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Timor-Leste's Challenges: Year After the May 2018 Elections

By Viji Menon

SYNOPSIS

A year after the last parliamentary elections, in which the Alliance for Change (AMP) coalition won a clear majority, the 2018 and 2019 budgets have been passed, ending a period of considerable uncertainty and gridlock. However, many challenges remain.

COMMENTARY

THE POLITICAL gridlock in parliament in 2017-2018, which resulted in its inability to pass the 2018 budget, led to the second general election in May 2018. The clear majority won by the coalition, Alliance for Change for Progress (AMP), led by former president and prime minister, Xanana Gusmao, with Fretilin in the opposition, has provided more stability and an end to the political stalemate.

Taur Matan Ruak, also a former president, was appointed prime minister in June 2018. Indeed, the first key task of the new government was to present a budget for the remainder of 2018 and have it approved. This was done by the new parliament in September 2018. The legislature also passed the budget for 2019 in December 2018. The government ministries now have the financial resources for program implementation.

President Exerts Authority

Soon after the elections, however, tensions flared when President Lu-Olo Guterres (an old guard from the opposition Fretilin party) rejected some of the government's nominated cabinet choices because of their alleged involvement in corruption investigations. He refused to swear in eight ministers, and three vice-ministers.

The government demanded evidence for the rejection of these ministers while the president urged the prime minister to replace them with others. The stand-off has yet to be resolved to date, resulting in several key ministries functioning without ministers. The prime minister has reacted calmly, without acrimony, and has maintained dialogue with the president to resolve the impasse.

Gusmao boycotted the swearing-in and soon left the cabinet to focus on his responsibilities as Timor-Leste's Special Representative on Petroleum Matters. Others claimed that the president had no competence to refuse to inaugurate the proposed government members as according to the Constitution, it is the prime minister who appoints his cabinet.

While former presidents have exerted their authority and criticised the government's agendas, there has not been disagreement on a non-policy matter. This is also the first time that the elected president and the executive have hailed from different parties.

President-Parliament Power Struggle?

Again in November, after parliament approved an amendment to the Petroleum Activities Law allowing the state to participate in a joint venture with a share larger than 20%, the president vetoed it in December. This amendment followed the government's purchase of Conoco Philips and Shell companies' shares in the joint venture that is to develop the gas/oil resources in the Greater Sunrise field, thus giving Timor-Leste a 56.6% share in it.

The president said that he did it to prevent excessive investment from the Petroleum Fund. He added the veto would guarantee Timor-Leste's financial sustainability for the long term. Parliament however later overturned the veto, passing it with a two thirds majority and it was promulgated by the president.

In December 2018, the president also vetoed the 2019 budget, criticising the government for allocating a large percentage of the budget to oil and gas projects at the expense of education, health, agriculture, and other public services. Parliament later approved the budget after deducting the \$650 million allocated for the purchase of the two oil companies' shares in the joint venture. Instead, the money was taken out of the Petroleum Fund, following the passage of the Petroleum Activities Law.

It is possible that the president could exercise his veto in other areas as well, making it difficult for the governing coalition to carry out its policies. Representatives of NGOs and civil society have urged the country's political leaders to sit together and resolve the current impasse which affected the country's development.

Because of the political uncertainty in 2017 and 2018, Timor-Leste registered negative GDP growth rates for the last two years, but the ADB has forecast 4.8% growth for 2019. The poverty rate is still high, with 41.8 % living below the national poverty line. Despite the tensions however, there has been no violence — the country has been peaceful and political leaders have observed the constitutional process and called for dialogue.

Progress on Development of Oil Resources

According to *La'o Hamutuk*, a local NGO that monitors closely all petroleum-related activities, five percent of the 2019 budget has been devoted to the government's plan to bring the oil and gas from the Greater Sunrise field to Timor-Leste and develop the south east coast as the heart of a future petrochemical industry. The budget includes infrastructure work for the Tasi Mane project and an LNG Plant at Beacu in the south-east.

In finalising the payments to the oil companies in April 2019, the government announced that "Timor-Leste now has the full right to decide the development of Greater Sunrise fields and its pipeline to Timor-Leste which will benefit the country socially and economically". Gusmao also highlighted that development of Greater Sunrise would provide enough revenue to prevent the country's Petroleum Fund from being drained in about ten years as forecast.

He has also insisted the plan would develop down-stream benefits of jobs and the creation of a new industry for Timor-Leste. The Greater Sunrise fields hold an estimated \$40 billion of oil and gas reserves.

Enter the China Factor

In May 2019, Prime Minister Ruak declared that the government would seek a loan for the Greater Sunrise project. He was responding to the question of where the government would find the financial resources needed for this project. He added that Timor Gap, the state-owned oil company, had secured US\$930 million as a loan, and that "we will pay back the loan after we sell gas from Greater Sunrise".

According to the Timorese media, the prime minister's comment came after the China Civil Engineering Construction Corporation announced that it had signed a contract with Timor Gap to build a port in Beacu (planned LNG plant). The unconfirmed report claimed that in a statement, released on 25 April through the Shanghai Stock Exchange, the Corporation said that the contract, which covers the preparation of the project and its construction, is worth US\$943 million.

It is still unclear though where the rest of the financial resources, estimated by *La'o Hamutuk* at about \$14 billion in capital expenditures to develop the Sunrise and Tasi Mane projects, will come from.

Viji Menon is a Visiting Senior Fellow at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore. The former Singapore Foreign Service Officer previously served with the United Nations in Timor-Leste.

Nanyang Technological University

Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798
Tel: +65 6790 6982 | Fax: +65 6794 0617 | www.rsis.edu.sg