Oiling the Rigs of State-building: A Political Settlements Analysis of Petroleum Revenue Management in Timor-Leste

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Timor-Leste's extractive industry became economically and politically important during the post-conflict transition period. The government established the Petroleum Fund in 2005 to protect the economy from a "resource curse." However, the management of the Fund has since become a source of controversy as it created opportunities for corruption and unsustainable spending practices. We argue in this article that political dynamics, in addition to if not more than weak institutions, engendered corruption, clientelist rule, and economic disenfranchisement in post-conflict Timor-Leste. Using the Political Settlements approach as an analytical framework, we demonstrate that patronage, rivalry, and rent seeking in the management of petroleum revenues are associated with economic and political challenges in Timor-Leste's state-building process.

Keywords   Timor-Leste, political settlements, state-building, elites, clientelism, petroleum

Introduction

Timor-Leste is one of the youngest and poorest countries in the world. Its economy is predominantly agricultural, based on subsistence and informal activities, with coffee as its primary cash crop and oil (and gas) as its most lucrative industry. The Portuguese colonization, despite a profitable sandalwood trade, stunted Timor-Leste's development. Tax collection and forced labor for road construction and the cultivation of cash crops during the colonial period had little positive impact on Timor-Leste's socioeconomic development. During the Indonesian occupation, the East Timorese economy depended heavily on Indonesian financial transfers, but the post-referendum violence destroyed much of Timor-Leste's physical infrastructure and markets for goods and services (Carnahan, Gilmore, and Rahman 2005). Despite the massive inflow of international reconstruction aid money and

programs after the end of the occupation, the country's economic growth remains modest and its standard of living low. What explains this slow economic growth?

Timor-Leste's gross domestic product (GDP) per capita in current U.S. dollars has experienced a downward trend, although the annual growth rate has been volatile, and real GDP per capita has remained below US$1,000 except for a US$2,192 spike in 2018 (World Bank 2019b). Although much of the rural population is involved in agriculture, agricultural productivity remains low, mainly due to the lack of public investment. This is particularly true for coffee production (Lundahl and Sjöholm 2020). Instead, Timor-Leste's economy has been highly dependent on public expenditure, particularly for large-scale industrialization projects in the oil sector (Lundahl and Sjöholm 2020), despite its limited and dwindling oil reserves (Scheiner 2015). The approved state budget for 2020 amounted to US$1,497 million, which was largely funded by petroleum revenues (87%). The remainder was sourced from taxes (7.6%), autonomous agencies collections (3.9%), and budget support provided by the European Union and the International Labour Organization (1%) (La'o Hamutuk 2021; RDTL 2020). This heavy dependence on oil (and gas) reserves has begun to show several symptoms of a "resource curse" (John, Papyrakis, and Tasciotti 2020), and the newly established governance institutions have been unsuccessful in addressing the causes of acute poverty in the country. What explains this governance failure?

Existing analyses of economic and governance shortcomings in Timor-Leste locate the fault in the top-down/centralized nature of state-building and development practices (Cummins 2015), unresolved political fragmentation (Simangan 2017a), and competing group identities (Scambary 2009), among other factors. In a newly independent and oil-dependent state such as Timor-Leste, weak institutions are often used to explain economic and governance issues. Indeed, in the case of many African countries, the lack of transparency and executive discretion over the management of petroleum revenues disrupts not only the delivery of public goods and services but also democratic transition and consolidation (Jensen and Wantchekon 2004). Oil rents significantly increase corruption (Arezki and Brückner 2011), but they can also be used to co-opt rivals and reinforce a clientelist rule (Fjelde 2009). While there have been critiques of actor-based explanations of the resource curse (Shaxson 2007), it remains true in some cases that power and politics significantly influence oil governance (Hickey and Izama 2016). Is this also true for Timor-Leste?

The development of the oil sector has become a "technology of statebuilding" and a "nationalist project" for Timor-Leste (Bovensiepen and Nygaard-Christensen 2018). As such, the oil sector can be considered a crucial arena for political actors and their networks to exert and expand their political influence on the economic development path of Timor-Leste. Hence, our study asks: How do political dynamics influence the management of petroleum revenues? We answer this question using the Political Settlements (PS) approach as an

analytical framework (expounded in the next section). PS analysis can illuminate the otherwise hidden and informal processes of rent accumulation and power dynamics in Timor-Leste's institutions, which undermine the state-building project. We demonstrate in this article that political dynamics, in addition to if not more than institutions, can also explain the (mis)management of petroleum revenues in Timor-Leste.

Examining the oil sector—which is at the heart of Timor-Leste's economic development and recovery—we argue that a strong patron-client system within weak state institutions has influenced the management of petroleum revenues in an undesirable way, resulting in the failure of governance to promote and sustain people-centered economic growth. In doing so, we not only explain why state and economic institutions in Timor-Leste remain weak, but also identify the power of strong political networks as a source of this weakness. Our investigation proceeds by, first, outlining the utility of PS analysis in examining the role of the oil sector in Timor-Leste's state-building. Second, we apply this framework to locating these political networks in Timor-Leste's customary forms of governance and maritime disputes over oil fields. This contextual background shows that contemporary politics in Timor-Leste is a result of the country's history and culture rather than being simply a product of resource abundance. We then explain how the patronage, rivalry, and rent seeking of these political networks, as revealed by the PS analysis, have influenced the management of petroleum revenues in a way that further contributes to corruption, clientelist rule, and economic disenfranchisement. We conclude with a summary of the utility of political networks and settlements in explaining the political roots of economic issues in Timor-Leste. In doing so, this paper contributes to this special issue that aims to evaluate state-building and peacebuilding efforts in Timor-Leste.

The Analytical Framework: Political Settlements Analysis and State-building

Political Settlements (PS) research focuses "on the phenomena of [political] clientelism, the use of state resources to maintain and create legitimacy, informal processes of rent accumulation, and political violence" (Behuria, Buur, and Gray 2017, 520). Analyzing these phenomena together "provides a novel way of understanding the drivers and outcomes of contemporary [social, political, and economic] change" (Behuria, Buur, and Gray 2017, 508). PS analysis recognizes and appreciates "that the challenges of development are not simply technical but also deeply political in nature and that institutions—and the politics and power dynamics that lie behind them—matter" (Pospisil and Menocal 2017, 551; see also Khan 1995; di John and Putzel 2009; Menocal 2015). In recent years, PS analysis has been used in various research agendas to clarify the politics of peacebuilding,

war-to-peace transitions, and the dynamics of governance and institutions in "weak," "fragile," and "post-conflict" countries (Behuria, Buur, and Gray 2017; Goodhand, Suhrke, and Bose 2016). Specifically, PS analysis links the dynamics of institutions with the elites positioned within these institutions (Khan 2017). Goodhand, Suhrke, and Bose (2016, 488-89) write that institutions can themselves be understood as "settlements"; they are the "rules of the game," set by the most powerful in society, reflecting the political choices of these dominant actors. "The relative power and capabilities of organizations and elites are therefore important determinants of how institutions work. The distribution of organizational and elite power is defined as the political settlement" (Khan 2017, 637).

There appears to be some consensus on the definition of a political settlement: common understandings or agreements, usually among elites, that determine the *distribution* of resources and exercise of power (di John and Putzel 2009; Pospisil and Menocal 2017). The approach draws on past works in political science and sociology that examined the role of the "state as an instrument or arena of contestation among powerful groups within state and society" (Pospisil and Menocal 2017, 553; see also Evans, Rueschemeyer, and Skocpol 1985; Migdal 1988; Chabal and Daloz 1999). More recently, political economists such as Khan (1995; 2010) and North, Weingast, and Wallis (2009) have explained how power dynamics among elites influence governance. "Crucially, the 'rules of the game' that underpin political settlements incorporate both formal and informal institutions" (Pospisil and Menocal 2017, 553). Thus, Khan (2010, 20) argues that "a political settlement implies an institutional structure that creates benefits for different classes and groups in line with their relative power"—which is necessary for stable agreements among elites—and is "an interdependent combination of a structure of power and institutions at the level of a society that is mutually 'compatible' and also 'sustainable' in terms of economic and political viability." The emphasis, therefore, is on *elite agreement*.

Conceived as such, political settlements involve specific *bargaining* outcomes among contending elites. The political context is characterized as a constant state of (re)negotiation, as it is in the agreed framework of the balance of interests of all involved actors and stakeholders (North, Weingast, and Wallis 2009). This approach assumes that violent conflict will not erupt as long as the (re)negotiation processes among contending elites work in the context of a political settlement (and the "rules of the game"), and that all relevant actors and stakeholders will accept their place in the settlement if it is satisfactory for them to the extent that any violent denunciation of the settlement appears disadvantageous (North, Weingast, and Wallis 2009). Put slightly differently, violence decreases rent creation, and so elites are incentivized to cooperate with one another to ensure rent creation. As Bell (2015, 6) writes:

> The central project is to understand the extent to which stopping violent conflict

depends on powerful elites reaching deals on cooperation, and the ways in which such deals enable or limit projects of attempted transformation which aim for more inclusive political arrangements, a fair sharing of sources and just accommodation of ethnic and religious diversity and equality for women.

A political settlement describes the set of (in)formal representation, control, and distribution rules between organizations and/or political elites that guide governance and resource allocation. These elite groups "negotiate the extent to which they can pursue their interests [based on] their relative power…within the boundaries of what their constituencies tolerate" (van Veen 2017, 28). It is argued that the settlement that is the outcome of these negotiations influences "the type of institutions that can exist and the nature of their performance" (van Veen 2017, 28; see also Parks and Cole 2010; Hudson and Leftwich 2014; Bell 2015; Kelsall 2016). Subsequently, PS analysis constitutes an attempt to assess whether and how the underlying distribution of power in states and societies is compatible with different efforts to promote peace and reform. So, is a political settlement relevant for analyzing a specific institutional problem, such as the management of petroleum revenues?

The role of political networks in political settlements and state-building can be useful for understanding how the patron-client system in Timor-Leste influences the management of petroleum revenues. Networks are groups of actors that have reached a political settlement in a power-sharing arrangement. In this sense, networks consist of reciprocal relations (links and ties—whether economic, political, or moral) that connect actors to each other. These relations are often characterized by interdependencies—resources and assets that are exchanged—which facilitate collaboration. It has been argued that networks play a crucial role in rebuilding (more accurately, reassembling) state institutions and structures, and in transitioning contexts provide governance by organizing and controlling financial resources and coordinating and shaping policies—often to benefit their interests (see Sharan 2011; Sharan and Bose 2016).

Patron-client networks are structures in "an exchange relationship of some private and personal nature where [actors] have reciprocal needs and expectations, but unequal power and status" (Johnson and Dandeker 1990; Sharan 2013, 343). In post-conflict contexts such as Timor-Leste, this politicking enables bargaining among elites and between patrons and clients—nationally, locally, and even internationally—to improve members' positions within the network.

Studying patron-client networks in post-conflict Afghanistan, Sharan (2013, 74) argues that maintaining a political network can be costly. Distributing resources within a network is instrumental in helping maintain loyalty between patron and client. Sharan (2013, 73) then demonstrates that political networks attempt to consolidate power by offering state patronage, in the form of government positions, contracts, employment, and economic transfers, to their clients

and clients' constituencies in order to maintain and co-opt key local leaders, state officials, and businessmen into their bargaining network. He writes that this "ability of political networks to provide privileges, positions and bargains determines their authority, power and legitimacy" (Sharan 2013, 73). This forces political networks to move toward creating deeply "entrenched economies" where small numbers of elites come to govern the economy and the politics (Sharan 2013, 74).

The post-1999 state reassembling in Timor-Leste was closely associated with political network building. Just as in Afghanistan, where the international state-building milieu and context "provided opportunities for resource extraction and expanding links among various political networks under a novel logic of collaborating to re-assemble the state" (Sharan 2013, 117), elites in Timor-Leste also negotiate their positions (and power) in this reassembling of state institutions and structures through patronage, rivalry, and rent seeking, funded by petroleum revenues.

Political Order and Fiscal Governance in Timor-Leste

The economic component of Timor-Leste's state-building first drew on the development mandate of the UN Transitional Administration in East Timor (UNTAET) that was tasked with administering Timor-Leste after the referendum in preparation for its independence. UNTAET's development mandate consisted of ensuring the coordination of rehabilitation and development assistance and assisting in the establishment of conditions for sustainable development (S/RES/1272 1999). Anderson (2013) explained how the post-independence economic development plan for Timor-Leste combined neoliberal and developmental approaches, as articulated in the 2002 National Development Plan (NDP). Although the NDP used neoliberal language, the Fretilin-led government moderated this by focusing on human development, specifically on the agriculture, health, and education sectors. However, the government's plan, especially on publicly financing the agricultural sector, did not sit well with the neoliberal ideology of international aid donors. Anderson (2013) went on to analyze these plans under the succeeding Alliance for Change and Progress (AMP) coalition government led by Xanana Gusmão and its 2011-30 Strategic Development Plan (SDP). The SDP lays out strategies and actions for Timor-Leste to transition "from a low income to upper middle income country, with a healthy, well educated and safe population by 2030" (RDTL 2011, 9).

Despite the SDP's emphasis on human development, its implementation reflected the International Monetary Fund's (IMF's) advice to promote private-sector-led, neoliberal economic growth (Anderson 2013). International financial institutions, such as the IMF, World Bank, and Asian Development Bank,

significantly influenced the government's implementation of the SDP. The AMP increased public spending (mainly sourced from petroleum revenues) and the involvement of the private sector, especially in infrastructure development (Anderson 2013). Taxes were dramatically reduced to attract foreign investment, immediately narrowing the tax base and making the country overly dependent on petroleum revenues as well as foreign aid, with donors exerting significant influence over the national budget and shaping the neoliberal development path of the country. These policies led to several issues, including wasteful spending, corruption, and neglect of sectors crucial for human development, specifically agriculture, health, and education (Anderson 2013).

The international community socialized Timor-Leste with the aim of integrating it into the global economy, while poverty and food insecurity remained a problem for many East Timorese (Grenfell 2004). The prescriptive, top-down nature of neoliberal developmental approaches undermines the resilience of political institutions in responding to economic challenges, while conveniently transferring development responsibilities from interveners to the market (Barbara 2008). What was sidelined in this neoliberal peacebuilding was the importance of the everyday agents of peacebuilding and the informal political and economic structures in Timor-Leste. This was proven true when the 2006 security crisis erupted as a result of unresolved political tensions on the ground and the failure to address human development needs (Richmond 2016). "There was little space for its citizens to negotiate the nature of the state, and they had very high expectations of it in terms of material provision" (Richmond 2016, 145). According to a UN (2006, 26) report released in the aftermath of the security crisis,

> [There was] uneven success in translating progress in State building into human development, including reduced poverty, inequality and unemployment rates, especially among the youth; inadequate access to formal education and other basic health and social services; highly centralized decision-making systems across all organs of the State; and inadequate formal and informal consultation and communication mechanisms.

More recently, the government has started implementing high-stake infrastructure projects, presumably to channel petroleum wealth toward human development. These projects, however, did more to preserve elite interests across their political networks than to invest in development needs and open spaces for public deliberation of economic and material benefits. In the following subsections, we discuss the evolution of political networks in Timor-Leste and how its customary forms of governance persist in the current political landscape, forming a hybrid political order dominated by local elites. We continue to locate these networks in Timor-Leste's ownership of disputed oil fields, providing a background not only to the economic but also to the political interests in

governing the country's petroleum revenues.

Customary Governance and State-building

Contemporary politics in Timor-Leste is influenced by a traditional structure organized around kinship networks. The *liurai* (king or political leader) and *dato* (chief or spiritual leader) drew their authority and power from family and community associations (Ospina and Hohe 2002; Brown and Gusmao 2009). This feudal power structure led by wealthy indigenous elites remained virtually intact during the Portuguese and Indonesian occupations. The Portuguese regarded the *liurai* and *dato* as their link to the local population for the purposes of trade expansion and tax collection (Ospina and Hohe 2002; Fitzpatrick 2002). To consolidate their colonization, the Portuguese had to recognize the traditional power holders governing Timor-Leste (de Sousa 2001). The coexistence of foreign and customary governance systems worked well for the colonizers and local elites. Later, under the Indonesian occupation, some of the local elites were appointed to government and local administrative positions, while others supported the resistance movement (Fitzpatrick 2002). On the one hand, the Indonesians incorporated the East Timorese customary governance system, but on the other, they attempted to disrupt its foundations by destroying its physical structures and outlawing its associated social gatherings (Brown 2009). In the aftermath of the 1999 referendum, the clandestine resistance movement cooperated with the existing customary networks to reestablish basic services and social order (Brown 2015). As several scholars have observed, these customary practices remained resilient throughout the colonial and postcolonial history of Timor-Leste, continuing to inform its present-day politics (McWilliam 2008; Grenfell 2015). While these customary practices were largely sidelined by the international actors (Brown 2012), "the absence of government does not invariably mean the absence of governance" (Berdal 2009, 123), given the presence of traditional authority at the sub-national level.

The UN presence in Timor-Leste lasted thirteen years, from the mission that held the referendum in 1999 to smaller political missions up to 2012. The mandates of these missions, especially the far-reaching governing authority of UNTAET, have heavily influenced the development of Timor-Leste's political order. UNTAET essentially exercised a form of "agency governance" in which customary networks were "organised around UN reporting requirements and were answering to a centralised project management bureaucracy" (Administração para Governo Local e Desenvolvimento [AGLD] 2003 in Brown 2015, 117). This strategy stands in contrast to the argument for political hybridity that "the capacity of state entities and political leaders to engage with traditional governance values and practices is fundamental to the quality of democracy in the country and to peacebuilding, security, justice, and livelihood" (Brown and Gusmao 2009, 62). Such engagement is not simply a replication or reinforcement of

the traditional, feudal system of inequalities, including the dichotomous understanding of East Timor's history of external and internal suppression (Kammen 2003), but rather a constructive integration of elements of customary practices into political and economic transformation (McWilliam 2005).

Indeed, in Timor-Leste, tradition did not easily succumb to modernity. The international, top-down institutionalization of modern elements of a liberal, presumably peaceful society—expected to be successfully built within UNTAET's two-year mandate—created local frustrations with the state-building process and disenfranchisement. Early in the mission, UNTAET had been criticized for concentrating its activities in the capital, Dili (Smith and Dee 2003), and failing to provide sufficient avenues for local involvement (Chopra 2000; Suhrke 2001). The East Timorese, especially the "heroes of the resistance," demanded more substantive participation in the governing structures. In response, UNTAET started the "Timorization" of the transitional government in 2000 by assigning more decision-making roles to East Timorese counterparts in Dili and other districts. This initiative—later shown to be superficial—was a result of local opposition and resistance to the institution-building and centralized priorities of UNTAET. State-building efforts eventually recognized the need to engage with customary actors, norms, and practices.

The international state-building assistance offered to Timor-Leste was not just a "liberal project," it was also hybrid and networked in nature. Several studies highlight the potential of a hybrid political order (e.g., Clements et al. 2007; Boege, Brown, and Clements 2009), particularly in societies transitioning from conflict to peace (Mac Ginty 2010; Jarstad and Belloni 2012; Richmond 2015), prompting state-building actors and institutions to engage more with local communities and local practices. In Timor-Leste, the shortcomings of liberal peacebuilding and state-building led the state to formalize local sociopolitical institutions, support local ceremonies and practices, and incorporate local justice systems (Wallis 2012). Not without their flaws, these local, informal institutions and practices are considered to be more legitimate as they are more relevant to ordinary people. There are, however, unexpected consequences of constructing hybrid political orders. As Mac Ginty and Richmond (2016, 233) explained, "if manufactured as part of a top-down peacebuilding intervention they can lead to sham processes of democratization and liberation," reproducing and reinforcing the internationally favored power of local elites. The Timorization of some administrative roles during the transition exemplifies this superficial involvement of local actors and agencies.

As per North, Weingast, and Wallis's (2009) framework, co-opting the national political elite (immediately following international interventions) is a necessary step in fostering sustainable engagement. Elites become the vehicle by which interveners advance and administer their intervention programs and agenda. In Timor-Leste, the UN could have taken advantage of the relevance

of the patronage system to foster social cohesion at the national level during the state-building process.[1] Instead, the UN co-opted the political elite while marginalizing the rest of the population in an attempt to prioritize local empowerment without recognizing the existing customary actors, norms, and practices (Lemay-Hébert 2012). For example, the introduction of party politics, an element of "modern" state-building, at the local community level, weakened social cohesion, reinforcing elite-centered politics and creating new forms of polarization (Brown and Gusmao 2009). One reason for this unexpected consequence was that the political obligations of many of the people in Timor-Leste, especially in the rural areas, have preserved their house (i.e., *uma lulik* or sacred house) affiliations despite changes in party politics (McWilliam 2005). Furthermore, elements of customary governance that challenged liberal and institutional standards were confronted or ignored, producing varied and contested forms of the local and the international (Richmond 2011). The construction of a hybrid political order in Timor-Leste, therefore, created both the potential for local governmentality and the risk of power preservation. The state-building project successfully incorporated elite actors into the newly built institutions but failed to engage grassroots community resources and practices. This uncomfortable transition to political hybridity heightened the sense of division and disenchantment, eventually undermining the social cohesion crucial to both state-building and nation building.

The legacy of UNTAET continues to manifest itself in the distribution of political power in present-day Timor-Leste. Liberal missteps and exclusive and superficial local involvement enabled the local elites to maintain the status quo and cement their power and influence (Simangan 2017a). Agency governance, together with its elite-centered, polarizing politics, spilled over into the state-building process: the disenfranchisement of political security groups fueled the discontent within the newly built security institutions (Rees 2004), and the political reconciliation between the East Timorese and Indonesian governments burdened the pursuit of justice (Simangan 2017b). The government's cash payment schemes paid for with petroleum revenues became a crucial source of funding for many East Timorese to rebuild their lives after the conflict, but ensuring the sustainability and equity of these schemes remains a challenge (Wallis 2015). The majority of the population has yet to reap economic rewards from these revenues in the form of improved public services and other community-level development projects. Meanwhile, as explained in the next section, these revenues have opened opportunities for political elites to consolidate their power.

Maritime Boundaries and National Sovereignty
Timor-Leste's economy is dependent on its extractive industries, mainly the considerable oil reserves in Timor Gap, located in the Timor Sea between Timor-Leste (and West Timor in Indonesia) and Australia. All of Timor-Leste's oil is

extracted in the Bayu-Undan oil field under the Joint Petroleum Development Area (JPDA) and operated by ConocoPhillips. In 2016, the government established the Autoridade Nacional de Petróleo e Minerais (ANPM) "to act as regulatory authority for the oil, gas and mineral related activities" (ANPM 2018, 6). In 2017, the oil sector contributed 36 percent of GDP and represented 98 percent of exports and 91 percent of government revenue (EITI 2017). Timor-Leste's petroleum revenues reached a peak of US$3.8 billion in 2012 but have experienced a downward trend since then, reaching an all-time low of US$243 million in 2016, due to a decrease in production and falling global prices. In 2017, there was a slight increase to US$463 million as a result of higher oil prices.

Back in 1989, Indonesia and Australia signed the Timor Gap Treaty, stipulating a fifty-fifty share of resources and profits from oil exploration but not specifying maritime boundaries. There are reasons to believe that the favorable terms for Australia in the treaty were linked with Canberra's recognition of Indonesia's sovereignty over Timor-Leste (Nevins 2007; Anderson 2003). The treaty, which was considered illegal under international law, evaporated in 1999 after Timor-Leste voted for independence. In 2002, UNTAET negotiated with Australia and signed the Timor Sea Arrangement—renamed the Timor Sea Treaty after independence—which increased Timor-Leste's share to 90 percent. Australia's shift toward cooperation with UNTAET and away from Indonesia suggests an interest in Timor-Leste's oil reserves rather than support for independence (La'o Hamutuk 2003). Furthermore, the treaty only covered the JPDA, allowing Australia to continue developing seabed resources independently outside of the area.

In 2006, Timor-Leste entered into an agreement with Australia under the Certain Maritime Arrangements in the Timor Sea (CMATS) to share revenues generated from the Greater Sunrise oil fields, 80 percent of which lie outside the JPDA. The fifty-fifty agreement increased Timor-Leste's share from the previous 18-72 percent arrangement which favored Australia. The controversial caveat of the agreement, however, was the condition that neither country would call for demarcation of permanent maritime boundaries for at least fifty years. Following mass protests in Dili in March 2016, Timor-Leste notified Australia of its wish to terminate CMATS by reason of allegations that Australia had exploited Timor-Leste's vulnerability as a new and weak nation and spied on Timor-Leste's delegation during the CMATS negotiations (Lane 2016). Initially, Australia refused to recognize the notification. Timor-Leste then initiated conciliation proceedings with the United Nations Conciliation Commission to create permanent boundaries with Australia guided by the United Nations Convention on the Law of the Sea (UNCLOS). Australia later declared its recognition of the East Timorese government's right to terminate CMATS. The conciliation was conducted under the auspices of the Permanent Court of Arbitration. After over a year of negotiations, the Commission announced that Timor-Leste and Australia

had finally reached an agreement to settle the maritime dispute. In 2018, Timor-Leste celebrated the signing of a bilateral treaty with Australia to further plans for establishing permanent maritime boundaries in the Timor Sea.

The treaty, which came into force in 2019, enables the East Timorese government to direct the pipeline from the oil fields onshore. Timor-Leste's government considers the pipeline a crucial element of the Tasi Mane (Tetum for Timor Sea) project—the cornerstone of its twenty-year Strategic Development Plan (RDTL 2011). The plan is to build three industrial clusters connected by highways on the country's south coast: the Nova Suai supply base, the Nova Betano petrochemical refinery, and the Nova Beaco liquefied natural gas (LNG) plant (to which the pipeline will be directed). The government envisions the Tasi Mane project, due to be completed by 2030, as "form[ing] the backbone" of "a dynamic and integrated petroleum industry" (RDTL 2011, 138, 140). However, economic calculations foresee more upstream revenue for Timor-Leste if the pipeline is channeled to the existing facility in Darwin, Australia, instead of building a new facility in Timor-Leste (Strating 2018). There have also been demands for a more realistic projection of revenues from the project and concerns over the potential social, economic, and environmental risks of operating the gas pipeline (La'o Hamutuk 2019).

La'o Hamutuk (2019), a nongovernmental organization based in Dili, has been reporting on the development phases of the Tasi Mane project and monitoring its costs and benefits in consultation with the affected local communities. It has called on the government to take serious action in assessing and mitigating the social, economic, and environmental consequences of the structures. One of them, the Suai Supply Base (managed by TIMOR GAP, the state-owned oil company established in 2011), will take 1,300 hectares of land away from local communities. To cater to the freight requirements of the petroleum industry, the Suai Supply Base now includes an airport, which was officially inaugurated in 2017 as Commander in Chief of Falintil Kay Rala Xanana Gusmão International Airport. The plans for the Suai Supply Base stalled during the maritime border dispute with Australia. Nevertheless, local expectations remain high as the government continues to press for national unity in order not to discourage potential foreign investors, including Australia and China, despite less than promising assessments (Bovensiepen, Monis, and Flaviano 2016).[2] For example, Meabh Cryan, an active member of Rede ba Rai (Timor-Leste Land Network), wrote in 2015 about the potential implications of the Suai Supply Base for local communities thus:

> With little return on promises of employment and the probability that households will not be able to either re-establish land-based livelihoods or establish afresh alternative non-land-based livelihoods, there is a real risk that the project will lead to marginalisation, social disarticulation and impoverishment. (Cryan 2015, 12)

La'o Hamutuk has also raised issues of transparency, such as the lack of specific projections of the number of jobs to be generated by the oil industry, the type of skills required from jobseekers, and the extent of displacement and land dispossession due to the construction. For instance, the actual cost of the project was not clear from the beginning, and the project's budget allocation, the details of which were not made available in public documents, continues to increase every year without sufficient justification (La'o Hamutuk 2019). Furthermore, on account of declining oil production and prices, the government's reliance on petroleum revenues risks long-term revenue loss, and its emphasis on developing the oil industry undermines economic diversification (La'o Hamutuk 2019). Even the World Bank (Martins 2019) and IMF (2019) recognize the need to diversify the economy, safeguarding it from the potential high risks involved in developing the petroleum sector.

Notwithstanding the challenges to its implementation, the SDP reflects the World Bank's analysis of the role of the agricultural sector in Timor-Leste's economic growth and poverty reduction. The World Bank works with the government in meeting the objectives of the SDP, with the most recent 2020-2024 Country Partnership Framework aligning its growth model with private investment in promising sectors, including agriculture (World Bank 2019a). Both the World Bank and IMF suggest securing private investment and reducing reliance on the public sector in order to protect the Petroleum Fund and maintain fiscal sustainability throughout the construction of the Tasi Mane project.

For Timor-Leste, however, the development of the oil industry goes beyond the economic benefits of oil extraction. The treaty on maritime boundaries represents Australia's recognition of its national sovereignty (La'o Hamutuk 2019; see also Strating 2016). Similarly, the Tasi Mane project is a concrete, physical assertion of Timor-Leste's national sovereignty and political authority, challenging outside perceptions of the country's state fragility (Bovensiepen and Nygaard-Christensen 2018). TIMOR GAP maintains that the construction of Tasi Mane will end Timor-Leste's reliance on offshore revenue sharing and taxes and instead bring onshore the economic activities related to the petroleum industry. Despite potential risks and market uncertainties, the plan to complete the Tasi Mane project "appeals to popular desires for a strong state capable of managing the nation independent of foreign powers" and "embodies the ideal and material processes" of state-building (Bovensiepen and Nygaard-Christensen 2018, 420, 427). In Timor-Leste, the oil industry acts as a state-building and nation-building apparatus.

Oiling the Rigs of State-building: Patronage, Rivalry, and Rent Seeking

Timor-Leste's clientelist/patronage network of political actors has informed its

state-building process, including the fiscal governance of petroleum revenues. While this patronage system continues to draw on "the historical social fabric of the Timorese society, where allegiances to ethnic groups, political parties and other social groupings (e.g., military groups) remain very strong" (John, Papyrakis, and Tasciotti 2020, 145), political elites garner public support and maintain their positions (and power) in their communities by distributing to their constituents the economic incentives from petroleum revenues. Timor-Leste's victory in the maritime dispute with Australia further heightened the public's expectations of such benefits from its patrons. The extensive use of mineral rents to buy political support is a manifestation of the resource curse, and mineral dependence is often linked to poor socio-political performance—both of which are present in Timor-Leste. Cash payments to veterans, for instance, are politicized, with the issue of pensions being used in political campaigns and veterans lobbying for increased pensions in parliament (Wallis 2015). Cash payments have become a currency which political elites use to buy public support and expand their political networks, and petroleum revenues are the main source of these economic incentives.

The competing figureheads of these political networks also contribute to the way petroleum revenues are governed in Timor-Leste. More specifically, the longstanding rivalry between Xanana Gusmão and Mari Alkatiri is displayed not only through the highly factionalized party system but also through their extensive infrastructure projects (on the development of political parties in Timor-Leste, see Shoesmith 2013). Gusmão led the revolutionary movement's armed wing, Falintil, during the Indonesian occupation until his imprisonment and exile in Indonesia in 1992. He was released in 1999 after the referendum. In 2002, he became the first president of independent Timor-Leste and subsequently served as prime minister until 2015. Alkatiri, on the other hand, was one of the founding members of the revolutionary movement, Fretilin, and was exiled in Mozambique during the Indonesian occupation. In 2002, he became the first prime minister of Timor-Leste until the security crisis in 2006, and he served again in 2017-18. Their rivalry started when Gusmão withdrew Falintil from Fretilin in 1987 because of the latter's radical left ideology (Shoesmith 2003). The two popular leaders failed to resolve their ideological differences during the years following independence, and their rivalry fueled factionalism within the country's already disgruntled security forces, exacerbating the 2006 security crisis (Simangan 2017a).

This political rivalry is also apparent in the government's plan to direct the gas pipeline from the oil fields of Bayu-Undan onshore to Tasi Mane, which is considered to be Gusmão's legacy project. The newly appointed minister for petroleum and minerals, Vítor da Conceição Soares, said in an interview that previous feasibility studies conducted by TIMOR GAP "had been tailored to suit Gusmão's dream" (McDonald 2020). TIMOR GAP and Gusmão repudiated

the accusations, but Soares, along with Alkatiri, believes that a proper feasibility study is yet to be done (McDonald 2020). On the other hand, Alkatiri also faced criticism for leading the special economic zone project in his hometown of Oecusse, an East Timorese enclave in Indonesian West Timor. The hasty implementation of the costly project without proper feasibility studies and public hearings on its social and economic impact raised concerns about who are the real target beneficiaries of the project—the local communities or foreign investors (La'o Hamutuk 2014). These are valid concerns, especially given that the zone is exempted from several governance and tax laws and that the country's mechanisms governing the expropriation of individual and collective property rights are underdeveloped (Almeida 2018; La'o Hamutuk 2014). Alkatiri refuted these criticisms, but the Tasi Mane project and the Oecusse economic zone share economic viability and transparency issues.

A typical characteristic of political networks is rent-seeking behavior. Timor-Leste behaves as a rentier state, with minimal taxation, systemic petty corruption, and issues of transparency and accountability (John, Papyrakis, and Tasciotti 2020). Mega projects like Tasi Mane and the Oecusse economic zone have become political bargaining tools with real costly risks. Both projects have serious feasibility issues, and according to La'o Hamutuk (2014), the zone's "'consultations' focus on goals, dreams and the plethora of promising possibilities, rather than costs and benefits from the actual project, its commercial viability, who will be displaced, realistic local employment estimates, and other impacts on the community." State resources—largely financed by petroleum revenues—are poured into these mega projects to create a symbol of future prosperity. Political leaders are drawing on these projects to maintain their positions (and power) in the society. The rent-seeking behavior of these leaders enhances elite power and status within political networks but undermines formal economic development in the country.

It is petroleum revenues that enable rent-seeking behavior in Timor-Leste. They also help contending political elites reach a political settlement or a common agreement regarding fiscal governance. One component of this settlement is challenging Australia over the maritime disputes, and the other component is the use of petroleum revenues to finance mega projects that promise economic prosperity. These settlements have worked effectively, especially in uniting the country and building a sense of nationhood through the course of the maritime disputes. The infrastructure projects also serve as physical assurance for the East Timorese that they are soon going to reap the economic rewards of independence. Oil governance is where the rules of the game are being played out, and petroleum revenues seem to have brought about political reconciliation among contending elites. However, with criticism being directed at these elites' "legacy projects," this settlement is at risk of being overturned. The risk becomes more pronounced as global oil prices fall and there is over-withdrawal from the

Petroleum Fund. Oil reserves are finite, and foreign investment in infrastructure development has stalled recently due to the COVID-19 pandemic. If the settlement is overturned, restarting the process of forging a new one in which the oil industry is no longer the currency for bargaining, exchange, and renegotiation could threaten the stability of the current political order, potentially provoking another violent conflict similar to the 2006 security crisis.

Conclusion

The expectations for Timor-Leste's state-building were high after massive international support poured into the country. The 2006 security crisis, however, proved that the newly built state was incomplete and fragile. Earlier studies have identified several obstacles to the state-building process—weak institutions, economic discontent, and political fragmentation. We add to these discussions by examining the role of political settlements around the oil sector in the state-building process. The actual revenues and envisioned prosperity from the oil sector enabled elites in Timor-Leste to bargain, exchange, and renegotiate their political power (both among themselves and between patrons and clients). Some of these political elites have influenced the fiscal policies for managing the petroleum revenues, particularly in liquidating the Petroleum Fund and approving infrastructure projects. The decision to redirect the oil pipelines onshore after Timor-Leste's victory in the maritime dispute with Australia was a political rather than an economic one. The oil sector provided opportunities for Timorese elites to leverage their influence among their networks and solidify their positions and power in the newly built state.

Our analysis of political settlements in Timor-Leste's state-building illuminates the hybrid and networked nature of their processes and outcomes. One outcome was the incorporation of customary governance into the liberal framework of international assistance, with an economic plan that was developmental in language but (neo)liberal in practice. This liberal framework facilitated the building of the basic institutions for a functioning state, including the mechanisms necessary for an open market and investment-driven economy. At the outset, the framework was successful in steering the economy away from the resource curse, particularly at a volatile stage when economic uncertainties were high. The political settlements that have been consolidated since independence also democratized national politics, allowing the participation of various political parties. However, critics have described local involvement during the early stage of UNTAET as not only superficial but also exclusive to the elites who continued the patronage system entrenched in Timor-Leste's customary forms of governance. In sum, the generally top-down state-building created liberal but weak institutions, and the exclusive local involvement solidified the influence of

political elites and their networks within and, more importantly, beyond those institutions.

Our analysis also adds explanatory power to PS analysis by demonstrating the multipolarity and dynamic nature of political settlements in Timor-Leste. Despite agreement that oil is central to economic development, withdrawals from the Petroleum Fund and large infrastructure projects became new venues for patronage politics, risking further fragmentation of the political leadership. This resource-dependent patronage system has already started showing signs of undoing the achievements of the state-building process. It has the potential to delegitimize the representativeness of Timor-Leste's political parties (Shoesmith 2013). Petroleum revenues have become the main resource that enables elites to maintain their positions (and power) at the expense of human development and economic prosperity. While the elites continue to dominate the narratives and policies and compete for economic and political rewards from the oil sector, much of the population remains politically and economically disenfranchised.

Given that natural resources are finite, there is an urgent need to eschew legacy projects and invest in other sectors, including agriculture, health, and education: these sectors could be more viable options for elites to address developmental challenges while crafting a state-building legacy. However, the elites may continue to leverage their positions and power should these other sectors also turn out to be lucrative. It may ultimately be up to the new generation of leaders to transform the political order into one in which institutions are impervious to patronage politics (or, at the very least, ensure that ordinary citizens benefit from clientelism), rivalry, and rent seeking. The twin challenges for Timor-Leste, therefore, are to channel the social gains from patronage politics toward the emancipation of ordinary people while ensuring stability as a new generation of leaders and elites enter (and transform) the existing political order.

Notes

1.   We thank Yuji Uesugi for directing our attention to the customary connections at different levels of East Timorese society.
2.   The current Greater Sunrise leaseholders (i.e., ConocoPhillips, Royal Dutch Shell, Woodside Energy, and Osaka Gas) prefer to use the existing LNG plant in Darwin instead of building a new plant and pipeline in Timor-Leste. Initiation of the Tasi Mane project led most of the leaseholders to sell their shares back to the East Timorese government.

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