

Why Does Timor-Leste Remain Fragile? A Resource Dependence Explanation

Takeshi Daimon-Sato

This article focuses on the concept of “fragility,” which gained prominence in literature on conflict-driven countries and serves as an analytical tool for policy analysis. Using this concept, this article provides a review of Timor-Leste since its independence in 2002. The country has achieved high economic growth, though the economy has remained fragile in terms of its high dependence on external factors, namely oil revenues. This study suggests that foreign aid and investments do not automatically improve fragility in resource-dependent economies unless they help diversify the monoculture economy, based upon democratic consensus-building among stakeholders.

Keywords state fragility index (SFI), Timor-Leste, Indonesia, official development assistance (ODA), peacebuilding, state-building

Introduction

Peace is not built in a day. Starting as a de facto colony of Indonesia, with *zero* rule of law and no institutional framework in place, Timor-Leste has become a full-fledged nation-state with double-digit economic growth less than two decades after independence. It seems worth investigating what factors have contributed to the institutional building of Timor-Leste since its independence in 2002.

This article focuses on economic determinants of institutional building by trying to address the following question: can we look at Timor-Leste as a successful case for achieving peace and security? How can we tangibly assess stability? This article proposes *fragility* as a key determinant of peace and security, which can be improved by policy interventions such as foreign aid. In general, however, it is difficult to link aid to final outcomes—economic growth, agricultural development, poverty reduction, institutional building, and so on—as these processes may well be called a “black box” (Bourguignon and Sundberg

2007). Added difficulty for opening the black box comes from the fact that aid money is fungible, even with earmarking (World Bank 1998). “Fungibility” has been raised in literature on aid effectiveness since the late 1990s (see World Bank 1998), but has been re-examined in peacebuilding contexts beginning in the early 2000s (De Janvry and Sadoulet 2016). Aid agencies can certainly influence local policymakers, as most aid projects are conditioned to certain sets of policies (such as privatization, deregulation, tax increases, etc., as was the case during the heydays of the “Washington Consensus”), and it is possible at least quantitatively to trace the amount of aid and connect it with a rough post-aid assessment.¹ In principle, all member countries of the Organisation for Economic Co-operation and Development (OECD) are required to report on the relevance, efficiency, effectiveness, impact, sustainability, and coherence of their foreign aid projects. There are, however, external factors that influence impacts of projects, blurring the direct inference on linkage or causality between aid and outcomes (Easterly, Levine, and Roodman 2003; Rajan and Subramanian 2005). In a nutshell, any attempt to directly link input, output, and outcome is likely to suffer from statistical and policy-related biases.

Conceptually, though, donors have attempted to evaluate impacts or long-run effects of policies and projects. A theoretically more correct way to show the impact of a project is what is widely known as the “Difference in Difference” (DID) method. Without getting into technical details, DID uses a large number of microdata, typically running from a few hundred to a few thousand households in treatment and control groups, to run a regression on the parameters of interest. A study conducted by the Japan International Cooperation Agency (JICA) and Sophia University (2016) on the impact of development aid on peacebuilding used this approach to demonstrate positive effects on the number of education facilities and the percentage of citizens with access to toilets. The JICA-Sophia University study using DID estimation showed that, among the treatment group, a “trust” indicator shows positive improvement, implying that the development project has contributed to some aspects of increased social capital.

On the other hand, another study was commissioned by the Ministry of Foreign Affairs of Japan (MOFA) in order to evaluate peacebuilding policy focused on Timor-Leste (MOFA 2011). The study was unique at that time in that it used time-series data from 1995 to 2008 compiled into the “State Fragility Index” (SFI) which was collected and scored by George Mason University. The formula for SFI at that time was simpler and reflected only limited information about conflict risks compared with the SFI currently in use. SFI used for this policy evaluation contained an “effectiveness score” and “legitimacy score” with 25 being the highest score in the areas of security, politics, economics, and society. The usage of the constrained SFI was relevant in clarifying “significant correlation among the SFI, the probability of conflict occurrence, and the duration of conflicts” (*ibid.*, 10).² It turned out that, compared with other members of the

OECD, Japan was spending relatively less for countries with lower SFIs (for example, Somalia, Democratic Republic of Congo, Sudan, and Chad, to name a few among the lowest SFIs).

One additional attempt made by the above MOFA study was to quantitatively evaluate, albeit very crudely, the impact for reducing the “underlying risks of conflicts” as defined by SFI (*ibid.*). The regression results suggested that economic assistance in the form of official development assistance (ODA) flow was overall negatively correlated with SFI. The result should not be interpreted directly as ODA overall positively lowering the risk of conflicts in the sample periods of war, as the model was not robust enough to control for the so-called endogeneity problem. The endogeneity problem occurs when the explanatory variable (in this case, ODA flow) is correlated with the error term; simply put, the ODA program is likely to be placed in a country in which needs are high, in this case countries with high SFIs. Also, an added limitation was that the model should have considered the change of SFIs over the years of analysis rather than in a single year (Daimon 2014). Despite these limitations, the study made a unique contribution to policy evaluation by unveiling some black box of linkages between economic assistance and the results on the ground in terms of reducing conflict risks.

The recent development of *indexation* of institutional fragility is significant, and it merits further investigation in terms of its measurements of peace. In order to address the question of determinants of institution building as stated in the outset, this article will provide some direct and circumstantial evidence for positive impacts of foreign aid in Timor-Leste using fragility as a central concept. The rest of the article is organized as follows. The next section reviews some theoretical background on using fragility and the pragmatic implications and applications for peace analysis in general. The third section develops a model of measuring effectiveness of aid from donors to Timor-Leste, using SFI, carefully touching upon key constraints of quantitative analysis and advantages of jointly using qualitative data. The final section concludes by summarizing the main findings with suggested policy implications.

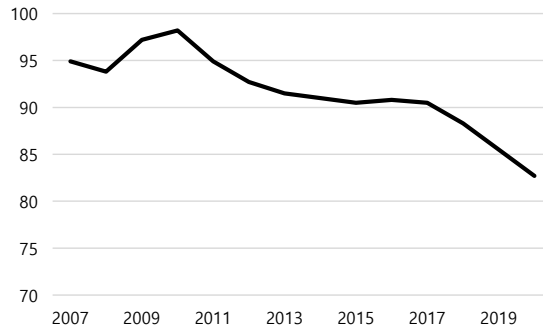
Why Does Fragility Matter? A Rationale for Indexing Peace

One fundamental argument for using fragility as a central concept for understanding the situation in Timor-Leste lies in philosophical yet pragmatic observation that the “monopoly of legitimate violence and the degree of centralization” (Acemoglu and Robinson 2012, 80), tracing further back to Weber’s (1947) theory of state legitimacy, plays a key role for state-building, which is the very crux of the point in Timor-Leste. As argued by Acemoglu and Robinson (2012), a society “descends into chaos, as did Somalia” unless the state achieves political

centralization, and obviously Timor-Leste had been left with no centralized political authority when it became independent in 2002. It remains doubtful even today that the process of *centralization* for state-building has been completed, as some degree of chaos seems to still prevail. I would argue that this lack of institutional stability shall be better captured by the concept of fragility, which should also better illustrate the real challenges facing Timor-Leste in the longer run.

State fragility and its indexation have been around for a while in the economic development community, but recently it has won additional clientele in a wider policy market (World Bank 2005; OECD 2007, 2010). The term *market* may not be common usage but the word is intended to capture a bit of an ironical nuance regarding a herd of actors: diplomats, aid officials, scholars, consultants, NGO or religious volunteers, lobbyists, and the like. In 2017, a commission was established with former Prime Minister David Cameron as a chair in the United Kingdom aiming to address the issue of “escaping the fragility trap” for conflict-driven and poor nations in the world. The commission warned that “by 2030, half the world’s population will live in countries affected by war and instability. These countries are in a fragility trap,” where fractured societies lead to distrusted government, leading to weak institutions, thus insecurity, thus weak economies, thus vulnerability to shocks, then coming back to fractured societies, and this vicious circle lingers (International Growth Centre 2018). For foreign aid policymakers, therefore, it is critically important to address the syndrome of fragility (Collier, Besley, and Khan 2018). The fragility trap is reminiscent of the earlier concept of “conflict trap” widely known in development economics literature in the early 2000s (Collier et al. 2003). The conflict trap model assumed that there existed a *linear* linkage between economic resources and risk of civil conflicts. The policy implication is that the more foreign aid resources are targeted at eradicating or at least mitigating the economic causes of conflict, the less likely conflicts are to occur. This is consistent with what is known as the “greed and grievance” model (Collier and Hoeffler 2004), where economic factors (such as gross domestic products, inequality, etc.) rather than political or social factors (such as religion and ethnic fragmentation, etc.) better explain the occurrence of civil wars. By 2015, however, the likelihood of conflicts was not cut in half, just as the number of poor people was not reduced by half per the target set by the Millennium Development Goals (MDGs).

Foreign intervention in the post-conflict phase—not in military but economic terms—could often adversely affect peace and stability due to coordination failures among donors and mismatches between donors’ and recipient’s needs. South Sudan, Iraq, and Afghanistan could be cited as examples where the local governance structure remains vulnerable against conflict risks despite or because of these interventions. Focusing on fragility, Daimon (2014) has shown statistical relationships between the volume of per capita economic assistance and the

Figure 1. State Fragility Index (SFI) of Timor-Leste

Source: Fragile States Index (2021)

decline in fragility—or vulnerability against conflict risks, which is a counter-example of the coordination failure thesis. The result may be case dependent, however, and it has to be examined by case studies. Actually, the fragility index of Timor-Leste has declined after peaking in 2010. After experiencing political instability and insecurity during the first decade after independence from Indonesia, peaking in the resurgence of conflicts in May 2006, the country has maintained high economic growth and macroeconomic stability, depending upon oil and natural gas resources. The country resumed economic relations with Indonesia, which has become a major G20 economy.

This article takes SFI as a key concept to capture an institutional vulnerability to conflict and violence, updated annually by the international think tank Fund for Peace (FFP), as a composite index based upon quantitative and qualitative surveys, composed of (1) cohesion indicators, (2) economic indicators, (3) political indicators, and (4) social and cross-cutting indicators (FFP 2019, 31-41). FSI of Timor-Leste for 2020 was reported as 82.7 points, or 2.8 points improved (lower) than the previous year. The SFI is a “critical tool in highlighting not only the normal pressures that all states experience, but also in identifying when those pressures are outweighing a states’ capacity to manage those pressures” (ibid., 31). The SFI originates from the Conflict Assessment System Tool (CAST), which was developed in the 1990s as a practical rather than theoretical tool kit for policymakers in conflict driven areas, which was intended at least to assess both quantitatively as well as qualitatively their institutional vulnerability against external and internal pressures, relative to other countries. The original version of FSI did not consider the cross-national dimension, whereas violence often is associated with cross-border terrorist activities, such as those committed by Al-Qaida.

FSI makes international comparison easier. In comparison, East Timorese SFI is ranked forty-seventh (FFP 2020) or roughly equivalent to the “worst one

Table 1. International Comparison of SFIs of Oil Rich Countries, 2020

Country	SFI Rank 2020	SFI Score	C1: Security Apparatus	C2: Factionalized Elites	C3: Group Grievance	E1: Economy	E2: Economic Inequality	E3: Human Flight and Brain Drain	P1: State Legitimacy	P2: Public Services	P3: Human Rights	S1: Demographic Pressures	S2: Refugees and IDPs	X1: External Intervention
Nigeria	14th	97.3	8.7	9.9	9.1	7.9	7.8	6.6	8.1	8.9	8.4	9.3	6.9	5.7
Congo Republic	25th	92.1	7.3	6.7	8.1	7.8	8.4	7.1	9.1	8.6	8.1	8.0	6.7	6.2
Venezuela	28th	91.2	7.2	9.2	7.3	8.7	6.6	6.4	9.3	8.4	9.0	6.5	6.6	6.0
Angola	34th	87.3	7.1	7.2	7.8	6.9	9.0	6.3	8.0	8.7	6.4	8.8	6.2	4.9
Equatorial Guinea	45th	83.0	6.2	8.2	6.6	5.7	8.0	4.6	9.8	8.4	8.3	8.2	4.8	4.1
Timor-Leste	47th	82.7	6.5	8.3	5.6	7.2	6.5	7.3	5.8	7.6	4.4	8.9	5.7	8.9
Algeria	71st	74.6	6.3	7.8	7.5	6.2	5.7	5.8	8.3	5.1	6.3	4.5	7.1	4.0
Gabon	90th	69.1	5.1	8.3	2.9	5.7	5.6	5.5	7.8	6.0	7.2	6.6	3.6	4.8
Saudi Arabia	94th	68.8	6.0	8.5	8.7	3.9	4.7	3.6	8.1	2.9	8.9	4.4	4.1	5.0
Indonesia	96th	67.8	6.1	7.1	7.4	4.2	4.9	6.6	4.2	5.1	6.7	6.8	4.5	4.3
Bahrain	110th	63.9	6.2	7.6	9.3	3.7	4.3	3.1	8.3	2.0	8.7	3.6	2.0	5.1
Brunei Darussalam	122nd	56.6	4.5	7.4	6.2	3.3	7.5	4.1	7.4	1.6	7.2	2.8	1.3	3.3
Kuwait	131st	50.9	3.3	7.5	3.8	2.4	3.9	3.3	7.3	1.8	7.0	4.1	2.6	3.9
Qatar	141st	43.7	1.7	5.0	3.7	1.2	4.6	1.8	6.4	1.4	6.1	2.9	1.7	7.3
United Arab Emirates	152nd	38.1	2.8	3.6	2.5	1.9	2.8	2.2	6.5	1.4	7.3	3.1	1.9	2.1
Japan	158th	32.3	1.9	2.6	2.8	3.3	1.4	3.1	0.6	1.3	3.2	5.7	3.5	2.9
South Korea	159th	32.0	2.4	3.9	2.4	1.7	2.1	3.6	3.3	1.2	3.1	2.0	1.6	4.7

Note: Most of the listed countries are members of the Organization of the Petroleum Exporting Countries (OPEC) with the exception of Indonesia, Brunei, Japan, and Korea which are listed as reference countries.

Source: Fragile States Index (2021)

third” among the oil rich countries. Indonesia ranks ninety-seventh, while South Korea is ranked 159th which is among the top SFI countries. East Timorese SFI is especially high in terms of “external intervention” which basically measures the level of dependence on foreign aid in economic and non-economic (military, for example) areas. “Demographic pressures,” measuring the extent to which a local economy (including agriculture production) can accommodate the population increase, also contributes to making East Timorese SFI high.

Some scholars argue that the emergence and circulation of fragility in the early 2000s among the development economics *market* are due mainly to the role played by the World Bank and OECD (Nay 2014). Other adjectives such as “failed,” “failing,” “rogue,” or even “collapsed” were also sold on the same market, quite cheaply, to mean countries experiencing conflict and severe poverty. As these institutions have significant powers to influence the all other stakeholders started consuming the term as if it were the international rule from then on, reminiscent somewhat of what was accepted as the *Washington Consensus* earlier by the similar process of “normalization,” “fragmentation,” and “assimilation” (ibid.). One concept after another, a new item is sold and vanishes in the next period.

There are a few challenges to quantifying fragility from theoretical or ideological perspective, however. From a radical anti-quantification school of thought, any attempt to quantify wellbeing has to be denied and rejected unconditionally. Social scientists less motivated with radical ideology still express their uneasiness with number crunching, disseminated through influential networks of international development agencies such as the World Bank or United Nations Development Programme (UNDP).

The well-known scoring and ranking of the Human Development Index (HDI), updated annually in the UNDP’s Human Development Report, has been under attack by various scholars. HDI, originally conceived as an additive average of per capita income, life expectancy, and literacy, made a major conceptual departure from the then dominant idea of income-based measurement of poverty and inequality. It is well known that Amartya Sen, a proponent of “development as freedom” or “poverty as capability failure,” influenced most of the conceptualization of HDI (Basu 1999, 49).

This article takes into account these non-utilitarian critiques, when SFI is used to assess Timor-Leste over time and across countries for peace, and will also differentiate *outcome* and *input* aspects of indicators. For example, for most development experts, economic growth is not usually considered as output but rather a development process towards alleviating poverty or inequality, though these can be used interchangeably and the distinction remains controversial among scholars.

Application of Fragility Analysis for Timor-Leste

Historical Background

In terms of the occurrence of conflicts and violence, Timor-Leste today may not look as bad as Afghanistan or Iraq (Matsunaga 2019), as the economy is growing more and more prosperous and the society looks less vulnerable against conflict risks, especially compared with May 2006 when the newly independent nation was forced back into the pre-independence state of chaos (Leach 2017). Timor-Leste is more prosperous thanks to revenue from natural resources, and also thanks to generous foreign aid from Australia where the East Timorese lobby remains apparently influential. National income has doubled over the past two decades. Nominal per capita income was US\$790 in 2002, increasing to US\$3,630 in 2013, but declined to estimated US\$1,820 in 2019 (World Bank 2019). In real terms, per capita income in terms of purchasing power parity (PPP) rose from US\$3,440 in 2000 to an estimated US\$7,010 in 2019 (ibid.).

Given that its dependence on a monoculture (petroleum) economy has not changed, the nation still remains fragile in reality. Indeed, oil rents accounted for 62% of gross domestic product (GDP) in 2007, was still as high as 42% in 2014, but has declined rapidly to less than 20% in recent years. International oil prices are volatile, making per capita income of this monoculture economy volatile and thus fragile as well.

Going back into history, Timor-Leste was never an independent country or even an entity until 2002, and its institutional fragility was inevitably a national fate to overcome. There is a historical background of high fragility for the nation. To begin with, colonial powers divided Timor Island into two administrative units: West Timor under Dutch rule and East Timor under Portuguese control. Timor-Leste was under Portuguese authority for 460 years, with the exception of a brief period of Japanese military occupation (1942-45) and Indonesian occupation (1975-99), and UN trusteeship (1999-2002), which was called the United Nations Transitional Administration in East Timor (UNTAET) and existed until the independence of Timor-Leste in 2002. The Portuguese ruled East Timor through collaborators or elites who understood Portuguese, making the majority of the population illiterate with a weak or absent sense of national identity. While Portuguese influence declined over the post-war period, the Catholic Church played a central role for the East Timorese, remaining influential during much of the Indonesian period. The East Timorese economy depended greatly on external sources and the change in power from Portugal to Indonesia did not fundamentally improve the situation.

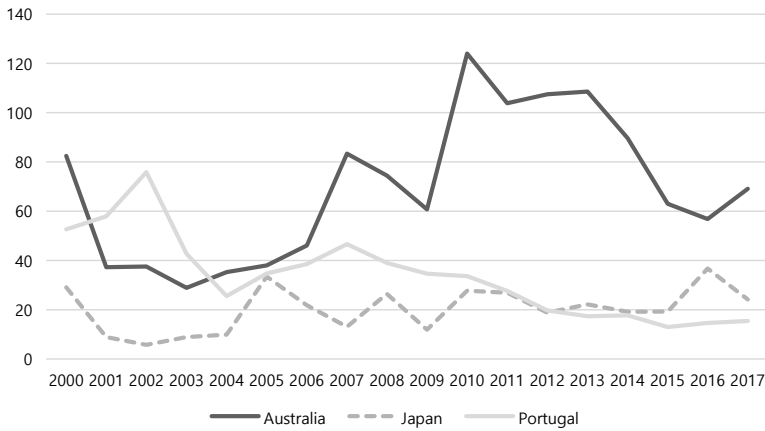
During the Indonesian occupation, the *transmigrasi* or transmigration policy under President Suharto (1967-98) Indonesianized Timor *Timur* (meaning “East” in Indonesian) culturally and economically. By 1995, an estimated 180,000 persons

out of total population of 830,000 was Indonesian (largely ethnic Javanese) migrants. Timor Timur was considered the twenty-seventh province of Indonesia, whose head, the governor, was appointed by Jakarta. Centralization under Suharto strengthened Jakarta's power but deprived local governments of administrative capacity. In a nutshell, Suharto's policy was clearly intended to centralize resources in terms of capital and human resources. During the same period, all education was conducted in the Indonesian language, or *bahasa Indonesia*, significantly influencing the way of life in Dili and the elite class East Timorese during the occupation. The lack of institutional capacity in Timor-Leste may be due to their removal and exile from the power structure. It was no coincidence therefore that East Timorese elites were following a *reformasi* (reforms) political agenda after the Suharto regime ended, and Habibi was elected in 1998 (Leach 2017). The *desentralisasi* (decentralization) policy promoted under President Habibi's reformasi agenda ignited the political forces to fly much beyond desentralisasi, mobilizing all layers of East Timorese population seeking separation and independence of Timor Timur from Indonesia in 1999. Habibi, known as a capable pilot, could not smoothly take off or land in terms of steering these movements, as clearly it was Xanana Gusmão, the charismatic independence leader still in prison in Jakarta, who was de facto dominating the "cockpit."

Another key event to be remembered is May 2006 when violence was triggered and worsened by Mari Alkatiri, one of the leaders of the Revolutionary Front for an Independent East Timor, *Frente Revolucionária de Timor-Leste Independente* (FRETILIN), who served several terms as prime minister, the head executive, of Timor-Leste. Some studies go even further to argue that democratization with institutional fragility could invite violence as happened in May 2006 in Timor-Leste (Tanaka-Sakabe 2019). Using time-series data of the conflicts, the same study provided quantitative evidence for this "democracy for violence" hypothesis. Though this study does not focus on what types of governance structures, namely liberal democratic, authoritarian, or religious charismatic, could work better or worse for the realization of peace, there seems to be a consensus: fragile state fails to achieve peace. This tautology is the crux of the fragility trap: fragility leads to less resilience to conflict risks that leads to higher fragility which again leads to higher vulnerability, and so on. The remaining question to be asked is whether fragility has been improved or worsened by the inflow of human and physical capital from abroad in Timor-Leste since its independence.

Input: ODA Flow

Jumping to a hasty conclusion about how to link ODA and the so-called peace results would provide only partial and often misleading interpretations, as the results on the ground could be better captured by careful examination of all aspects of the fragility index, as will be discussed in the next section, though the

Figure 2. Bilateral ODA (Net) Flows (unit: US\$1 million)

Source: World Bank (2019)

overall impacts are positive on the surface as the actual incidences of violence have indeed decreased. A more thorough investigation should address how aid has solidified institutional resilience against various possible forms of violence and conflict risks, which is more conveniently explained by the SFI.

The predominant aid power for Timor-Leste since 2000 (before independence) has been Australia (see Figure 2), though Japan has been the second or the third largest donor during the same period. Japanese ODA extended through the JICA has been mostly related to the improvement of economic and social infrastructure, namely roads, water, and some schools, which are not always directly motivated by peacebuilding, unlike Australian aid which has been more comprehensive and closely tied with security sectors. If and how these aid projects might have contributed to peacebuilding must be carefully investigated and evaluated.

ODA is like, if not opium, a prescribed medicine. In the past in many countries, the medicine was overdosed (say during the initial “aid fever” for Afghanistan or Iraq), and aid money, as money is fungible, was used for other unintended purposes, and some was consumed by high-ranking officials or foreign advisors. Aid money can easily create corruption and rent-seeking, dependence on foreign experts, and interference with domestic institutions, all of which can lead to weakening the local institutions which are based on people’s trust for the governance structure (de Janvry and Sadoulet 2016). This line of thought could lead to the fragility trap dilemma: external technical advice could improve temporarily the efficiency or effectiveness of a project, thus leading to the improvement of SFI, as everything is done by highly paid expatriates. However, the effectiveness will not last long when these expatriates return home, because the

success of the project assumed bypassing existing or local institutional realities. In order to improve sustainability and keep the long-lasting effects of foreign aid, there is no short-cut but it is important for development experts to help local elites win the trust of local people so that they will support the local governance structure. This would eventually create a stronger sense of “rule of law” in the long run, making Timor-Leste look more like a real nation-state. Following this process of building trust among people, the fine-tuned foreign aid with long lasting efforts could help the country get out of the fragility trap.

Short-Run Output: Immediate Effects of Foreign Aid Programs on Peacebuilding

Foreign aid has short-run and long-run outcome objectives and therefore must be evaluated accordingly. Australian aid policy, or the aid investment plan (AIP) as they call it, for Timor-Leste, for example, has three short-run objectives: (1) improved livelihood and economic development, (2) enhancing human development, and (3) strengthening governance and institutions (Australian Department of Foreign Affairs and Trade 2019). While the first objective can provide an economic basis for peace and the second can help achieve human security, the third objective seems to be most directly linked to the peacebuilding cause. The AIP performance report (ibid.) concluded that the overall objectives have been achieved on balance, with some reservations as follows.

First, more progress needs to be achieved in the creation of employment. The Timor-Leste government had to reduce labor opportunities through public works such as national village development program and rehabilitation project, for which Australia provided technical assistance. Second, instances of inclusive policy development and improved policy implementation must be benchmarked with comparable indicators, which are largely missing. This is closely related to the third objective or institution building for peace and stability of the nation. Third, gender equality must be achieved. Australian aid has helped Timor-Leste to be aware of changed attitudes towards women who have often been victims, but the impact should be broadened to the entire nation.

On the other hand, there are some tangible short-run outcomes of peacebuilding by foreign aid. For example, more police officers have been professionalized with the help of Australian aid by providing courses on a human rights-focused, community-based policing model for national police officers (ibid.).

Long-Run Output: Peace Outcomes of Timor-Leste Over the Past Twenty Years

Long-run outcomes should be assessed in terms of whether the cumulative flows of foreign aid have positively and tangibly impacted the country in “promoting peaceful and inclusive societies, providing access to justice for all, and building effective, accountable and inclusive institutions at all levels” as Goal 16 of Sustainable Development Goals (SDGs) states. I would argue here that this long-run tangible objective can be captured by the achievement of better SFI, as it

is a composite index of social cohesion, economic performance, and political and institutional development, all of which are related to the core foundation of peacebuilding and state-building.

Cohesion Indicators: There are three “cohesion indicators.” First, the security apparatus indicator questions the institutional capacity of the state to ensure security for its citizens, and scores nearly 180 surveyed countries from 10 (the most fragile) to 0 (the least fragile) by asking, for example, “is the military under civilian control?,” “are there guerilla forces operating in the state?,” or “if in reconstruction, is there an adequate plan for demobilization, disarmament, and reintegration of former combatants?”³ The second indicator is the fractionalized elites indicator which measures the fragmentation of state institutions along ethnic, class, clan, racial, or religious lines and ruling elite, by asking, for example, “is there a sense of national identity?” or “are the laws democratic or reasonable?” The third indicator is the group grievance indicator which focuses on divisions and schisms between different groups along social or political lines. This indicator asks, for example, “are victims of past atrocities compensated?,” “are war criminals apprehended and prosecuted?,” and “is there freedom of religion according to laws and practiced by society?” For Timor-Leste, the above indicators for SFI in 2019 are reported as 6.6, 8.3, and 5.9, respectively, suggesting that the “fractionalized elites” indicator remains high (or vulnerable) while the other two indicators are relatively less vulnerable or improving. In other words, the sense of national identity is relatively weak in Timor-Leste, compared with other indicators of social cohesion. This level of fragmentation is comparable to Ukraine (with the same indicator being 8.0), which is divided into pro- or anti-Russian camps over the Crimean annexation in 2014. The impending end of the Indonesian occupation in 1999 created an opportunity for Timor Timor (of Indonesia under newly elected Habibi) to unite when a large number of East Timorese shared animosity towards the Indonesianization policy under the Suharto regime, memorialized in the well-known Santa Cruz Massacre of November 1991. However, this anti-Indonesia social glue was quickly wiped out once independence was realized and huge economic problems (unemployment, in particular) emerged, revealing a lack of social cohesion. No one spoke the same language. When the nation became independent in 2002, no ordinary people in the streets of Dili and more so in rural places spoke the official language of Portuguese and, at the national parliament, elected officials spoke to each other through interpreters.⁴ The lack of social cohesion seemed to be the underlying root cause of the May 2006 setback for many observers, though the trigger was unmet demands by young soldiers for more work or higher salaries.

Language plays a key role in establishing national cohesion. The linguistic map of Timor-Leste has seen some drastic changes since around 2010. With the Tetun language being used in public education, more people speak Tetun

than Indonesian across the nation, and especially in Dili. Tetun, developed as a Portuguese creole, has been serving as the *lingua franca* in Timor-Leste in recent years. In Timor-Leste, common language policy has contributed significantly to the achievement of higher literacy, which also has consolidated the sense of one nation.

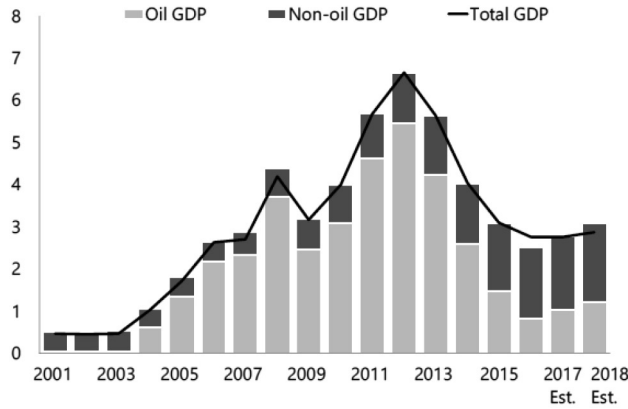
Economic Indicators: Second, and perhaps more pertinent to the earlier “money for peace” hypothesis, are the economic indicators of (1) economic decline, (2) uneven development, and (3) human flight and brain drain, all of which have something to do with market. The first two may be measured in a straightforward manner with statistics such as GDP, the Gini coefficient, or other income inequality measures. The final indicator is more complex. One of the pertinent issues for Timor-Leste is the importance of “returning migrants” from abroad or the amount of remittance from diasporas, so it must capture human mobility to a large extent, which is sometimes not easy to monitor quantitatively as it may involve clandestine movement in one way or another.

Timor-Leste as an economy remains vulnerable in all three dimensions. The prevalence of poverty, the unequal distribution of wealth (or fruits of growth), and dependence on external financing including foreign aid and remittances are captured in Timor-Leste’s scores in the above three indicators: economic decline (7.5), uneven development (6.8), and human flight and brain drain (7.6). These numbers remain high compared to the Philippines (4.9, 5.1, 6.0) or Indonesia (4.5, 5.2, 6.9), implying that continued support for economic needs is unavoidable at least for the foreseeable future, even if it may not be desirable in the long run in order to gain complete independence economically.

Scores in economic indicators are consistent with objective indicators which also show overall signs of improvement over the past two decades (see Figures 1, 2 and 3), though some points would merit explanation. Per capita income has shown overall improvement, pushing the country into the upper middle income tier of nations, albeit temporarily around 2010-2013 as these numbers declined significantly after the international oil price declined. This implies the volatility of GDP growth is high, reflecting the fragility of its monoculture economy as mentioned before. Unemployment remains high among the youth, with a significant gender imbalance disfavoring women. Young female job seekers are facing more serious constraints than male counterparts. Poverty and inequality of wealth distribution, which could arguably constitute one of the root determinants (if not the root cause) of social unrest, show signs of improvement, though poverty in rural areas remains dangerously high, with nearly half of the rural population living under the subsistence level.

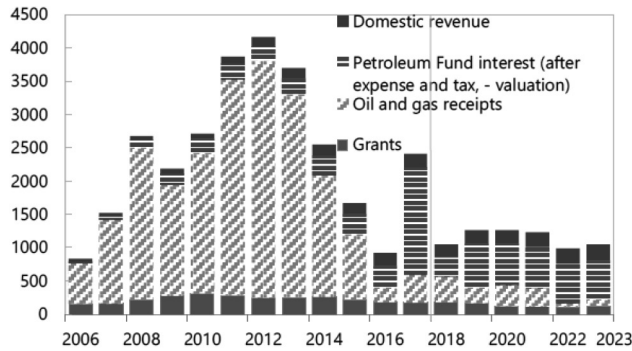
In a nutshell, the economic basis of Timor-Leste remains vulnerable and fragile, as it depends on monoculture and flows of foreign capital (private and public), with the latter to be elaborated in the next section. With the

Figure 3. Nominal GDP: Oil and Non-Oil



Source: IMF (2019, 22)

Figure 4. Revenue Structure



Source: IMF (2019, 23)

establishment of an “oil fund” in 2005, the East Timorese economy has been more prosperous. On the other hand, this means that the economic structure depends largely on oil revenue, and the International Monetary Fund recommends that Timor-Leste increase its economic diversification efforts (IMF 2019).

Political Indicators: Third, the political dimension deals with the state which is still in the process of being built in Timor-Leste. “State failure” can explain many aspects of political, legal, or institutional fragility, including an “almost coup d’état,” as there was “no such nation as East Timor or East Timorese” (Ramos-Horta 2017). The political indicator is composed of (1) state legitimacy (6.1 for Timor-Leste), (2) public services (7.9 for Timor-Leste), and (3) human rights and rule of law (4.7 for Timor-Leste). State legitimacy considers the representativeness and openness of government and its relationship with its citizenry. Public services

refer to the presence of basic state functions that serve the people. The human rights and rule of law indicator considers the relationship between the state and its population insofar as fundamental human rights are protected and freedoms are observed and respected. The score for Timor-Leste remains relatively high (or fragile) in all three aspects. There are certain degrees of openness in the political process, but the government has not won enough confidence among East Timorese, partly because the state is not delivering what has to be delivered. Democracy as narrowly defined as the existence of laws and elections (see Tanaka-Sakabe 2019, for example) does not strengthen any of these indicators, as democracy as understood in a wider political economy context goes beyond what is written in law to consider if democracy has become a social norm.

In the law and economics literature, Basu (2000) convincingly argues that social norms, which are rooted in history and culture rather than modern laws, play more influential roles in the behavior of traditional communities, as “what can be achieved through the law can, in principle, also be achieved without law.” It is therefore important to distinguish between written laws and unwritten laws (which are usually considered social norms). “If a certain outcome is not an equilibrium of the economy, then no law can implement it” (*ibid.*, 117). In many cases, laws in developing countries are often “a facade without a foundation” (Murrell 1996). This is the case even in Japan where modern civil laws prohibits discrimination based on gender, while in practice there remain many custom laws in favor of males from the choice of family name at marriage to the inheritance of property after the death of family members. These arguments are applicable to East Timorese context as well; otherwise how could we explain a significant gender difference in unemployment when the law guarantees equal opportunities? It is not democracy or laws but people’s support for the governance structure, or rule of law, that influences most state building, as long as Timor-Leste wishes to follow the nation-state model in the traditional post-Westphalian sense of nation-state.

In this regard, there is an interesting survey conducted by the World Bank team in 2015.⁵ In Timor-Leste, 44.2 percent of surveyed firms replied that they have experienced at least one government official requesting a bribe, worsening from 16.1 percent in a survey conducted in 2009. This contrasts with 26.6 percent average in Asian and 19.9 percent worldwide average. Indonesian firms responded affirmatively to the same question at a rate of 30.6 percent, also high but lower than Timor-Leste. Is bribery a part of East Timorese culture or a negative legacy from the Indonesian occupation? Not in figures, at least. To other questions such as “percent of firms expected to give gifts when meeting with tax officials,” “percent of firms expected to give gifts to secure government contracts,” “percent of firms identifying corruption as a major constraint,” East Timorese firms’ responses were on average much higher than the Asian or world average. Timor-Leste will not become a truly independent nation-state unless

Table 2. Incidence of Bribery in Timor-Leste

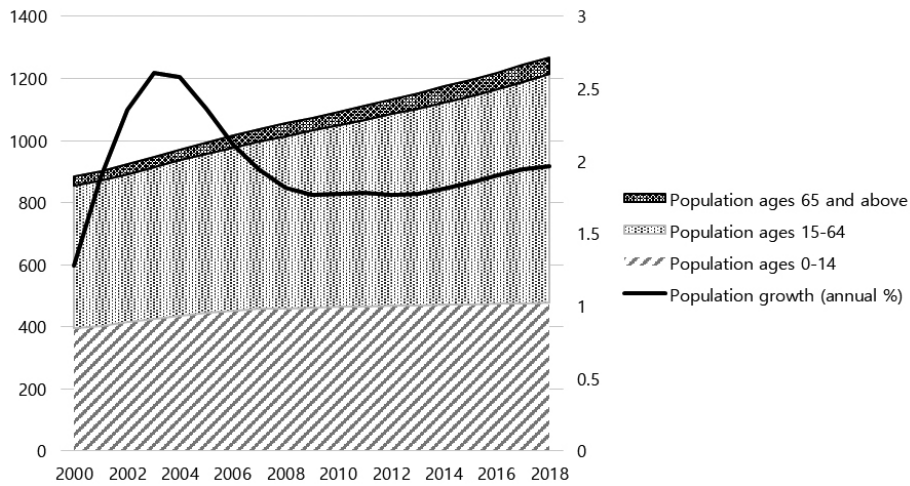
Indicator	Timor L	Asia	All
Bribery incidence (percent of firms experiencing at least one bribe payment request)	44.2	26.6	16.9
Bribery depth (% of public transactions where a gift or informal payment was requested)	27.5	20.4	13.2
Percent of firms expected to give gifts in meetings with tax officials	17.1	17.3	12.7
Percent of firms expected to give gifts to secure government contract	81.4	32.5	25.5
Value of gift expected to secure a government contract (% of contract value)	14.5	1.8	1.6
Percent of firms expected to give gifts to get an operating license	22.9	18.9	13.4
Percent of firms expected to give gifts to get an import license	67.0	25.6	12.9
Percent of firms expected to give gifts to get a construction permit	36.3	33.4	21.3
Percent of firms expected to give gifts to get an electrical connection	39.8	20.6	15.2
Percent of firms expected to give gifts to get a water connection	31.2	25.6	15.0
Percent of firms expected to give gifts to public officials “to get things done”	85.6	37.7	20.6
Percent of firms identifying corruption as a major constraint	8.4	23.0	33.1
Percent of firms identifying the courts system as a major constraint	4.9	7.2	15.3

Source: World Bank (2017)

they overcome this constraint, as the rule of law is also an important form of “social capital” that is essential in “doing business together” with a sense of collegiality and cooperation. True, democracy does not eradicate bribery, but rule of law based on transparency does, which is based on people’s trust for laws and order implemented by the existing governance structure.

Social and Cross-Cutting Indicators: Fourth, demographic pressures, refugees and internally displaced persons (IDPs), and external intervention are categorized as social and cross-cutting indicators. Timor-Leste scored 9.2, 5.7, and 9.2, respectively, comparatively high in all three dimensions. The demographic pressures indicator considers pressures from high population growth, asking if “the population growth rate is sustainable,” if “there is a system for controlling spreading diseases and pandemics,” or if “a natural disaster occurs, is there an adequate response plan.” Population growth is nearly 2 percent on average, doubling the population from 2000 in just two decades, from 0.6 million to 1.2 million, which clearly has pressured the East Timorese economy downward. The refugees and IDPs indicator measures the pressure on states caused by the forced displacement of large communities as a result of social, political, environmental,

Figure 5. Population structure of Timor-Leste, 2000-2018



Source: World Bank (2019)

or other causes, measuring displacement within countries, as well as refugee flows into others. The external intervention indicator considers the influence and impact of external actors in the functioning (security and economic) of a state, asking if “there is external support for factors opposed to the government,” if “foreign troops are present,” or if “the country is dependent on economic aid.” The country has received economic and military assistance from Australia, lowering the SFI score on external factors, though the Australian troops have withdrawn from the country and UN peacekeeping operations have ceased.

In summary, out of all twelve sub-indicators, none is output or outcome related and all of them are input or process (or means to achieve output/outcome) related. In other words, security apparatus, fractionalized elites, group grievance, economic decline, uneven development, human flight and brain drain, state legitimacy, public services, human rights and rule of law, demographic pressures, refugees and IDPs, and external intervention are not goals, but rather means to achieve higher goals that are not explicit in the SFI indicators.

Concluding Remarks

This article has shed light on fragility as a key concept to better assess the process of state building in otherwise institutionally vulnerable circumstance, such as the situation in which Timor-Leste has struggled for the past two decades. Although aid effectiveness in general is an empirical question, this study shows the significance of a quantitative approach to peacebuilding efforts in the post-

conflict circumstance in Timor Leste.

To summarize the main findings, the study has shown that Timor- Leste remains largely fragile to this day. Interventions have been made to reduce the fragility, though its effectiveness remains unclear. Foreign interventions include police reforms to achieve community-based and human rights-focused policing have been achieved through taking certified courses offered by technical assistance . In addition, it is well known that Timorese police introduced a Japanese style “police box” (or *koban* in Japanese) to monitor security and prevent crimes in the city. JICA also provided a technical assistance program for Timorese law enforcement officers to be trained for the community-based policing system. Higher literacy has been achieved with Tetun language being spoken at schools, many of which were built by foreign aid. A sense of trust has been achieved among people by improving communication skills. In the long run, it will lead to help buttress rule of law. Social inequity such as gender inequality and violence against women remains a social issue, though some progress has been made by foreign aid assisted awareness programs.

Aid money alone will not automatically improve fragility especially in terms of social cohesion and industrial base. East Timorese challenges in overcoming its reliance on oil cannot be solved by external assistance alone, and it needs to be supported by indigenous efforts with highly committed professional bureaucrats and policymakers. During Portuguese colonialization and Indonesian occupation, colonialists did not spend resources seriously for education, perhaps in fear of resistance. It turns out that a lack of human resources (e.g., lack of commonly spoken language) remains one of the key determinants of low social cohesion, which is in turn related to relatively high fragility of Timor-Leste. It is well known that the success of Indonesian industrialization since the 1980s largely depended on the technocrats called the “Berkeley mafia” who were educated in prestigious universities like the University of California-Berkeley. Unfortunately, in Timor Leste, there is no equivalent of the Berkeley mafia who can indigenize foreign ideas or technologies consistently with local social cohesion, making the country less fragile in the long run. Realizing this, the East Timorese government has recently started sending future leaders abroad in order to acquire the latest technology and investing more in engineering education, but education is not a quick-fix tool. We may need to wait another decade or so for the recent initiatives to lead to results. Fragility is not overcome in a day.

Notes

1. For example, twelve evaluation reports have been published on the JICA website for East Timorese projects.
2. When SFI is over 20, the total duration of conflicts is projected to be 125 periods

(years) with more than a 60 percent probability (UNHCR 2009).

3. These questions are selective and not all questions asked (FFP 2019, 34).
4. These observations are based on the author's own experiences from his series of visits to Timor-Leste from 2002-10. Since around 2010, Tetun has become widespread in the country.
5. This survey was conducted in Timor-Leste between September 2015 and June 2016.

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Takeshi Daimon-Sato is a Professor of Law and Economics at Waseda University. He was previously an economist at the World Bank and a country officer at the Japan International Cooperation Agency. He received his J.D. from Tsukuba University, Ph.D. from Cornell University, M.A. from Yale University, and M.Sc. from Cornell University. His recent publications include "Sino-Japanese Competition over the 'aid market' in ASEAN: Political Tensions and Consequences" (*Foreign Policy Review*) and "The Historical Background and Role of Japan's Strengthening of Support for the Rule of Law" (*Journal of US-China Public Administration*). Email: daimon@waseda.jp