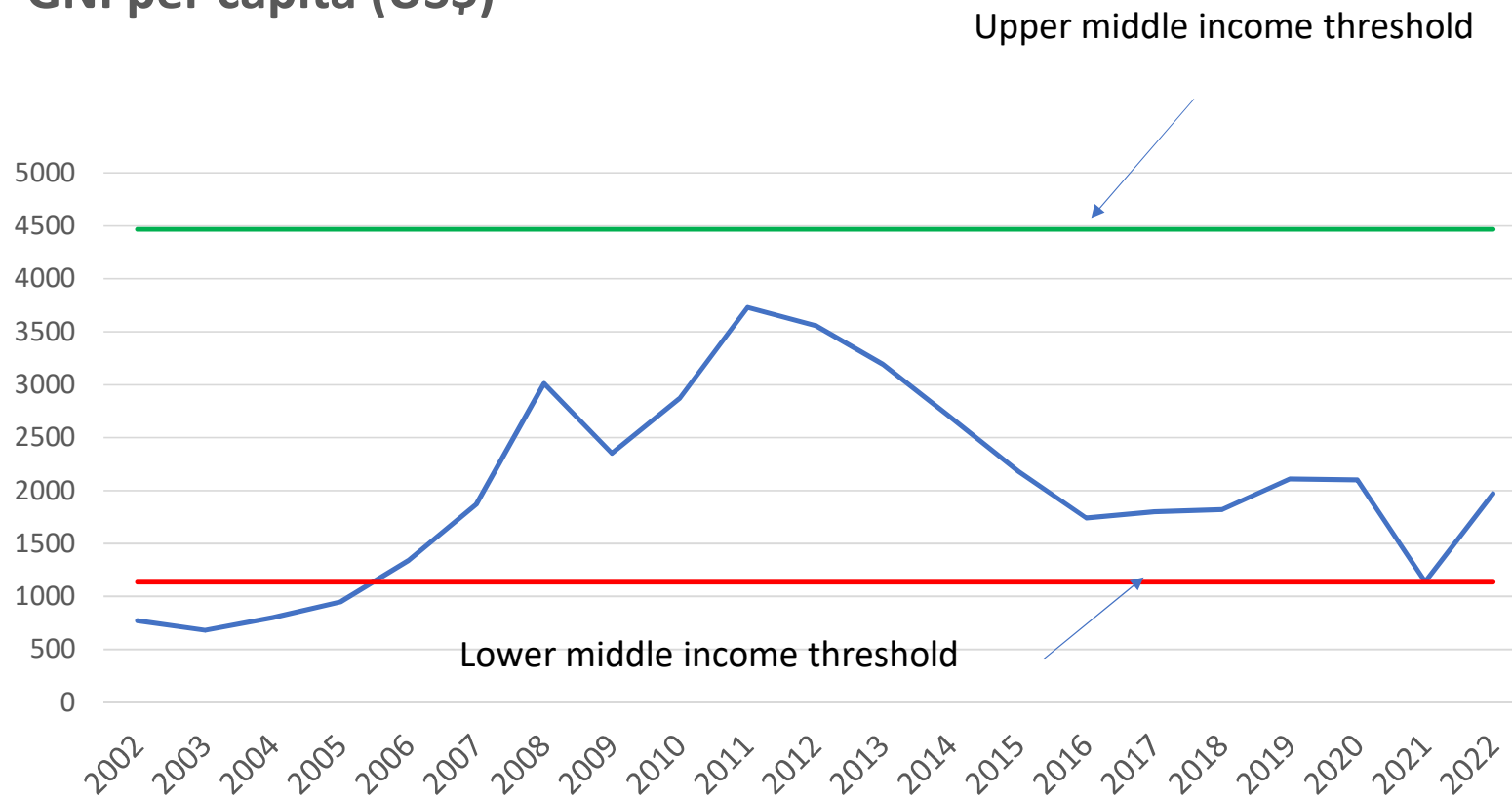


How Internationally Engaged is Timor-Leste's Economy?

Brett Inder, Monash University
monashintimor.org

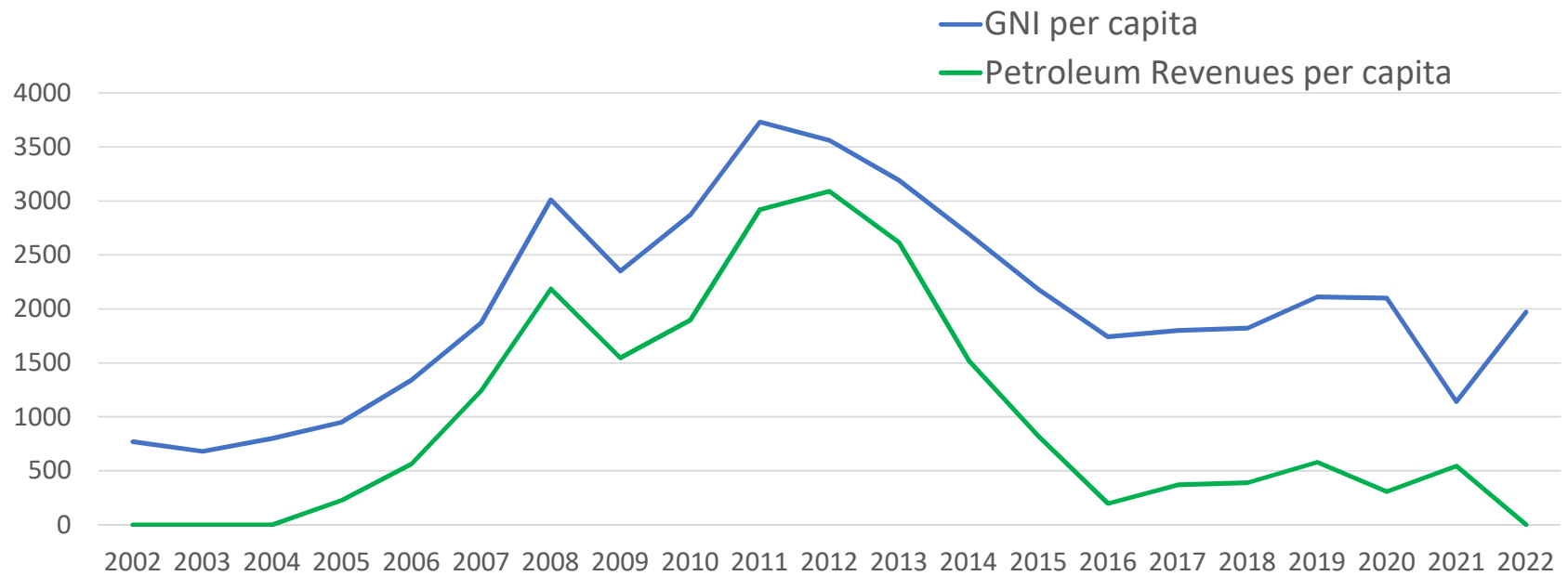
Upper middle income by 2030?

GNI per capita (US\$)



Oil and Gas and the Timorese Economy

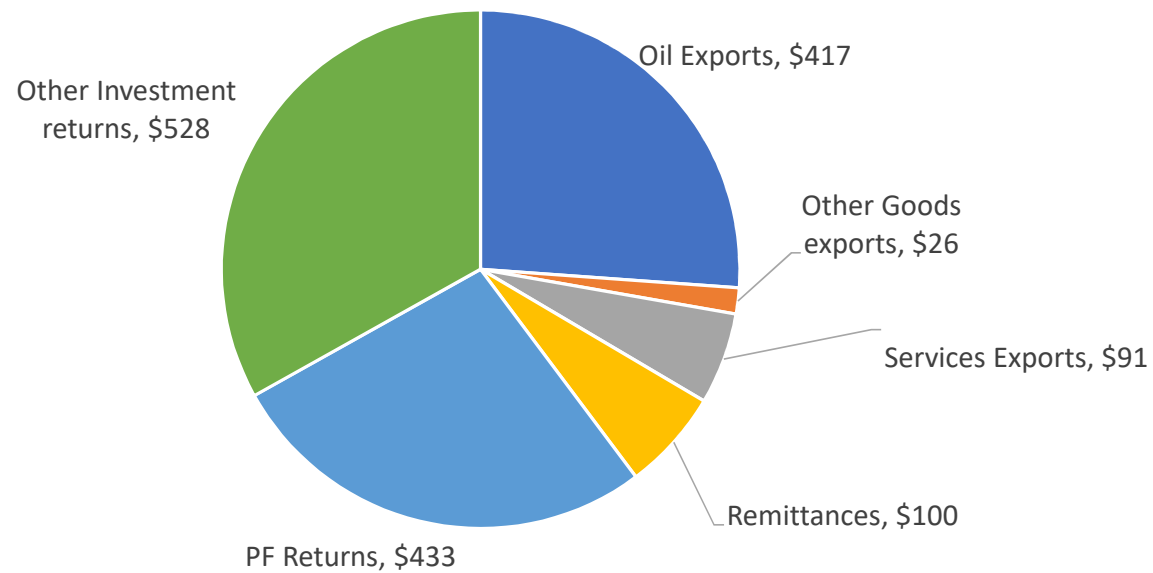
Comparing GNI with Petroleum Revenues



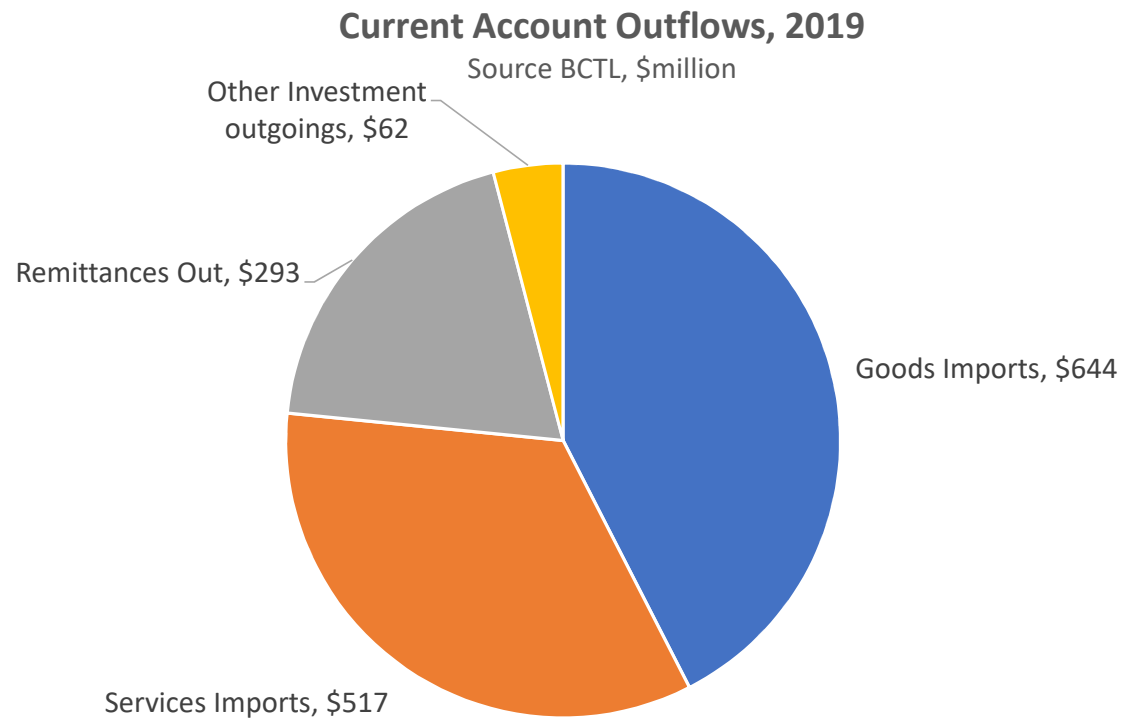
Timor-Leste receives a lot of money from overseas

Current Account Inflows, 2019

Source BCTL, \$million



Timor-Leste sends a lot of money overseas



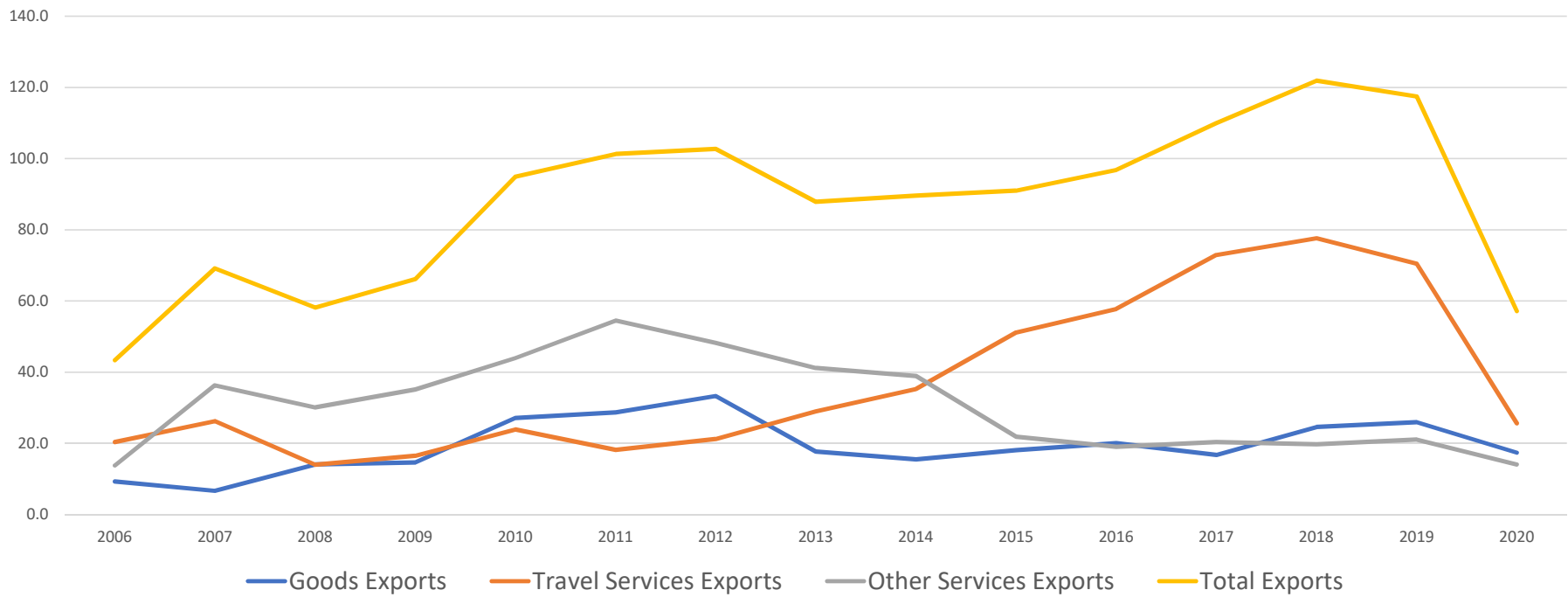
Timor-Leste is a very open economy!

- Non-Oil GDP: \$2.0bn
- Amount sent: \$1.6bn
- Amount received: \$1.5bn.

So much economic activity is to do with the rest of the world

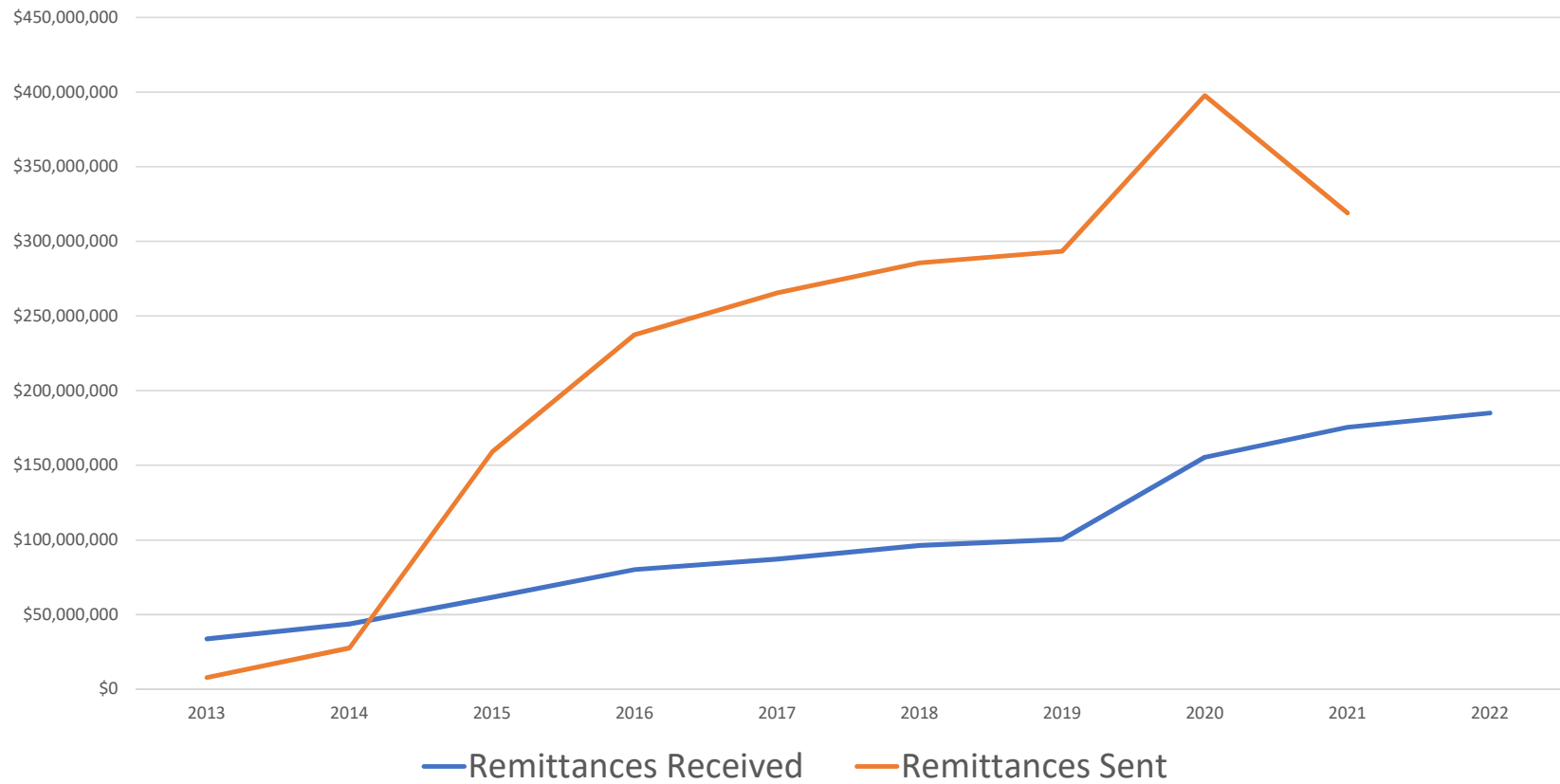
Looking more closely at Exports

Non-Oil Exports Timor-Leste (\$million)



Remittances in Timor-Leste: Received and Sent

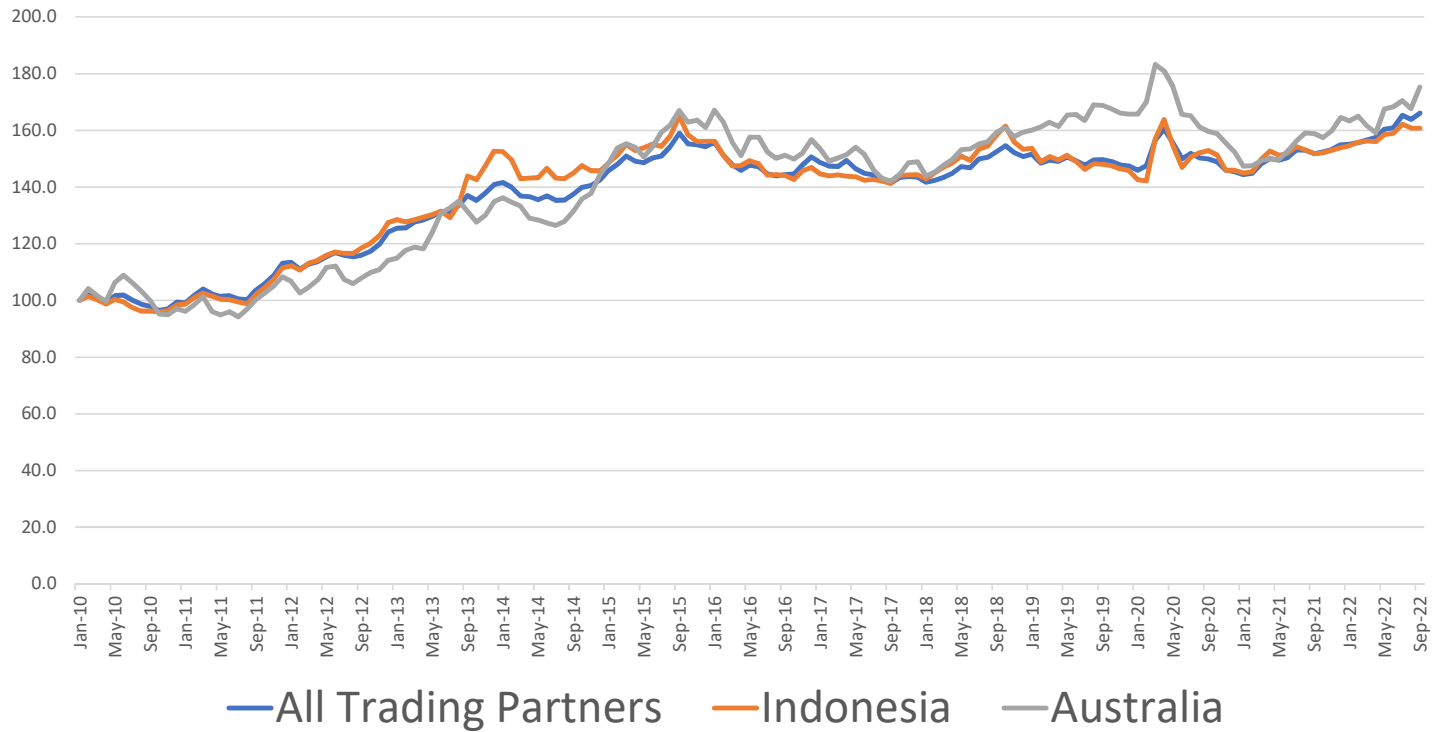
Source: World Development Indicators, BCTL



The Relative Price of Funds moving In and Out of Timor-Leste

Real Exchange Rate vs Trading Partners

Source: BCTL



Foreign Investment

For countries at Timor-Leste's stage of development, foreign investment is a key way to kick-start modern economy activity.

Why?

- A source of international connections – inputs, markets ...
- A source of know-how – modern economic activities rely a lot on human expertise
- A source of working capital – businesses need up-front investment, capital is expensive in Timor-Leste
- Capacity to absorb risk – business is risky in a difficult business environment

Foreign Investment: the state of play

- Using annual Business Activity Surveys – formal, non-Oil businesses

Local or Foreign Ownership	
Timorese Owned	68%
Part-Foreign (15% - 95%)	4%
Fully Foreign Owned	28%

Country of Foreign Ownership	
Indonesia	41%
China	32%
Australia	5%
Singapore	4%
Portugal	3%
Malaysia	2%
Philippines	2%
Bangladesh	1%
India	1%
Other (38 countries, all <1%)	9%

What Industries are most common?

Industry	% of all Businesses	Proportion Foreign-Owned
Health	0.8%	61.1%
Retail trade	37.9%	48.1%
Food services	5.7%	42.7%
Education	0.7%	40.0%
Information and Com..	1.1%	40.0%
Real estate	0.2%	40.0%
Professional + Scie..	1.6%	38.9%
Arts + Entertainment	4.0%	35.2%
Finance	0.6%	30.8%
Maintenance Motor V..	1.1%	29.2%
Manufacturing	8.2%	26.7%
Transport	2.1%	22.2%
Mining	0.2%	20.0%
Accommodation	5.8%	18.8%
Wholesale trade	11.6%	16.5%
Other activities	0.4%	11.1%
Admin + Support	3.0%	10.8%
Construction	14.3%	8.9%
Agriculture	0.1%	0.0%
Water	0.5%	0.0%

Do these Foreign-Owned Businesses create jobs?

Number of Employees per Firm

Locally Owned	16.1
Foreign-Owned	15.5
All Businesses	15.9

Percent Foreign Workers

Locally Owned Businesses	4.2%
Foreign-Owned Businesses	17.8%
All Businesses	8.4%

A recent shift in the Balance of Trade

- In 2021, money out was \$260m more than money in - a Current Account (C/A) Deficit
- Up to 2015, the opposite was true: Oil exports were so big that the C/A was in surplus.
- Since 2016, almost every year the C/A has been in deficit. Why? Oil revenues declining.
- Timor-Leste has very large Trade imbalance – Imports much larger than Exports. This is manageable because of Petroleum Fund balance and investment returns.

Why is Timor-Leste such an Open Economy?

It is common for small countries to be Open.

- The economy is too small to be able to produce the goods needed, especially manufacturing, but also food - a reliance on imports.
- The small market makes it difficult to local production to be of sufficient scale to compete with imports.
- Solution is export-oriented industries – exporting goods, services or people.

The Open economy – people movement

- Timor-Leste sends many workers overseas - because there are not enough local jobs that pay well.
- There are many skilled foreign workers, because of skills gaps in the local labour force.
- Foreign Tourists, and people coming to Timor-Leste for work.
- Timorese look for opportunities to explore the world, for education, for health, for work

All these Activities are “Trade”

Trade can create many economic benefits:

- Oil exports funds Government budget
- Overseas workers send money to support their families and return with experience
- Imports bring valuable consumer goods for people to enjoy, diesel for electricity, inputs into agricultural activity, and much more
- Exports earn income for those who work in the export industry
- Tourists generate local jobs
- Foreign workers bring expertise and skills that help create local work

BUT this Open economy is fragile

- Not enough jobs, and most are vulnerable – *traditional farming with low incomes, informal sector workers with no stability or security*
- High poverty and poor nutrition – *affects learning and productivity*
- Reliance on Oil revenues and Petroleum Fund - *not sustainable*
- High imports and low exports - *a small and still weak non-oil economy*
- High level of remittances received - *reliance on other countries' economies to create jobs*
- High level of remittances sent - *reliance on much foreign skilled labour, and lack of confidence to invest in the local economy*

Timor-Leste's Exports: GDP ratio is the second lowest in the world

Timor-Leste's Trade: GDP ratio is among the highest in the world

The future of trade?

An inclusive and sustainable future will need a different mix of trade:

- Better use of labour mobility – training, remittances, reintegration
- More foreign investment to create local jobs and improve local skills
- More skilled workforce that can contribute to the economy
- More non-oil exports – Tourism, Agriculture and processing
- More access to the modern global digital world – knowledge, financial services, etc. *Online shopping!*

Becoming a more sustainable Open Economy

1. Business Enabling Environment

- WTO, ASEAN, and other Trade Agreements
- Other reforms to improve the environment for business – The current FDI profile suggests an unattractive BEE
- Trade Infrastructure (airport, port)

2. Investing in the Trade-oriented sectors

- Labour Mobility and Financial Services
- Tourism
- Export-oriented Agriculture and Agricultural processing

Requires targeted investment from government and foreign investors to accelerate growth in these sectors

3. Building Human Capital

Having a well educated, skilled and experienced workforce