the effect of effectively changing the domestic prices relative to international prices, and changes in price affect demand for goods and services as well as profitability of firms.

As is well known, Timor-Leste has a US dollar currency, which means the exchange rate of Timor-Leste's currency with other neighbouring countries and trading partners reflects the situation with the US economy, and the trading relationships that the US has with those countries. It does not reflect the relationship that Timor-Leste has with their trading partners. This is the problem of a dollarized economy: changes in the exchange rate are determined elsewhere in the world, and may or may not be the adjustments needed to benefit the Timor-Leste economy.

Figure 17: Real Exchange Rate Against Main Trading Partners



Source: BCTL

Figure 17 illustrates this point: in the 15 years from 2010 to 2025, the local currency / US Dollar has almost doubled in value relative to its trading partners. This is in a period of time when there's been very little growth in exports from Timor-Leste or import substitution. This 100% appreciation means that domestically produced goods and services have become more expensive relative to trading partners, making them much less competitive.   Such an appreciation is a massive shift in the relative price. Timor-Leste's challenge of increasing exports and reducing reliance on imports is not helped at all by the exchange rate. In fact, it is harmed by the current exchange rate regime, which makes it more and more difficult to export and cheaper and cheaper to import because of the value of the US dollar.

Discussion has taken place in the policy space over the last 20 years about developing a local currency, and allowing the value of that currency to move independently of the US dollar. There are obvious benefits in adding this policy option to help the management of the economy, mainly in terms of competitiveness. However, there are also several risks, with potential increased uncertainty and instability, depending on how well the new currency is managed. Inder (2023) has canvassed these issues, as have others in the Central Bank and IMF, and this remains an important public policy issue.

8. Cross-Cutting Themes

A number of cross-cutting issues have arisen through the course of this report. These are issues that underly the very structure of the economy and hence affect several sectors. For example, improved roads both improve access to markets for farmers, but also encourage more tourism.

This report is not the place to go into these themes, but it is of value to list these and to emphasise a realistic approach to reform and progress across these many areas.

- Access to secure land title
- Trade facilitation - ports, air freight, customs processes
- Digital infrastructure
- E-Commerce and digital financial services
- Immigration
- Utilities - electricity, water and sanitation, waste management
- Transportation - road, sea and air
- Biosecurity and Sanitary and phytosanitary services
- Business Licensing reform and consistent enforcement
- Legal protections around contract enforcement, insolvency
- Measures to promote competition and prevent monopolies
- Corruption within Government agencies
- Infrastructure to facilitate movement of goods and people - roads, bridges, ports and airports
- Gender equity and the inclusion of women in all economic sectors
- And numerous others.

These cross-cutting issues represent a long list of needed reforms within government. Progress in several of these areas has in fact been accelerated by the expectations coming from accession to WTO and ASEAN, another indirect benefit of this emphasis on economic integration.

However, there is still much work to do to improve the business enabling environment. Some laws remain in draft form, enforcement is inconsistent, government processes are often inefficient and pose roadblocks to business rather than creating opportunities. The government is committed to a steady path of reform in all these areas, particularly focusing on the areas that are perceived to pose the greatest obstacles to a competitive business environment.

9. Overall Impacts

The exciting future for Timor-Leste as an open and integrated economy is to see growth across all the sectors described in this report, and several others. This will produce a significant stimulus in many dimensions:

- Growth in formal sector employment across several sectors
- Increased cash incomes of famers in the coffee industry
- Increased incomes of farmers in food production
- New economic opportunities for rural households through non-farm employment
- Increased household income through remittances
- Significant growth in domestic tax revenues
- Reducing the trade imbalance through growing exports and reduced reliance on imports

In this section, we report on projections of potential economic benefits coming from economic integration described in this report. The goal is to describe realistic levels of potential growth in the areas of revealed comparative advantage described in this report, over a five-year time horizon. With the kinds of reforms and initiatives described in this report, growth towards these levels can be achieved steadily over a five-year horizon.

The modelling examines two outcomes:

- **Growth in Gross Domestic Product (GDP).** This is the core measure of progress in the economy - annual growth in GDP is the most often reported measure of "economic growth". Countries that have consistently high levels of GDP and strong growth tend to have better economic and social outcomes for their citizens.

- **Growth in formal private sector employment.** Private sector employment is an indicator of growth in the economy outside the influence of the Government, which has dominated the economy for the past 20 years. Formal sector employment is the indicator of an economy in transition from traditional agriculture and informal work to more skilled and secure employment, vital for the country's growing population and for the economic empowerment of women.

The model focuses on the main areas of growth that are associated with economic integration, based on the areas of revealed or potential comparative advantage explored in the report. The specific areas included are:

- Tourism and hospitality
- Foreign Investment in Manufacturing, Agricultural processing, on-shore mining
- Agriculture (including livestock, forestry and fisheries), including growth in the coffee sector.
- Overseas employment and remittances.

There are several other opportunities for growth beyond these sectors, so the projections here are understating the potential benefits. This limited analysis will still provide some insight into the importance of the selected areas of economic integration for the future growth of the economy.

Essentially the model projects realistic levels of new economic activity in the selected areas, and estimates the GDP and employment impacts of this activity[39] [40].

Results of the model are presented in the tables that follow. In relation to GDP projections (Table 7), the non-Oil GDP level in 2023 of $1,841 million is shown, along with the Industry breakdown of this total. Note that the largest industry outside government is the primary sector of agriculture, forestry and fisheries, with close to 20% of GDP.

[39] For example, the model assumes an additional 70,000 annual short-term visitors to Timor-Leste, with a contribution to GDP of $1,500 per visit. A further assumption that 40% of the GDP value-added will be paid as labour income allows us to derive the employment impact of this visitor growth. Further details are in the appendix.

[40] Details of the model and the assumptions are available from the co-authors of this report who are advisers to PROSIVU. Whatsapp +61447598551.

Table 7: Model Projections of Growth in Annual GDP by Sector

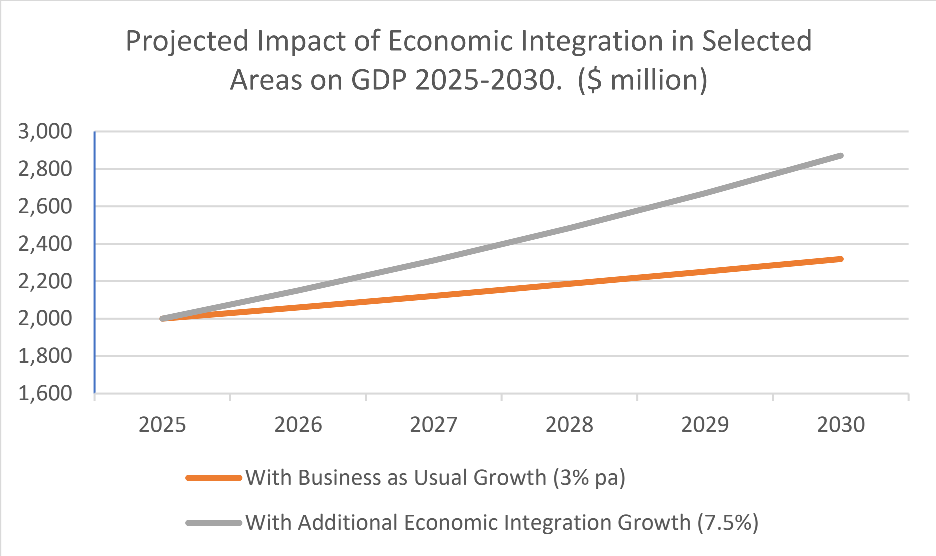
			Growth in Annual GDP by Sector 5 years ahead ($million)				
Industry	**2023 Actual ($millions)**		**Tourism and Hospitality**	**Foreign Investment in Agribusiness, mining and Manufacturing**	**Agriculture, Forestry, Fisheries**	**Remittances**	**Total Potential Growth**
Agriculture, forestry and fishing	351				100		100
Extraction of crude petroleum and	275						0
Other mining and quarrying	1			20			20
Manufacturing and other industry *)	35			30	10		40
Construction	185			50		30	80
Wholesale and retail trade, transportation, storage,	297		100		5	60	165
Information and communication	29		5				5
Financial and insurance activities	48		5				5
Real estate activities	206		40			10	50
Professional, scientific, technical, administration and support services	33						0
Public admin., defence, education, human health and social work	618						0
Other service activities	37		20				20
Non-Oil GDP	1841		170	100	115	100	485

The four areas of initiative are projected to add almost $500million to the level of GDP. Impacts in each sector are quite similar in magnitude, between $100million and $170million. However, the areas they impact are quite different. For example, tourism and hospitality will mainly benefit accommodation and food services, as well as retail services. In contrast, investment in mining, agribusiness and manufacturing will mainly impact the construction, manufacturing and mining sectors.

Figure 18 shows five-year projections of GDP up to 2030, based on two scenarios. The first is the steady growth included in current Government projections, 3% per year. The second incorporates the additional growth that results from economic integration, as shown in Table 7. These levels of additional GDP translate to an average annual GDP growth rate of 7.5%.

The gap between these two scenarios shows the potential medium term benefits of the economic integration described in this report. The higher growth cumulates over several years and produces a noticeable improvement in GDP - by 2030, GDP could be almost $2.9 billion, well above the steady-growth level of $2.3 billion.

Figure 18: Projected Impact of Economic Integration in Selected Areas



The next two tables look at the employment impacts of these new economic activities. Table 8 shows an overall growth in formal employment of 32,100 people. This is a very large 50% growth in formal private sector employment. Additional growth in informal sector work is mainly expected In agriculture as a result of improving incomes to farmers, and likely to add a further 12,000 additional jobs.

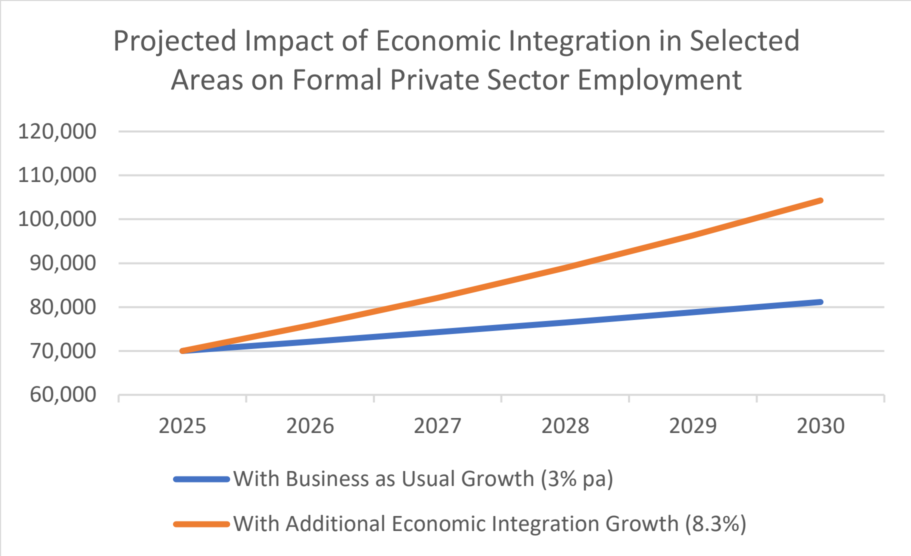
Table 8: Anticipated Growth in Employment in Economically Integrated Sectors

Industry	**2023 Employment**				**Growth in Employment by Economic Integration Sector, 5 years ahead**				
	Male	**Female**	**Total**		**Tourism and Hospitality**	**Foreign Investment in Agribusiness, mining and Manufacturing**	**Agriculture, Forestry, Fisheries**	**Remittances**	**Total Potential Growth**
Manufacturing	3,000	800	3,800			2,000			2,000
Construction	7,900	1,100	9,000			1,000		3,000	4,000
Retail and Wholesale Trade	10,500	6,000	16,500		3,000			8,000	11,000
Transportation and Storage	800	200	1,000		1,500	100	500	500	2,600
Accommodation and Food Services	2,800	3,700	6,500		8,000				8,000
Information and Communication	2,400	1,200	3,600						0
Financial and Insurance	1,100	600	1,700						0
Other industries	14,600	8,500	23,100		3,500		1,000		4,500
Total Timor-Leste	**43,100**	**22,100**	**65,200**		**16,000**	**3,100**	**1,500**	**11,500**	**32,100**
Increase in Self-employed / Informal Sector Workers earning cash income					1,000		10,000	1,000	12,000
Total Employment Increase					17,000	3,100	11,500	12,500	44,100

Figure 19 shows five-year projections of formal private sector employment up to 2030, based on the same two scenarios as Figure 18. The first is the steady growth included in current Government projections, with formal sector employment growing at 3% per year. The second incorporates the additional growth that results from economic integration, as shown in Table 8. These levels of additional employment translate to an average annual employment growth rate of 8.3%.

The gap between these two scenarios shows the potential medium term employment benefits of the economic integration described in this report. The higher growth cumulates over several years and produces a noticeable improvement in GDP - by 2030, formal private sector employment could exceed 104,000, well above the steady-growth level of 81,000.

Figure 19: Projected Impact of Economic Integration on Formal Private Sector Employment



The sector and gender breakdown of this formal employment growth is shown in Table 9. The majority of the growth is in services, particularly retail and wholesale trade, and accommodation and food services. Notably, these are sectors with an above-average representation of women, so there is likely to be a greater percentage growth in employment for women than men. The gender gap will still remain high, however, with 65% of these formal private sector jobs being taken by males.

Table 9: Total Potential Formal Sector Employment – 5 Year Estimates

	Total Potential Formal Sector Employment, 5 years ahead	**Female**	**Male**	**% Female**
Manufacturing	5,800	1,221	4,579	21%
Construction	13,000	1,589	11,411	12%
Retail and Wholesale Trade	27,500	10,000	17,500	36%
Transportation and Storage	3,600	720	2,880	20%
Accommodation and Food Services	14,500	8,254	6,246	57%
Information and Communication	3,600	1,200	2,400	33%
Financial and Insurance	1,700	600	1,100	35%
Other industries	27,600	10,156	17,444	37%
Total Timor-Leste	**97,300**	**33,740**	**63,560**	**35%**

Note the analysis presented in this section almost certainly understates the potential returns from economic integration. When stimulus to the economy takes place, there are almost always flow-on effects of the additional growth in employment and income. Money circulates further and stimulates further demand and local production of supply of services. Depending on the source of the growth and the distribution of beneficiaries, this creates a multiplier effect with additional growth. The multiplier is generally estimated to be between 50% and 150%. In other words, instead of $485million of additional annual GDP and 44,000 new jobs, the flow-on effects mean the total benefits are potentially around $1 billion of additional growth, and more than 80,000 new jobs. This is a huge stimulus to the economy, contributing a long way towards the Governments Strategic Development Plan vision of being an upper middle-income country by 2030.[41]

The investments in economic integration in key sectors build on Timor-Leste's revealed comparative advantage in several areas - from coffee to tourism, overseas employment, agricultural processing and mining, among other sectors. The long-term impact will be a much more diversified economy, with close to $1billion per year in additional GDP, and more than 80,000 new private sector formal jobs, with women and those in municipalities outside Dili benefiting the most.

[41] Government of Timor Leste (2010), Timor-Leste Strategic Development Plan 2011-2030.

10. Summary

This report has illustrated the many ways in which Timor-Leste has already benefited from trade and from international engagement. For example:

- Oil exports and revenues have funded the government budget and hence significant investments in infrastructure and government services for most of the last 20 years.
- Overseas workers send money to support their families, as well as returning with excellent experience that can help them contribute at home.
- Imports bring valuable consumer goods for people to enjoy. They provide diesel for the electricity, inputs into agricultural activity and so much more.
- Exports, small as they are, earn income for those who work in those specific industries, creating opportunities for both men and women.
- Tourists generate local jobs, foreign workers bring expertise and skills that help create local work.

Even at this early stage of development, it is obvious that trade and exposure internationally has been of great benefit to Timor-Leste. The challenge of the future is to work out how this can continue to grow in a sustainable and inclusive way.

There is huge potential for growth in all these areas and in others discussed in this report. The report has sought to take a strengths-based approach to future economic growth and integration. In what areas is growth already happening, and how can momentum be built to accelerate that growth? This keeps the reform agenda focused on the areas where greatest short- and medium-term benefit can be experienced.

As Timor-Leste seeks to capitalise on WTO membership and upcoming ASEAN membership, the opportunities are there for transformational growth that benefits all citizens through new and diverse job opportunities, a strong base of government revenues and a growing commitment to work in harmony with the natural environment.

REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE

UNIDADE ACÇÃO PROGRESSO

RDTL

The Coordinating Minister for Economic Affairs