



# TIMOR-LESTE IN ASEAN

## Is It Ready to Join?

Joanne Lin, Sharon Seah,  
Sithanonxay Suvannaphakdy  
and Melinda Martinus

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## FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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# Timor-Leste in ASEAN: Is It Ready to Join?

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## EXECUTIVE SUMMARY

- After more than a decade of deliberations, ASEAN leaders agreed on 11 November 2022 in principle to admit Timor-Leste as the eleventh member of the regional organization and to grant Timor-Leste observer status to attend all ASEAN meetings. Timor-Leste has demonstrated positive developmental progress, and fact-finding missions across the three ASEAN Community pillars have returned generally optimistic results.
- However, an assessment of Timor-Leste's ability to fulfil its commitments and obligations reveals that the country will need to close the gap with the ten existing members on matters such as the ratification and implementation of legally binding agreements and derivative work plans. Creating enforcement mechanisms and finding ways to implement commitments at the local level will be important.
- Timor-Leste has put in place institutional structures and implementing agencies for advancing cooperation with ASEAN. It is also moving towards harmonizing its laws with ASEAN instruments. However, its capacity remains in question due to a lack of substantive knowledge and technical expertise among government officials, as well as inadequate infrastructure, logistics and facilities for hosting ASEAN meetings.
- Strengthening human capital will be a top priority for Timor-Leste. This includes not only enhancing its personnel's knowledge and technical expertise on ASEAN processes and procedures but also skills such as English language proficiency and negotiation.



Coordinated capacity-building assistance from ASEAN and dialogue partners will be important. These efforts must also be met with economic diversification and growth of its nascent private sector.

- Apart from bridging gaps, ASEAN needs to grapple with its reservations that Timor-Leste's economic limitations may slow down the realization of the ASEAN Economic Community. There are also concerns that Timor-Leste's membership may entrench differences within the bloc, particularly with regard to geopolitical issues, and dilute the organization's effectiveness or further complicate the consensus-based decision-making process.

# Timor-Leste in ASEAN: Is It Ready to Join?

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## INTRODUCTION

In response to Timor-Leste’s formal application for ASEAN membership in 2011, ASEAN leaders in November 2022 finally came to an in-principle agreement to admit the country as its eleventh member and to grant Timor-Leste observer status to attend all ASEAN meetings. This follows the positive outcomes of fact-finding missions across the three ASEAN Community pillars, which noted the strong political will and commitment displayed by Timor-Leste for its accession to ASEAN.

Timor-Leste has developed two key documents to help align its national laws, regulations, and policies with ASEAN’s, particularly concerning its binding agreements. The “Timor-Leste ASEAN Mobilization Programme” (TLAMP)<sup>2</sup> and the “Critical Elements for

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<sup>2</sup> Embassy of Malaysia, Dili, “The Launch of Timor-Leste ASEAN Mobilisation Program (TLAMP)”, 4 March 2019, [https://www.kln.gov.my/web/tls\\_dili/news-from-mission/-/blogs/the-launch-of-timor-leste-asean-mobilization-program-tlamp-](https://www.kln.gov.my/web/tls_dili/news-from-mission/-/blogs/the-launch-of-timor-leste-asean-mobilization-program-tlamp-)

Accession” (CEA) Work Plan<sup>3</sup> enable the country to map the scope of each agreement and area of cooperation for the benefit of its corresponding government ministries and agencies.

While Timor-Leste has successfully mapped out ASEAN programmes and activities to mobilize its relevant officials, there is still work to be done in fulfilling the obligations and commitments of ASEAN membership. As the fact-finding missions across the three ASEAN Community pillars have reported, Timor-Leste’s resolve and determination alone, though commendable, are insufficient for the country to fully comply with all the requirements and responsibilities of membership. Further efforts are needed to bridge the gaps across all cooperation areas, especially to bring the country’s regulatory trade and investment regimes to full compliance with over 200 ASEAN economic agreements.<sup>4</sup>

Apart from a long list of agreements, cooperation within ASEAN continues to evolve to address increasingly complex challenges in the region and beyond. Sectoral bodies in ASEAN now cover an expanded scope of cooperation including more military field and table-top exercises, digitalization, e-commerce, cybersecurity, green technology, and innovation, among others. Timor-Leste will need to build its capacity, not just to accede to all legally binding instruments of ASEAN, but also to contribute constructively to all aspects of ASEAN cooperation—current and future.

For this reason, ASEAN has underscored the importance of fully supporting the country to achieve the milestones in a criteria-based roadmap.<sup>5</sup>

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<sup>3</sup> Asian Development Bank, “Timor-Leste: Capacity for Regional Economic Integration”, July 2021, <https://www.adb.org/sites/default/files/project-documents/49002/49002-001-tcr-en.pdf>

<sup>4</sup> ASEAN, “ASEAN Legal Instruments”, <https://agreement.asean.org/>

<sup>5</sup> ASEAN, “ASEAN Leaders’ Statement on the Application of Timor-Leste for ASEAN Membership”, 11 November 2022, <https://asean.org/wp-content/uploads/2022/11/05-ASEAN-Leaders-Statement-on-the-Application-of-Timor-Leste-for-ASEAN-Membership.pdf>

In understanding the challenges of Timor-Leste's accession to ASEAN and how the country can bridge the gap, this paper aims to assess:

- Timor-Leste's ability to fulfil its commitments and obligations, particularly regarding the legally binding agreements across the three ASEAN Community pillars;
- Timor-Leste's domestic capacity, including human capital and infrastructure, to host key ASEAN meetings, including ASEAN Summits;
- Timor-Leste's monetary and fiscal stability, as well as its ability to contribute to ASEAN financially; and
- potential implications for ASEAN in accepting Timor-Leste as a full member.

## **SECTION I: GAP ANALYSIS**

### **I.1 ASEAN Political-Security Community**

#### *Accession to Legally Binding Instruments*

Acceding to legally binding instruments in ASEAN will be one of the key priorities for Timor-Leste if it is to ensure that it can match the current commitments of ASEAN member states. Although Timor-Leste has ratified over sixty United Nations Conventions<sup>6</sup> and expressed confidence that its national interests can accommodate regional ones, it will still need time to accede to all the ASEAN instruments drawn up since ASEAN's founding more than fifty-five years ago.

The process of ratifying legally binding agreements will take time. For Timor-Leste, the entire process of translating ASEAN agreements into law will take approximately two and a half to six months,<sup>7</sup> including the translation from English into its two official languages, Tetum and

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<sup>6</sup> In an interview with the Timor-Leste government.

<sup>7</sup> Ibid.

Portuguese. Timor-Leste is in the process of setting up an International Affairs Division in its Ministry of Justice to speed up the process of ratifying ASEAN instruments.

The newer members of ASEAN, *viz.*, Laos, Cambodia, Myanmar, and Vietnam, took approximately two to three years<sup>8</sup> (pre-ASEAN Charter) to fully ratify most ASEAN instruments, although those under the economic sector required more time to ensure technical compliance.

Apart from acceding to the legally binding instruments, there are many action lines under the three ASEAN Community pillars' blueprints.<sup>9</sup> Timor-Leste must ensure it has the relevant line agencies and the competency to implement various aspects of cooperation in ASEAN.

The APSC fact-finding mission and other academic assessments have identified several gaps and limitations that need to be addressed. These are summarized below.

### *Transnational Crime*

Where transnational crime is concerned, Timor-Leste's primary focus is on domestic violence or organized crime, and it has little experience facing the full range of transnational crime and related challenges faced by other ASEAN member states. For example, Timor-Leste has limited experience in combatting cybercrime and addressing various aspects of cybersecurity.

The country is in the process of setting up a Transnational Crime Centre (with the support of Australia), including putting in place an Integrated Information Management Centre to foster information sharing among its law enforcement and security agencies. In 2021, Timor-Leste established the Commission to Fight Human Trafficking, which is responsible for

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<sup>8</sup> According to interviews with officials from Laos, Cambodia, Myanmar and Vietnam.

<sup>9</sup> ASEAN, "ASEAN Political-Security Community Blueprint", [https://asean.org/wp-content/uploads/2021/03/APSC\\_BluePrint.pdf](https://asean.org/wp-content/uploads/2021/03/APSC_BluePrint.pdf)

external cooperation and the implementation of conventions on human trafficking.<sup>10</sup>

According to the US Department of State, Timor-Leste, despite making significant efforts, does not as yet fully meet the minimum standards for the elimination of human trafficking.<sup>11</sup> Although it has finalized an anti-trafficking national action plan (NAP) 2023–28,<sup>12</sup> the lack of expertise and understanding of trafficking crimes among officials remains an impediment to effectively combatting trafficking. For example, government-wide standard operating procedures (SOPs) for victim identification have been stalled for over seven years. This is indicative of the government’s low capacity.

Similarly, current practices are not up to par with international best practices. Community policing may be regarded as a successful national action plan in Timor-Leste to curb the proliferation of organized crime; however, it may not be the best approach to managing cross-border transnational crime in Southeast Asia.

According to interviews with officials who participated in the fact-finding mission, for Timor-Leste to participate effectively within ASEAN in this area, it needs to: (i) align its national priorities and concerns with ASEAN’s priorities; (ii) understand the commitments under the ASEAN Ministerial Meeting on Transnational Crime (AMMTC); (iii) increase its capacity by expeditiously setting up its Transnational

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<sup>10</sup> Government of Timor-Leste, “Timor-Leste Cria Comissão de Luta Contra o Tráfico de Pessoas”, <http://timor-leste.gov.tl/?p=28714&lang=env> (accessed 26 March 2023).

<sup>11</sup> US Department of State, “2022 Trafficking in Persons Report: Timor-Leste”, <https://www.state.gov/reports/2022-trafficking-in-persons-report/timor-leste/> (accessed 26 March 2023).

<sup>12</sup> United Nations Timor-Leste, “Unified Concerted Efforts Against Human Trafficking are Imperative”, 28 July 2023, <https://timorleste.un.org/en/240396-unified-concerted-efforts-against-human-trafficking-are-imperative#:~:text=Mandated%20by%20the%202017%20Anti,and%20inter%2Dministerial%20coordination%20at>

Crime Centre and putting in place relevant SOPs; and (iv) expand cooperation with ASEAN member states beyond its current close cooperation with Malaysia, Singapore, the Philippines and Thailand.

### *Defence Sector*

Timor-Leste's National Strategic Concept for Defence and Security places high emphasis on maritime security.<sup>13</sup> It is currently in the process of establishing the National Maritime Authority (with support from Portugal, Australia and the US) and the National Maritime Integrated System to cooperate with neighbouring countries. Despite maritime security being an important component of its defence strategy, Timor-Leste currently lacks the capacity to adequately manage and patrol its coasts or to address issues such as illegal, unreported and unregulated (IUU) fishing.

Apart from maritime security, the Ministry of Defence is currently reviewing existing defence documents and modernizing key capabilities such as peacekeeping and humanitarian assistance and disaster relief (HADR).

As there are over fifty meetings under the ambit of the ASEAN Defence Ministers' Meeting (ADMM) and the ADMM-Plus, there are concerns from ASEAN that Timor-Leste may not be able to participate fully in all activities due to manpower and resource limitations. The ADMM-Plus includes technical meetings under the Expert Working Groups (EWGs) in the areas of maritime security, HADR, counterterrorism, peacekeeping operations, military medicine, cyber security, border management, ASEAN Defence Industry Collaboration (ADIC), defence education, and confidence-building measures (such as the implementation of the Guidelines for Air Military Encounters). Timor-Leste will also need to be equipped with technical expertise to participate in table-top and field exercises.

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<sup>13</sup> Government of Timor-Leste, "Launching of the Strategic Concept for Defence and National Security", 8 September 2015, <http://timor-leste.gov.tl/?p=13280&n=1&lang=en>

Moving forward, Timor-Leste will have to chart its current capabilities and expertise with the above-mentioned domains within defence cooperation. It will also need to acquire the capacity to co-chair the ADMM-Plus EWGs and to hold the Chairmanship of the ADMM-Plus during its ASEAN Chairmanship.

### *Political Cooperation*

Timor-Leste is currently a High Contracting Party to the Treaty of Amity and Cooperation in Southeast Asia (TAC) following its accession in January 2007. It is expected to also accede to the Treaty of the Southeast Asia Nuclear Weapon-Free Zone (SEANWFZ). However, Timor-Leste does not have a nuclear regulatory authority or a line agency to handle the work of the ASEAN Network of Regulatory Bodies on Atomic Energy (ASEAN TOM) and to ratify the SEANWFZ treaty. Furthermore, it is currently not a member of the International Atomic Energy Agency (IAEA),<sup>14</sup> although it is considering IAEA membership, nor is it a party to any international agreement pertaining to nuclear safeguards. Capacity-building assistance will be needed to bring Timor-Leste to be on par with ASEAN members in this area of cooperation.

### *External Relations*

External relations should not pose a big challenge for Timor-Leste considering that it has played an active role in the Community of Portuguese Language Countries (CPLP) and the Group of Seven Plus (g7+).<sup>15</sup> It has also chaired United Nations Security Council (UNSC) discussions on peacekeeping operations.

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<sup>14</sup> OLA, IAEA, “Democratic Republic of Timor-Leste”, <https://ola.iaea.org/Applications/FactSheets/Country/Detail?code=TL>

<sup>15</sup> The Group of Seven Plus (g7+) is made up of twenty member states affected by conflict and fragility in Asia, Africa, Pacific and Caribbean. These are: Afghanistan, Burundi, Central African Republic, Chad, Comoros Islands, Cote d’Ivoire, Democratic Republic of Congo, Guinea, Guinea-Bissau, Haiti, Liberia, Papua New Guinea, Sao Tome e Principe, Sierra Leone, Solomon Islands, Somalia, South Sudan, Timor-Leste, Togo and Yemen.



While Timor-Leste has aligned its foreign policy priorities to maintain privileged relations with the CPLP, it does not have any restrictions in its diplomatic relations or partnerships with any ASEAN member states or dialogue partners of ASEAN. Currently, Timor-Leste has established missions in seven (Australia, China, the EU, Japan, South Korea, New Zealand and the US)<sup>16</sup> out of eleven ASEAN dialogue partner countries and is in the process of establishing one in India. Timor-Leste enjoys good relations with regional and global bodies, including the World Bank, International Monetary Fund (IMF) and Asian Development Bank (ADB), among others.

As such, there is no barrier to Timor-Leste advancing external relations within ASEAN. However, it needs to take up the country coordinatorship in managing relations with a dialogue partner. Currently, ASEAN has eleven dialogue partners. Once Timor-Leste is a full member of ASEAN, the coordinatorship will be shared equally among the eleven members. In coordinating relations, Timor-Leste will need the capacity and ability to co-chair the various meetings with its assigned dialogue partner and to perform all coordinating duties.

Timor-Leste will also need to participate in all activities of the East Asia Summit (EAS) and the ASEAN Plus Three (APT), as well as attend all other meetings with the growing number of ASEAN sectoral dialogue partners and development partners. In addition, Timor-Leste representatives will have to attend the meetings of the ASEAN Committee in Third Countries and International Organizations (ACTCs)<sup>17</sup> in countries where it has diplomatic missions.<sup>18</sup>

The attendance of hundreds of meetings with external partners will mean that Timor-Leste needs to have sufficient human resources with

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<sup>16</sup> Embassy Worldwide, “East Timor Embassies and Consulates”, <https://www.embassy-worldwide.com/country/east-timor/>

<sup>17</sup> Currently there are fifty-five ACTCs around the world.

<sup>18</sup> ASEAN, “ASEAN Committees in Third Countries and International Organisations (ACTCs)”, <https://asean.org/our-communities/asean-political-security-community/outward-looking-community/external-relations/asean-committee-in-third-countries-and-international-organisations-actcs/>

relevant competency to fully participate. It needs a sufficient budget to attend meetings that may take place in dialogue partner countries or outside of the ASEAN Secretariat.

### *Human Rights*

Timor-Leste has been successful in implementing policies to promote and protect human rights, especially regarding gender equality and women's participation in civil society. It has acceded to several conventions<sup>19</sup> (eight out of nine core agreements) on human rights, including the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) and the Convention on the Rights of Child (CRC). In January 2023, Timor-Leste acceded to the Convention on the Rights of Persons with Disabilities.

In fact, it is expected that Timor-Leste will be able to comply with the ASEAN Human Rights Declaration of 2012 and play an active role in the ASEAN Intergovernmental Commission on Human Rights (AICHR) and the ASEAN Commission on the Promotion and Protection of the Rights of Women and Children (ACWC).

### *Legal Cooperation*

The authors have been informed by officials that Timor-Leste is still working on reforming its legal and judicial systems and developing its arbitration law. There are several challenges in its legal system that the country needs to overcome, including its hybridity—the Portuguese system is used in civil law but the common law model is used for business arbitration, while customary law (from its Portuguese colonial past, Indonesian occupation, and the period of UN administration) is valid in other cases.<sup>20</sup>

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<sup>19</sup> United Nations Human Rights Treaty Bodies, “UN Treaty Body Database”, [https://tbinternet.ohchr.org/\\_layouts/15/TreatyBodyExternal/Treaty.aspx?CountryID=174&Lang=EN](https://tbinternet.ohchr.org/_layouts/15/TreatyBodyExternal/Treaty.aspx?CountryID=174&Lang=EN)

<sup>20</sup> Lindsay Greising and Nelinho Vital, “Legal Research in Timor-Leste” (New York: GlobalLex, New York University, October 2014), [https://www.nyulawglobal.org/globalex/Timor\\_Leste.html](https://www.nyulawglobal.org/globalex/Timor_Leste.html)

As such, even though Timor-Leste is actively conducting its legislative streamlining with ASEAN's regulations, ASEAN members remain apprehensive about its ability to implement ASEAN treaties and agreements through its domestic laws. The low ratification rate of international agreements and conventions that Timor-Leste has signed since its independence could be a cause for concern. However, the low rate of ratification may be due to Timor-Leste's monist stance under its Constitution, and it may therefore not need to put its international obligations directly through domestic ratification processes.<sup>21</sup>

The process of harmonizing Timorese law with ASEAN's regulations may take significant time, considering the plethora of ASEAN agreements and the time needed for translation into Tetum and Portuguese languages (for the agreements to be ratified). Moreover, the lack of legal expertise within the relevant ministries might affect the timeline for the negotiation and drafting of future documents such as statements, agreements and work plans within ASEAN.

While Timor-Leste is working towards harmonizing its laws with ASEAN instruments, it should also look into aspects of enforcement, including the creation of enforcement mechanisms and the strengthening of human resource capacity to enforce new laws and rules.

## **I.2 ASEAN Economic Community**

Cognizant of over 200 economic agreements, this section focuses on the key agreements under the AEC that are of priority to economic integration and could benefit Timor-Leste the most. These include the ASEAN Free Trade Area (AFTA), ASEAN Trade in Goods Agreement (ATIGA), ASEAN Single Window (ASW), ASEAN Trade Facilitation Framework (ATTF), ASEAN Trade in Services Agreement (ATISA), and the ASEAN Comprehensive Investment Agreement (ACIA). The country's ability to comply with these agreements would serve as a stepping stone for

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<sup>21</sup> Jacinta Mulders, "Rights, Regulation and Ritualism—Country Studies" (Australia: Centre for International Governance & Justice, Regulatory Institutions Network, College of Asia & the Pacific Australian National University, August 2015).

it to accede and ratify other ASEAN+1 free trade agreements and the Regional Comprehensive Economic Partnership (RCEP).

### *Trade in Goods: Tariff Liberalization*

ASEAN began to eliminate tariffs through the implementation of the Common Effective Preferential Tariff (CEPT) scheme under the ASEAN Free Trade Area (AFTA) commencing in January 1993.<sup>22</sup> CEPT aimed to reduce tariff rates of all manufactured goods to a range of 0–5 per cent over the period of fifteen years (Article 4 of CEPT),<sup>23</sup> suggesting that the original tariff reduction schedule under CEPT would be completed by 2008. It was subsequently revised to achieve the elimination of tariffs by 2015 for ASEAN-6 and by 2018 for ASEAN-4.<sup>24</sup>

ASEAN efforts to reduce tariffs under the CEPT scheme have been further strengthened by the implementation of the ASEAN Trade in Goods Agreement (ATIGA) in 2010 by consolidating all the CEPT provisions. Under ATIGA (Article 19), tariffs on all products (excluding those in the general exclusion list) shall be eliminated by 2010 for ASEAN-6 and by 2018 for ASEAN-4.<sup>25</sup>

Over the past two decades, ASEAN has made substantial progress in the elimination of tariffs imposed on intra-regional trade in goods

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<sup>22</sup> Asian Development Bank, “Asia Regional Integration Center Tracking Asian Integration” (Asian Development Bank, n.d.), <https://aric.adb.org/fta/asean-free-trade-area>

<sup>23</sup> ASEAN, “Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA)” (1992), <https://asean.org/agreement-on-the-common-effective-preferential-tariff-cept-scheme-for-the-asean-free-trade-area-afta/>

<sup>24</sup> ASEAN-6 refers to Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand, and the ASEAN-4 refers to Cambodia, Lao PDR, Myanmar and Vietnam.

<sup>25</sup> Tariff reductions follow eight schedules. Tariff rates on products in Schedules A-D shall be eliminated or reduced to a range of 0–5 per cent. For unprocessed agricultural products in Schedule E, ASEAN members shall reduce the MFN tariff rates in accordance with the schedule. Schedule F requires Thailand and Vietnam to reduce out-quota tariff rates. Schedule G requires Cambodia and Vietnam to reduce their tariff rates on imports of petroleum products. Tariff rates

under AFTA and ATIGA. As of January 2023, the number of tariff lines with zero tariff rates in ASEAN countries accounted for 98.68 per cent of total tariff lines (Table 1). There are more than 10,000 tariff lines defined by the 8-digit ASEAN harmonized tariff nomenclature (AHTN) codes. Singapore recorded 100 per cent tariff liberalization, meaning that the country has eliminated tariffs on all products traded within the region. Brunei, Malaysia, Myanmar, the Philippines, and Thailand have eliminated more than 99 per cent of their tariff lines, while Laos and Vietnam have removed more than 96 per cent of their tariff lines.<sup>26</sup>

If Timor-Leste joins ATIGA, it will need to work towards the elimination of tariffs on all products traded with other ASEAN countries (except those in the general exclusion list). As of 2021, Timor-Leste did not have any duty-free tariffs on products at harmonized system (HS) 6-digit codes, suggesting that the country has not yet eliminated tariffs on products imported from other countries. The most-favoured-nation (MFN) tariff rates were averaged at 2.5 per cent, with the maximum tariff rate averaged at 4.3 per cent (Table 2). The maximum tariff rates were notable in fruit, vegetables, and plants (10 per cent); non-electrical machinery (10 per cent); minerals and metals (5 per cent); chemicals (5 per cent); and transportation equipment (5 per cent). Tariffs on these products will need to be reduced or eliminated under the tariff liberalization schedules of ATIGA.

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on products in Schedule H are not reduced or eliminated for reasons of public morals and the protection of people, animals, and the environment (Articles 8 and 19 of ATIGA). For example, Vietnam has placed 100 tariff lines in the general exclusion list (Schedule H) comprising tobacco, explosives, retreaded tyres of rubber, and weapons.

<sup>26</sup> The remaining 3.51 per cent (401 tariff lines) of tariff lines in Laos are unprocessed agricultural products listed in Schedule D (289 tariff lines) and products listed in Schedule H for general exceptions (112 tariff lines). The remaining 3.92 per cent (424 tariff lines) of tariff lines in Vietnam are products in the priority integration sectors (PIS) listed in Schedule C (199 tariff lines), petroleum products listed in Schedule G (25 tariff lines), and products in Schedule H (100 tariff lines), Schedule D (56 tariff lines), Schedule A (18 tariff lines), and Schedule F (13 tariff lines).

**Table 1: Percentage of Tariff Lines with Zero-Tariff Rates in ASEAN countries, January 2023**

<b>Country</b>	<b>Tariff Classification</b>	<b>Total Tariff Lines (8-digit code)</b>	<b>% of Tariff Lines with Zero-Tariff Rates</b>
Brunei	AHTN 2017	10,813	99.20%
Cambodia	AHTN 2022	11,414	98.54%
Indonesia	AHTN 2022	11,414	98.82%
Laos	AHTN 2022	11,414	96.49%
Malaysia	AHTN 2022	11,325	99.37%
Myanmar	AHTN 2022	11,414	99.26%
Philippines	AHTN 2017	10,824	99.21%
Singapore	AHTN 2022	11,414	100.00%
Thailand	AHTN 2022	11,412	99.86%
Vietnam	AHTN 2017	10,813	96.08%
<i>ASEAN</i>			<i>98.68%</i>

*Note:* AHTN stands for ASEAN harmonized tariff nomenclature.

*Source:* Authors' calculation using data from ATIGA's in-force tariff schedules, <https://asean.org/annex-2-tariff-schedules> (accessed 5 March 2023).

To realize tariff liberalization and exploit trade benefits under ATIGA, Timor-Leste should align its tariff classification codes with those of AHTN and provide commitments on tariff liberalization through the tariff liberalization schedules. Assuming that Timor-Leste is treated as part of the ASEAN-4 (the newer members of ASEAN), its tariff liberalization should be realized within eight years (Article 19(1) of ATIGA) starting from the date of its membership. The country will need to issue a legal enactment in accordance with its laws and regulations to give effect to the implementation of the tariff liberalization schedules (Article 21 of ATIGA).

To do so, the trade-related authorities should put in place a mechanism to apply preferential tariff rates on goods imported from other ASEAN members, and to raise export-oriented firms' awareness of the rules

**Table 2: MFN Applied Tariff Rates in Timor-Leste by Product Group, 2021**

<b>Product Groups</b>	<b>Average (%)</b>	<b>Duty-Free (% of HS 6-Digit Tariff Lines)</b>	<b>Maximum Tariff Rate (%)</b>
Animal products	2.5	0.0	3.0
Dairy products	2.5	0.0	3.0
Fruit, vegetables, plants	2.6	0.0	10.0
Coffee, tea	2.5	0.0	3.0
Cereals & preparations	2.5	0.0	3.0
Oilseeds, fats & oils	2.5	0.0	3.0
Sugars and confectionery	2.5	0.0	3.0
Beverages & tobacco	2.5	0.0	3.0
Cotton	2.5	0.0	3.0
Other agricultural products	2.5	0.0	5.0
Fish & fish products	2.5	0.0	3.0
Minerals & metals	2.5	0.0	5.0
Petroleum	2.5	0.0	3.0
Chemicals	2.5	0.0	5.0
Wood, paper, etc.	2.5	0.0	3.0
Textiles	2.5	0.0	3.0
Clothing	2.5	0.0	3.0
Leather, footwear, etc.	2.5	0.0	3.0
Non-electrical machinery	2.7	0.0	10.0
Electrical machinery	2.5	0.0	3.0
Transport equipment	2.5	0.0	5.0
Manufactures, n.e.s.	2.5	0.0	10.0
<i>Average</i>	<i>2.5</i>	<i>0.0</i>	<i>4.3</i>

*Source:* Authors' compilation from WTO's online database "World Tariff Profiles 2022", [https://www.wto.org/english/res\\_e/publications\\_e/world\\_tariff\\_profiles22\\_e.htm](https://www.wto.org/english/res_e/publications_e/world_tariff_profiles22_e.htm) (accessed 26 March 2023).

of origin to benefit from preferential tariffs granted by other ASEAN countries. While importers will benefit from lower tariff rates imposed on imported goods, exporters will gain from improved access to ASEAN markets, presenting opportunities for them to diversify export products and markets in ASEAN. The same approach of tariff liberalization applies to ASEAN+1 FTAs and RCEP.

### *Trade Facilitation for Trade in Goods*

Regional trade facilitation initiatives in ASEAN are supported by the ASEAN Trade Facilitation Framework (ATFF),<sup>27</sup> which provides a coordinated effort to work towards the twin goals of reducing trade transaction costs by 10 per cent by 2020 and doubling intra-ASEAN trade between 2017 and 2025.<sup>28</sup> The ATFF focuses on the effective implementation of existing ASEAN obligations, commitments and instruments relating to trade facilitation. These include trade facilitation measures under ATIGA, the Trade Facilitation Agreement (TFA) under the World Trade Organization (WTO), and trade facilitation under the framework of the Revised International Convention on the Simplification and Harmonization of Customs Procedures (the revised Kyoto Convention).

An analysis of trade facilitation against twenty-six measures across six categories using data from the UN Global Survey on Digital and Sustainable Trade Facilitation in 2021 reveals that trade facilitation in Timor-Leste performs relatively well in transparency and institutional arrangement and cooperation, while lagging behind ASEAN countries in areas such as formalities, transit facilitation, paperless trade, and trade facilitation for SMEs. Table 3 shows the progress of trade facilitation

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<sup>27</sup> ASEAN, “ASEAN Trade Facilitation Framework”, 2022, <https://asean.org/wp-content/uploads/2022/03/ASEAN-Trade-Facilitation-Framework.pdf> (accessed 4 March 2023).

<sup>28</sup> ASEAN, “ASEAN Trade Facilitation”, ASEAN Main Portal, <https://asean.org/our-communities/economic-community/trade-facilitation/> (accessed 26 March 2023).



**Table 3: Trade Facilitation in Timor-Leste and ASEAN Countries, 2021**

#	Trade Facilitation Measure	Timor-Leste	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
<i>I.</i>	<i>Transparency (5)</i>											
1	Publication of existing import-export regulations on the Internet.	Partial	Full	Full	Full	Full	Full	Partial	Full	Full	Full	Partial
2	Stakeholders' consultation on new draft regulations (prior to their finalization).	Partial	Full	Full	Full	Full	Full	Partial	Full	Full	Full	Full
3	Advance notification of new trade-related regulations before their implementation.	Partial	Full	Full	Full	Full	Full	Partial	Full	Full	Full	Full

4	Advance ruling on tariff classification and origin of imported goods.	No	Full	Full	Partial	Partial	Full	Partial	Full	Full	Full	Full	Partial	
5	Independent appeal mechanism (for traders to appeal customs rulings and the rulings of other relevant trade control agencies).	Partial	Partial	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	
<i>II. Formalities (9)</i>														
6	Risk management	Planning	Full	Full	Partial	Partial	Full	Full	Full	Full	Full	Full	Full	Partial
7	Pre-arrival processing	Partial	Full	Partial	Full	Full	Full	Full	Full	Full	Full	Full	Full	Partial
8	Post-clearance audits	No	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	Partial
9	Separation of release from final determination of customs duties, taxes, fees and charges.	No	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full	Partial

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**Table 3 — cont'd**

#	Trade Facilitation Measures	Timor-Leste	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
10	Establishment and publication of average release times.	No	Full	Full	Full	Partial	Full	Partial	Full	Full	Full	Partial
11	Trade facilitation measures for authorised operators.	No	Full	Partial	Full	Planning	Full	Partial	Full	Full	Full	Partial
12	Expedited shipments.	No	Full	Full	Full	Partial	Full	Planning	Full	Full	Full	Full
13	Acceptance of copies of original supporting documents required for import, export or transit formalities.	No	Full	Full	Full	Partial	Full	Partial	Full	Full	Full	Full

14	Special treatment for perishable goods.	No	NA	Partial	Full	Planning	Full	Planning	Full	Full	Full	Full	Partial
<i>III. Institutional Arrangement and Cooperation (4)</i>													
15	National Trade Facilitation Committee, or similar body.	Partial	Partial	Full	Full	Full	Full	Full	Full	Full	Full	Full	Partial
16	National legislative framework and/ or institutional arrangements for border agencies cooperation.	Partial	Partial	Full	Partial	Partial	Partial	Partial	Partial	Full	Partial	Partial	Partial
17	Alignment of working days and hours with neighbouring countries at border crossings.	Partial	Full	Partial	Full	Full	Full	Planning	NA	Partial	Full	Full	Partial
18	Alignment of formalities and procedures with neighbouring countries at border crossings.	Partial	Full	Full	Full	Full	Full	Planning	NA	Partial	Full	Full	Partial

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**Table 3 — cont'd**

#	Trade Facilitation Measures	Timor-Leste	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
<i>IV. Transit Facilitation (3)</i>												
19	Limiting physical inspections of transit goods and using risk assessment.	NA	NA	Full	Full	Full	Full	Full	NA	Full	Partial	Full
20	Supporting pre-arrival processing for transit facilitation.	NA	NA	Full	Full	Partial	Partial	Planning	NA	Full	No	Partial
21	Cooperation between agencies of countries involved in transit.	NA	Full	Full	Full	Partial	Full	Planning	NA	Full	Full	Partial
<i>V. Paperless Trade (2)</i>												
22	Electronic Single Window System.	No	Full	Partial	Full	Planning	Full	Partial	Partial	Full	Full	Partial
23	E-Payment of customs duties and fees.	No	Full	Partial	Full	Partial	Full	Partial	Full	Full	Full	Partial

<i>Trade Facilitation for SMEs (5)</i>										
VI.										
24	Trade-related information measures for SMEs.	No	Full	Full	Full	Partial	Full	Partial	Full	Partial
25	SMEs in authorised economic operator (AEO) scheme.	No	No	Partial	No	No	Full	Planning	No	Full
26	SMEs access Single Window.	No	No	Partial	Planning	No	Full	Planning	No	Full
27	SMEs in National Trade Facilitation Committee.	No	No	Partial	Planning	No	Full	Planning	No	Partial
28	Other special measures for SMEs.	No	NA	Partial	Full	No	Planning	Partial	Partial	Partial

*Notes:*

- *Full implementation* of a trade facilitation measure refers to full compliance with commonly accepted international standards, recommendations and conventions such as the Revised Kyoto Convention, UN/CEFACT Recommendations or the WTO TFA; it is implemented in law and practice; is available to essentially all relevant stakeholders nationwide; and is supported by adequate legal and institutional frameworks as well as adequate infrastructure and financial and human resources.
- *Partial implementation* of a trade facilitation measure refers to partial compliance with commonly accepted international standards, recommendations and conventions; or the process of rolling out the implementation of such a measure; or the implementation of such a measure on an unsustainable, short-term or ad-hoc basis; or the implementation of such a measure in some—but not all—targeted locations (such as key border crossing stations); or some—but not all—targeted stakeholders involved in the implementation of such measures.
- *Pilot stage* of implementation of a trade facilitation measure refers to the implementation of such measures that are available only to a very small portion of the intended stakeholder group (or at certain locations).
- *Non-implementation* of a trade facilitation measure refers to the fact that such a measure has not been implemented. It may however still include initiatives or efforts towards implementation of the measure.

*Source: Authors' calculation using data from the UN Global Survey on Digital and Sustainable Trade Facilitation in 2021*

implementation in four stages, namely, no implementation at a pilot stage of implementation, partial implementation, and full implementation.<sup>29</sup>

Timor-Leste has yet to implement seven of nine measures of trade formalities, including post-clearance audits; expedited shipments; special treatment for perishable goods; trade facilitation measures for authorized operators; acceptance of copies of original supporting documents required for import, export, or transit formalities; amongst others. The country should also accelerate the implementation of risk management and pre-arrival processing.

The other measures which have yet to be implemented are the paperless trade and trade facilitation measures for small and medium enterprises (SMEs). These include the establishment of a national single window (NSW) and electronic payment of customs duties and fees as well as measures to facilitate SME operation such as improving SMEs' access to trade-related information and NSW, and promoting SME participation in the authorized economic operator (AEO) scheme and the National Trade Facilitation Committee.

### *ASEAN Single Window (ASW)*

The ASW is a regional initiative that connects and integrates the NSW of ten ASEAN member states for the electronic exchange of cross-border trade-related documents among them to facilitate more efficient supply chains. The Agreement to establish and implement the ASW was signed at the 11th ASEAN Summit in December 2005, followed by the signing of the Protocol to establish and implement the ASW (ASW Protocol) in 2006. The ASW was further reinforced by the implementation of ATIGA (Article 49) for ASEAN members to establish and operate their respective NSWs and the ASW.

All ASEAN members have joined the ASW's live operation, which in 2021 allowed more than 900,000 electronic exchanges of certificates of origin for granting preferential tariff treatment among member countries

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<sup>29</sup> UNESCAP, "Digital and Sustainable Trade Facilitation in Asia and the Pacific 2021", 2021, <https://repository.unescap.org/handle/20.500.12870/3889>

under ATIGA.<sup>30</sup> Six ASEAN countries, namely Cambodia, Malaysia, Myanmar, the Philippines, Singapore and Thailand, have exchanged customs declaration documents through the ASW since February 2022. ASEAN is also seeking to expand the electronic exchange to other types of trade-related information such as the sanitary and phytosanitary measures (SPS) certificate. Integrating the NSW of Timor-Leste—once established—into the ASW would further expand the cross-border electronic exchange of trade-related documents in the region.

The UN Global Survey on Digital and Sustainable Trade Facilitation done in 2021 reveals that Timor-Leste and ASEAN countries have not been able to reap the collective benefits of cross-border paperless trade for being in different stages of implementing their NSWs and cross-border paperless trade measures (Table 4). Given this weakness, the addition of Timor-Leste to the equation would increase the challenge for ASEAN to achieve a full-fledged ASW.

Second, Timor-Leste has not instituted laws and regulations for cross-border electronic transactions, nor has it established recognized certification authorities to issue digital certificates for electronic transactions. It is not alone on that score though; in fact, less than half of the ASEAN countries have instituted such laws and regulations, or established recognized certification authorities.<sup>31</sup>

Third, Timor-Leste has not initiated any cross-border electronic exchange of trade-related documents. All ASEAN countries have partially exchanged electronic certificates of origin. Indonesia, Malaysia, Myanmar, the Philippines, Singapore and Vietnam have partially exchanged SPS certificates that certify a consignment of goods such as

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<sup>30</sup> ASEAN Single Window, <https://asean.org/our-communities/economic-community/asean-single-window/> (accessed 1 March 2023).

<sup>31</sup> The two measures have been fully implemented in Malaysia, Singapore and Thailand. Cambodia has fully implemented the laws and regulations for electronic transactions, but has not yet established recognized certification authorities. The remaining six ASEAN countries, namely Brunei, Indonesia, Laos, Myanmar, the Philippines and Vietnam, have either partially implemented or are in the planning stages of implementing these measures.



**Table 4: Stages of Implementing NSWs and Cross-Border Paperless Trade Measures in Timor-Leste and ASEAN Countries, 2021**

Country	Necessary Condition	Cross-Border Paperless Trade Measures							
		Laws for Electronic Transactions	Recognized Certification Authority	Customs Declaration	Certificate of Origin	SPS Certificate	Letters of Credit		
Timor-Leste	No	No	No	No	No	No	No	No	
Brunei	Full	Partial	Partial	Planning	Partial	Planning	Partial	No	
Cambodia	Partial	Full	No	Partial	Partial	Planning	Partial	Partial	
Indonesia	Full	Partial	No	Planning	Partial	Partial	Partial	Partial	
Laos	Planning	Partial	Planning	Planning	Partial	Planning	Partial	No	
Malaysia	Full	Full	Full	Planning	Partial	Partial	Partial	NA	
Myanmar	Partial	Partial	Partial	Partial	Partial	Partial	Partial	No	
Philippines	Partial	Partial	Partial	Planning	Partial	Partial	Partial	Partial	
Singapore	Full	Full	Full	Partial	Partial	Partial	Partial	Partial	
Thailand	Full	Full	Full	Partial	Partial	Planning	Partial	Full	
Vietnam	Partial	Partial	Partial	Planning	Partial	Partial	Partial	No	

*Note:* No = not implemented; Partial = partially implemented; Full = Fully implemented; NA = data is not available.

*Source:* United Nations' Global Survey on Digital and Sustainable Trade Facilitation, <https://www.untfsurvey.org/world> (accessed 28 February 2023).

agricultural products as being free from harmful pests and plant diseases. The other ASEAN countries have either not started the exchanges or are in the planning stage.<sup>32</sup>

Timor-Leste should redouble its efforts to implement all ASW-related measures. These include establishing the National Single Window and connecting it to the ASW, constituting laws for electronic transactions and recognized certification authority, and enabling cross-border electronic exchange of customs declaration, certificate of origin, SPS certificate, and letters of credit.

### *Trade in Services*

The liberalization of ASEAN's trade in services began with the signing of the ASEAN Framework Agreement on Services (AFAS) on 15 December 1995.<sup>33</sup> To liberalize trade in services in ASEAN, AFAS (Article 3) requires ASEAN countries to eliminate substantially all existing discriminatory measures and market access limitations. It has been further strengthened to eliminate restrictions on market entry and operations of service suppliers.

ASEAN countries have achieved different degrees of service subsector liberalization, as confirmed in an analysis of the latest services trade restrictiveness index made available in 2016.<sup>34</sup> Considering the implementation of AFAS commitments under nine packages<sup>35</sup> between

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<sup>32</sup> In addition, Cambodia, Myanmar, Singapore and Thailand have partially exchanged electronic customs declaration documents that provide details of imported or exported goods such as quantity and origin of goods for customs purposes. Other ASEAN countries are in the pilot or planning stage of implementation.

<sup>33</sup> ASEAN, "ASEAN Framework Agreement on Services", n.d., <https://investasean.asean.org/files/upload/Doc%2008%20-%20AFAS.pdf> (accessed 13 March 2023).

<sup>34</sup> WTO Services Trade Policy Database, "WTO I-TIP Services", <http://i-tip.wto.org/services/default.aspx> (accessed 26 March 2023).

<sup>35</sup> 9th Package signed in 2015.

1997 and 2016, the liberalization of 104 service subsectors and a similar degree of liberalization across countries should have been achieved.

Compared to the breadth and depth of ATISA, Timor-Leste needs to make substantial progress in developing services trade-related policies and aligning them with ATISA. However, it remains in the early stages of developing policies, setting up a regulatory framework as well as providing the infrastructure required for growing its services sector. The country is developing a legal and regulatory framework for online platforms of services in Mode 1 (cross-border supply) and undertaking legal and administrative reform to ensure that measures relating to qualifications and procedures, technical standards and licensing requirements do not constitute unnecessary barriers to trade in services. Moreover, while most of its services sectors are open to international trade, especially for Mode 1 (cross-border supply) and Mode 2 (consumption abroad), it is in Mode 3 (commercial presence) and Mode 4 (presence of natural persons) where restrictions remain.

Given the complexity of ATISA, Timor-Leste should conduct a comprehensive assessment of the country's existing services trade procedures and regulatory frameworks against ATISA's requirements for all 128 service subsectors and all modes of service supply. Such an assessment can be used to prepare the schedules of liberalization commitments on services trade.

### *Investment*

The ASEAN Comprehensive Investment Agreement (ACIA)—signed in 2009 and entered into force in 2012—aims to create a liberal, facilitative, transparent and competitive investment environment in ASEAN.<sup>36</sup> It consolidated the 1987 ASEAN Investment Guarantee Agreement (ASEAN IGA) and the 1998 Framework Agreement on ASEAN Investment Area (AIA Framework Agreement) to provide more

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<sup>36</sup> ASEAN, “ASEAN Comprehensive Investment Agreement”, n.d., <https://agreement.asean.org/media/download/20140119035519.pdf>

comprehensive provisions on investment liberalization and protection. Investment liberalization under ACIA covers six sectors, namely manufacturing, agriculture, fishery, forestry, mining and quarrying, and services incidental to manufacturing, agriculture, fishery, forestry, mining, and quarrying (Article 3).

From 2015 to 2021, ASEAN countries introduced 100 favourable FDI-related policies (Table 5). These largely focused on liberalization (e.g., simplifying investment processes, relaxing investment conditions, and lowering transaction or business costs), followed by facilitation (e.g., revising and improving investment-related laws in line with international best practices) and promotion (e.g., granting investment incentives through special economic zones). Three ASEAN countries account for 69 per cent of these measures: Myanmar (25 measures), Vietnam (24 measures), and Indonesia (20 measures).

**Table 5: Number of Favourable FDI-Related Policies in ASEAN, 2015–21**

Country	2015	2016	2017	2018	2019	2020	2021	Total
Brunei		1						1
Cambodia		1				1	1	3
Indonesia	3	3	3	3	5	1	2	20
Laos			2			1		3
Malaysia					1			1
Myanmar	4	6	4	9	2			25
Philippines	1	3	1	1	2	1	2	11
Singapore		1	2	1		1		5
Thailand		1	4	1	1			7
Vietnam	6	3	4	4	4	3		24
<i>ASEAN</i>	<i>14</i>	<i>19</i>	<i>20</i>	<i>19</i>	<i>15</i>	<i>8</i>	<i>5</i>	<i>100</i>

*Source:* Extracted from A. Ono and A.T. Nguyen, “Sub-Pillar C: Investment Environment”, in *ASEAN Integration Report 20*, n.d., pp. 50–76, <https://asean.org/wp-content/uploads/2022/10/AIR2022-Web-Online-Final-211022.pdf> (Tables 2 and 4).

Timor-Leste's access to ACIA requires a greater commitment to liberalize foreign investment in key sectors and align its regulatory framework with ACIA, especially since restrictions on foreign investment in a few sectors remain. The existing private investment law (Private Investment Law No. 15/2017) does not apply to investments in the oil, gas, and mineral resources, retail sale of goods, as well as real estate marketing sectors. This poses risks for foreign investors interested in the mining sector—one of the key sectors for investment liberalization under ACIA. In this regard, the authorities should make extra effort to ensure sufficient investment provisions (e.g., investment protection, liberalization, facilitation, and promotion) in the foreign investment law for all key sectors under ACIA.

To ensure compliance with ACIA's requirements, Timor-Leste should conduct a comprehensive assessment of existing investment regulations and procedures against key provisions of ACIA across key sectors. This could then be used as a reference for determining areas of non-compliance and preparing the reservation list for the endorsement of the ASEAN Investment Area (AIA) Council within six months after its membership (Paragraph 2, Article 9, ACIA). The assessment of investment provisions may focus on three areas:

1. Entry and establishment (e.g., ownership and control, access to land, approval and admission);
2. Treatment and operation (e.g., non-discrimination, nationalizations and expropriations, capital transfers and foreign exchange control, dispute settlement, operational conditions); and
3. Promotion and facilitation (e.g., investment facilitation, investment incentives, special economic zones).

Even as Timor-Leste works towards traditional economic integration with ASEAN in trade and investments, there are emerging issues on which the country needs to catch up. These include the upcoming Digital Economic Framework Agreement, e-commerce, cross-border electronic payment systems, and others. Timor-Leste's implementation challenges in these areas lie outside the scope of this present review.

## **I.3 ASEAN Socio-Cultural Community**

There are several sectoral bodies under the ASEAN Socio-Cultural Community (ASCC) Blueprint where Timor-Leste needs to demonstrate its readiness to participate meaningfully in the future. This section highlights the most pertinent of these issues, particularly human capital capabilities. The country is blessed with a demographic bonus—75 per cent of the total population is under 35. However, the youth unemployment rate is high due to the lack of quality education and employment opportunities in the country. Several gaps and opportunities are also found in civil service and public information, environment and disaster management, and public health.

### **Human Capital Capabilities**

#### *Education*

The education system in Timor-Leste faces significant challenges. The country has a relatively low literacy rate and access to education is limited, particularly in rural areas. Primary (ages 6 to 11) and secondary (ages 12 to 17) education are compulsory, but the dropout and repetition rates are high.<sup>37</sup> The country has a small number of universities and higher education institutions but access to higher education is limited. Indonesia, Australia and Portugal/Europe are the main higher education destinations for Timorese students.

The quality of education in Timor-Leste is a concern. The country has made efforts to increase funding for education and implement teacher training programmes. But these are far from enough. Many schools lack basic resources such as textbooks and teaching materials, and there are significant disparities in access to education between urban and rural areas.

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<sup>37</sup> USAID, “School Dropout Prevention Pilot Project”, 2010–15, <https://2017-2020.usaid.gov/timor-leste/project-descriptions/school-dropout-prevention-pilot-project#:~:text=In%20Timor%2DLeste%2C%20grades%201,performance%2C%20bad%20behavior%20and%20repetition>

## *Labour*

The labour force in Timor-Leste is relatively small and largely unskilled. There is a significant skills gap between the needs of employers and the skills of the workforce. The government has identified skills development and training as a key priority in improving the quality of the labour force, and is investing in vocational education and training, as well as programmes aimed at improving literacy and numeracy.

Overall, the quality of the labour force in Timor-Leste remains a significant challenge for the country's economic development. There is a need for greater investment in education and training, and in the development of a skilled and diverse workforce. The Human Capital Development Fund, established in 2011, is being used to develop and fund multiannual programmes, strategies, and investments to close the country's education and technical skills gaps.<sup>38</sup> Notably, Timor-Leste has made significant progress in the protection of labour.<sup>39</sup> Its Labour Law (Law No. 4/2012 on Labour) sets out provisions for minimum wage, working hours, overtime, leave entitlements, and social security benefits.<sup>40</sup> In addition, there are several labour organizations and trade unions in Timor-Leste which work to protect the rights of workers and advocate for better working conditions and wages.<sup>41</sup>

## *Women*

Gender issues remain a significant challenge in Timor-Leste, particularly in relation to gender-based violence and discrimination against women.

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<sup>38</sup> Government of Timor-Leste, "Timor-Leste Labour Force Survey 2021", 2021, [https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-jakarta/documents/publication/wcms\\_863064.pdf](https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-jakarta/documents/publication/wcms_863064.pdf)

<sup>39</sup> ILO, "Timor-Leste – Law No. 4/2012 on Labour", [https://www.ilo.org/dyn/natlex/natlex4.detail?p\\_lang=en&p\\_isn=89742&p\\_country=TMP&p\\_count=58](https://www.ilo.org/dyn/natlex/natlex4.detail?p_lang=en&p_isn=89742&p_country=TMP&p_count=58) (accessed 27 March 2023).

<sup>40</sup> Ibid.

<sup>41</sup> ILO, "Timor-Leste: Trade Unions' Organization", 23 October 2009, [http://www.ilo.org/jakarta/info/WCMS\\_116226/lang--en/index.htm](http://www.ilo.org/jakarta/info/WCMS_116226/lang--en/index.htm)

Violence against women, including domestic violence and sexual assault, is a widespread problem in Timor-Leste. Women also face discrimination in areas such as employment and political participation, with limited representation in leadership positions and a gender pay gap.

The government and civil society organizations have made efforts to address these issues, including the establishment of laws and policies aimed at protecting women's rights and promoting gender equality. The country has a national action plan on gender-based violence, which includes measures such as providing support services to survivors and increasing public awareness of the issue.<sup>42</sup> There are also efforts to increase women's participation in decision-making processes, including provisions in the Electoral Law (2026) to establish a quota for women's participation in parliament.<sup>43</sup>

### *Youth*

Nearly 75 per cent of Timor-Leste's 1.34 million citizens are under the age of 35.<sup>44</sup> One of the key challenges facing youth in Timor-Leste is high unemployment. This leads to a range of issues, including poverty, social exclusion, and increased vulnerability to exploitation. Youth unemployment has become a national policy focus over the past decade, and many international organizations have been offering assistance, particularly the Australian Government and the ILO Partnership on Youth Employment Promotion Programme.

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<sup>42</sup> Secretariat of State for the Support and Socio-Economic Promotion of Women, Timor-Leste, "National Action Plan on Gender-Based Violence 2017–2021", n.d., <https://www.peacewomen.org/sites/default/files/170509-PAN-Eng-s.pdf>

<sup>43</sup> UN Women, "Timor-Leste Factsheet" (Timor-Leste, n.d.), <https://asiapacific.unwomen.org/sites/default/files/Field%20Office%20ESEAsia/Docs/Publications/2011/05-TIMOR-LESTE-factsheet.pdf>

<sup>44</sup> UNDP, "Municipal Portal: Increasing Youth Engagement in Decision-Making through Open Data", *UNDP* (blog), 24 November 2020, <https://www.undp.org/timor-leste/news/municipal-portal-increasing-youth-engagement-decision-making-through-open-data>



Timor-Leste has a National Youth Council (CNJTL),<sup>45</sup> whose president sits on the Advisory Board on Youth and Sports—the advisory body that reviews the progress and implementation of activities under the Secretary of State for Youth and Sports (SEDJ).

## **Civil Service and Public Information**

### *Civil Service*

The civil service in Timor-Leste is responsible for implementing government policies and delivering services to the public. It is overseen by the Ministry of State Administration, which is responsible for setting policy and managing the recruitment, training, and development of civil servants.

The country established the Civil Service Commission in 2009<sup>46</sup> to be an independent entity for ensuring politically unbiased and impartial recruitment of civil servants based on meritocracy. Efforts to strengthen the civil service include reforms aimed at improving recruitment processes, enhancing training and development opportunities for civil servants, and improving the accountability and performance management of the civil service. The government has also implemented measures to improve transparency and reduce corruption in the civil service, including the establishment of the Anti-Corruption Commission<sup>47</sup> and the adoption of a code of conduct for civil servants.<sup>48</sup>

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<sup>45</sup> YouthPolicy.org, “Timor-Leste Youth Policy Factsheet”, 6 June 2014, <https://www.youthpolicy.org/factsheets/country/timor-leste/>

<sup>46</sup> “Establishing the Civil Service Commission”, Pub. L. No. 07/2009, [https://www.ilo.org/dyn/natlex/natlex4.detail?p\\_lang=en&p\\_isn=89752&p\\_country=TMP&p\\_count=58](https://www.ilo.org/dyn/natlex/natlex4.detail?p_lang=en&p_isn=89752&p_country=TMP&p_count=58) (accessed 27 March 2023).

<sup>47</sup> Government of Timor-Leste, “Anti-Corruption Commission”, 12 March 2010, <http://timor-leste.gov.tl/?p=60&lang=en&n=1>

<sup>48</sup> Government of Timor-Leste, “Approves the Statue of The Civil Service”, Pub. L. No. Law No. 8/2004 (2004), <https://mj.gov.tl/jornal/lawsTL/RDTL-Law/RDTL-Laws/Law-2004-8.pdf>

## *Public Information*

The right to access public information is recognized in the Constitution of Timor-Leste and the country has a relatively strong legal framework for promoting transparency and accountability in government.

The Media Law<sup>49</sup> was passed in 2014 to ensure freedom of the press and media; it sets out the rules and procedures for accessing information held by public bodies. Under the law, citizens have the right to request and receive information from public bodies, subject to certain exemptions for information that is sensitive or confidential.

In addition to the legal framework, there are efforts underway to promote public information and transparency, such as the establishment of a national database of public information, the implementation of training and capacity-building programmes for government officials on access to information, and the development of public awareness campaigns.

## *Environment and Disaster Management*

According to the Asian Development Bank Country Partnership Strategy, the most pressing environmental problems in Timor-Leste are deforestation, land degradation, natural disaster vulnerability due to climate variability, poor water quality and water scarcity, waste management, and loss of biodiversity and ecosystem services.<sup>50</sup>

The country has one of the highest rates of deforestation in Southeast Asia, with an estimated 80 per cent of its land area having been deforested over the past century.<sup>51</sup> Deforestation has a negative impact on the

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<sup>49</sup> Asia Centre, “Timor-Leste Internet Freedom Under Threat” (Bangkok, 2021), <https://asiacentre.org/wp-content/uploads/Timor-Leste-Internet-Freedoms-Under-Threat.pdf>

<sup>50</sup> Asian Development Bank, “Country Partnership Strategy: Timor-Leste 2016-2020, Environment Assessment (Summary)”, n.d., <https://www.adb.org/sites/default/files/linked-documents/cps-tim-2016-2020-ena.pdf>

<sup>51</sup> Biosafety Convention on Biological Diversity, “Timor-Leste Biodiversity Facts” (Secretariat of the Convention on Biological Diversity), <https://www.cbd.int/countries/profile/?country=tl> (accessed 27 March 2023).

livelihoods of rural communities that rely on forests for food, fuel and other resources. The government has implemented laws and regulations to control logging and promote reforestation. For example, the National Policy on Forest of Timor-Leste (2017) establishes a framework for the management and conservation of forests.<sup>52</sup>

Access to safe drinking water is another significant issue. According to the World Bank, only 40 per cent of the population in Dili has access to piped water and even fewer have access to water that is consistently available and of good quality.<sup>53</sup>

To address water access, the government has launched a number of initiatives, including the National Water Supply and Sanitation Program, which aims to provide safe drinking water and sanitation services to all citizens by 2030. The government has also worked to improve the management of water resources, including establishing the National Authority for Water and Sanitation in 2020.<sup>54</sup>

Timor-Leste is at risk from the impact of natural hazards. Around 80 per cent of the country's population has already experienced the effects of a natural disaster in their lifetime.<sup>55</sup> The country's location and vulnerability to cyclical climatic events means that every year, people suffer from localized events such as floods, landslides, strong winds and prolonged dry seasons. Timor-Leste is also prone to earthquakes and tsunamis which could significantly affect the lives of people and have an enormous impact on economic and social infrastructure.

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<sup>52</sup> FAO/FAOLEX, "National Policy on Forests of Timor-Leste", May 2017, <https://leap.unep.org/countries/tl/national-legislation/national-policy-forests-timor-leste-may-2017>

<sup>53</sup> World Bank, "Timor-Leste's Capital Water Supply Set for Major Upgrade", 25 May 2022, <https://www.worldbank.org/en/news/press-release/2022/05/25/timor-leste-s-capital-water-supply-set-for-major-upgrade>

<sup>54</sup> FAO/FAOLEX, "National Policy on Forests of Timor-Leste".

<sup>55</sup> UNDP, "Strengthening Disaster Risk Management Programme Timor-Leste", <https://www.undp.org/timor-leste/projects/strengthening-disaster-risk-management-programme> (accessed 27 March 2023).

## *Public Health*

Timor Leste faces a high burden of communicable diseases, including malaria, tuberculosis and dengue fever, as well as non-communicable diseases such as diabetes and hypertension. Access to healthcare is a major challenge, particularly in rural areas where there are often limited health facilities and trained personnel. According to the World Bank, there are only 0.8 physicians per 1,000 people in Timor-Leste.<sup>56</sup> The World Health Organization estimates that at least 2.5 medical staff per 1,000 people are needed to provide adequate coverage with primary care.

Investments in the health sector over the past decade include the establishment of a national health system, the construction of new health facilities, and the expansion of health services, including maternal and child health, immunization, and disease control programmes.

Timor-Leste was able to manage the COVID-19 pandemic successfully, demonstrating the resilience of its public health infrastructure. The commitment to tap into its sovereign wealth fund for COVID-19 responses such as improving quarantine and isolation facilities, ensuring sufficient public health testing, and purchasing essential equipment showed that Timor-Leste is agile in addressing disasters. The network of public health testing capacity was improved and will likely be sustained beyond the pandemic. This is an asset that will help Timor-Leste's public health system adapt to international standards and requirements in the future.

## **SECTION II: TIMOR-LESTE'S DOMESTIC CAPACITY**

Timor-Leste has made significant progress in establishing democratic institutions and pursuing socio-economic development since its

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<sup>56</sup> World Bank, "The World Bank Data, Physicians (per 1,000 People), Timor-Leste", <https://data.worldbank.org/indicator/SH.MED.PHYS.ZS?locations=TL> (accessed 27 March 2023).

independence in 2002. It boasts a growing civil society and independent media and ranks highest in press freedoms in Southeast Asia. Its democratic credentials from Freedom House are among the highest in the region (72/100 in 2022),<sup>57</sup> despite it being a small-island developing state. Yet some persistent deficiencies remain, especially related to state fragility, low social development indicators, weak human and institutional capacities, infrastructure gaps and poor connectivity, slow pace of economic diversification, and overreliance on public spending. Although Timor-Leste has fulfilled the criteria for graduation from Least Developed Country status, concerns about the sustainability of its development have led to the deferment to 2024 of formal recognition of the country's transition.<sup>58</sup>

Development is guided by Timor-Leste's long-term Strategic Development Plan 2011–30 (SDP)<sup>59</sup> of becoming an “upper middle-income country with a healthy, well-educated, and safe population by 2030”. The current Government Programme<sup>60</sup> prioritizes four strategic development areas, namely, social capital; infrastructure; economy and job creation; and the consolidation of government institutions.

Ten years after the SDP's implementation, Timor-Leste is still considered to be far behind in achieving its development goals. The

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<sup>57</sup> “Timor-Leste: Freedom in the World 2022 Country Report”, in *Freedom House*, <https://freedomhouse.org/country/timor-leste/freedom-world/2022> (accessed 27 March 2023).

<sup>58</sup> United Nations, “Timor-Leste Graduation Status”, LDC Portal - International Support Measures for Least Developed Countries, <https://www.un.org/ldcportal/content/timor-leste-graduation-status> (accessed 27 March 2023).

<sup>59</sup> Government of Timor-Leste, “Timor-Leste Strategic Development Plan 2011-2030”, n.d., <https://www.adb.org/sites/default/files/linked-documents/cobp-tim-2014-2016-sd-02.pdf>

<sup>60</sup> Government of Timor-Leste, “Program of the Eighth Constitutional Government”, n.d., <https://www.adb.org/sites/default/files/linked-documents/cobp-tim-2020-2022-ld-04.pdf>

country's 2019 Voluntary National Review (VNR)<sup>61</sup> highlighted that strengthening human capital would continue to be a priority through investments in education and job creation. However, efforts must also be made at economic diversification and growth promotion of the nascent private sector.

## **Progress in Human Resource Development**

Despite ambitious policy goals and derivative plans focusing on human resource development, Timor-Leste continues to rank low in social development indicators. The country ranked 140th in UNDP's Human Development Report 2021/2022,<sup>62</sup> reflecting low levels of general education (an average of 5.4 years of schooling), high multidimensional poverty rates, poor nutrition, and low workforce qualification, among others.

Welfare is an important issue in Timor-Leste, where poverty and inequality are significant challenges. According to the United Nations Development Programme, around 42 per cent of the population<sup>63</sup> lives below the national poverty line, and access to basic services such as education, healthcare, and sanitation is limited.

To address these challenges, the government of Timor-Leste has implemented several social protection programmes targeting vulnerable groups, which include conditional cash transfers, national food programmes, health insurance schemes, and scholarships.

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<sup>61</sup> Government of Timor-Leste, "Report of the Implementation of the Sustainable Development Goals", Voluntary National Review 2019 of Timor-Leste, n.d., [http://timor-leste.gov.tl/wp-content/uploads/2019/05/key\\_messagesVNAR\\_2019.pdf](http://timor-leste.gov.tl/wp-content/uploads/2019/05/key_messagesVNAR_2019.pdf)

<sup>62</sup> UNDP, "Human Development Report 2021/2022", n.d., [https://www.undp.org/sites/g/files/zskgke326/files/2022-09/hdr2021-22pdf\\_1\\_1.pdf](https://www.undp.org/sites/g/files/zskgke326/files/2022-09/hdr2021-22pdf_1_1.pdf)

<sup>63</sup> UNDP, "Timor-Leste Economic Transformation", n.d., <https://www.undp.org/timor-leste/economic-transformation>

Notwithstanding Timor-Leste having one of the highest rates of social protection spending in the developing world (at 7 per cent of its non-oil gross domestic product in 2019),<sup>64</sup> this has not translated to improvements in welfare. Programmes are often set up independently of each other and have limited coverage.

Thus far, as highlighted in the Economic Recovery Plan, there has been a sharp contrast in the General State Budget when it comes to human development. Between 2011 and 2019, a total of US\$83 million was allocated for health, education, agriculture, and tourism, compared to US\$3.06 billion for physical capital. Programmes that provide quality education to effectively meet the needs of the labour market are urgently required to alleviate high unemployment levels, which the government has recognized could be a source of instability.

Another key issue related to human resource development is the limited options for formal employment in Timor-Leste, where jobs are concentrated in the public sector and in businesses that serve government programmes, such as the petroleum sector.<sup>65</sup> While Timor-Leste has approximately 60,000 civil servants, the 2020 Human Resource Diagnostic and the Human Resource Development Plan show that Timor-Leste's ministries and agencies were understaffed. An additional recruitment of up to 2,000 technical staff is required.

Timor-Leste has committed to increasing the staff strength of its ASEAN Department from fifteen to thirty staff and to appoint its Permanent Representative to ASEAN (along with its team of diplomats as well as economic and socio-cultural officials) in Jakarta. However, it also needs to ensure that all agencies have a focal point for all ASEAN sectoral meetings. Besides capacity-building in English proficiency, Timor-Leste officials need additional expertise in international law and trade negotiation.

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<sup>64</sup> The World Bank, "Honoring the Past, Securing the Future", n.d., <https://thedocs.worldbank.org/en/doc/89b675c65dab346ea6d01ba0e536f0bc-0070012022/original/December-2022-Timor-Leste-Economic-Report.pdf>

<sup>65</sup> Ibid.

In view of the above, capacity-building in human resource development will be necessary and important for Timor-Leste to contribute positively to ASEAN. The fact-finding missions have underscored two key aspects that Timor-Leste should strive to achieve in. The first is the need to send representatives with substantive knowledge to attend all ASEAN meetings—there are over 1,300 meetings (and growing)—including those under the sectoral bodies. The representatives should have a sufficient understanding of ASEAN processes and be able to participate in negotiations. Such skills will need time to cultivate.

## **Quality Infrastructure and Connectivity**

At independence, Timor-Leste had little physical infrastructure. This has skewed public spending towards the rehabilitation and reconstruction of economic infrastructure from roads to electricity, and other public utilities such as water and sanitation. While capital spending during the country's early independence was financed by development partners, petroleum revenues have enabled significant public expenditure since 2006.

Infrastructure development is one of the key pillars under the Strategic Development Plan, albeit with considerably less spending on social infrastructure. Funds have largely been allocated for investments to develop the oil sector, with little attention on economic sectors with growth potential, such as agriculture, commerce, industry and tourism. Despite substantial investments made over the past two decades, spending on maintenance has not increased.<sup>66</sup> Large infrastructure projects have also been repeatedly delayed and at times, poorly executed.

The three agencies in charge of implementation—the Infrastructure Fund, the Ministry of Public Works, and the Ministry of Transport and Communications—have less than 80 per cent execution rates. This reflects the difficulties in adequately planning, budgeting and

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<sup>66</sup> World Bank, “Timor-Leste Public Expenditure Review”, September 2021, <http://hdl.handle.net/10986/36502>



implementing public investment projects, with overlapping mandates between institutions, a lack of integrated information systems, as well as low levels of capacity and transparency.<sup>67</sup>

As such, Timor-Leste should place more emphasis on infrastructure development. The fact-finding missions have highlighted four key aspects that Timor-Leste will need to improve upon: (i) sufficient hotels and large-scale conference facilities (a five-star facility can cost approximately US\$700 million<sup>68</sup>); (ii) airport facilities including immigration facilities to accommodate world leaders and a large number of delegations including VIP aircraft, security, and immigration/custom arrangements; (iii) security, including police and defence force to secure all high-level meetings; and (iv) sufficient healthcare facilities. Putting these in place will be no easy feat considering the extensive cost involved.

Apart from these, Timor-Leste will need to improve air connectivity with the rest of the region and discuss potential flight routes with regional airlines. This will ensure ease of travelling to Timor-Leste for official and government business. A lack of air connectivity will result in higher costs for travel and a larger budget for its ASEAN commitments.

Besides physical infrastructure, Timor-Leste needs to strengthen its logistical readiness and public service delivery, such as providing stable telecommunications and Internet facilities. Although Timor-Leste has invested in electricity grid coverage, full electrification still needs to be achieved (currently around 24 per cent of the population has no access to the grid).<sup>69</sup> The country is also facing a digital divide, with weak information and communication technologies (ICT) literacy and regulatory issues holding back development.

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<sup>67</sup> Asian Development Bank, “Inclusive and Sustainable Growth Assessment”, Country Partnership Strategy: Timor-Leste, 2023–2027, n.d., <https://www.adb.org/sites/default/files/linked-documents/cps-tim-2023-2027-isga.pdf>

<sup>68</sup> Filomeno Martins, “Pelican Paradise Will Soon Start Construction of 5-Star Hotel in TL”, *TATOLI Agência Noticiosa de Timor-Leste* (blog), 18 November 2022, <https://en.tatoli.tl/2022/11/19/pelican-paradise-will-soon-start-construction-of-5-star-hotel-in-tl/08/>

<sup>69</sup> World Bank, “Timor-Leste Public Expenditure Review”.

With regard to water resources, the country experiences severe water shortages and inefficiencies, due to poor infrastructure and lack of proper management. Water supply and sanitation infrastructure for domestic and industrial needs have been under-budgeted, making up just 1.4 per cent of the total spending of the Infrastructure Fund during the 2021–22 period.<sup>70</sup>

The above analysis shows that Timor-Leste has significant gaps to bridge in human capital, infrastructure, logistics and connectivity development, and these will not be fulfilled overnight. Specifically, in relation to its ASEAN commitments, Timor-Leste may require more time to prepare for its eventual chairmanship. ASEAN should consider granting the country a deferment until it is ready (as in the case of the request by Myanmar to defer its chairing of ASEAN from 2006 to 2014).

## **SECTION III: COST OF JOINING ASEAN— TIMOR-LESTE’S MONETARY AND FISCAL STABILITY**

### **Cost of Joining ASEAN**

The financial contribution to ASEAN and the cost of attending ASEAN meetings will be high and are expected to increase over the years. Timor-Leste will need to contribute financially to ASEAN’s budget on an equal basis of approximately US\$2.5 million per year (based on ASEAN member states’ contributions in 2022). On top of the operating budget of the ASEAN Secretariat, Timor-Leste will also need to contribute to a list of ASEAN funds and entities.

The cost of running the ASEAN National Secretariat (including the increase in manpower), managing the Mission to ASEAN, and other ASEAN divisions in line agencies, will be significant. In addition, Timor-

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<sup>70</sup> Republic Timor-Leste, “State Budget 2022 Approved Infrastructure Fund, Book 3A”, n.d., [https://assets.ctfassets.net/60pzqxyjaawg/4Zp20IE06sfS4OUojIUi1a/7a628195fb3a1f37529b51ebcc6f60af/BB3A\\_2022\\_EN-Aprovado\\_compressed.pdf](https://assets.ctfassets.net/60pzqxyjaawg/4Zp20IE06sfS4OUojIUi1a/7a628195fb3a1f37529b51ebcc6f60af/BB3A_2022_EN-Aprovado_compressed.pdf)

Leste will need to finance its own attendance at over 1,300 ASEAN meetings held either at the ASEAN Secretariat, in another ASEAN member state, or at other external venues all over the world (such as a dialogue partner’s country). Such costs will be substantial, considering the limited air connectivity to/from Dili.

However, despite ASEAN concerns, Timor-Leste has expressed confidence that there will not be any fiscal problems when it joins ASEAN. Notably, the country has thus far not defaulted on its membership fees in other international and regional organizations such as the UN, CPLP and the G7+.

## **Monetary Stability**

Monetary conditions in Timor-Leste are relatively stable but remain vulnerable to external shocks. First, the inflation rate—measured by the percentage change in the consumer price index (CPI)—has been mixed with high (2011–13 and 2021–23) and low inflation episodes (2014–20 and 2024–27 projected). Periods of low inflation last longer (around six years) than durations of high inflation, which generally last two years. The relatively low inflation in Timor-Leste can be attributed to its adoption of the US dollar as its legal tender, which eliminates exchange rate volatility and risks of any sharp devaluation.

Second, broad money growth had fluctuated prior to 2020 but has tended to be more stable since 2021. Bank lending to the private sector remains strong with non-performance loans (NPL) remaining low. The banking sector is also stable as it is highly liquid and has sufficient capital.<sup>71</sup> This ensures that banks have enough cushion to absorb a reasonable amount of losses.

## **Fiscal Stability**

Timor-Leste has a high budget deficit both in absolute terms and in relation to GDP. While the government revenue will remain below

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<sup>71</sup> Ibid.

US\$1,000 million over the period 2018–27, the government expenditure rose from US\$1,318 million in 2020 to US\$1,635 million in 2021 and was forecast to be above that level over the period 2022–27. The share of fiscal deficit in GDP has deteriorated, declining from 21.5 per cent in 2020 to 30.8 per cent in 2021 (due to COVID-19-related spending), and 66.2 per cent in 2023. The fiscal deficit has further worsened when expressed as a share of non-oil GDP. Oil and gas are the main sources of government revenues, but these are depleting in 2023.

The fiscal deficit has been largely financed by the Petroleum Fund (PF). In 2022, the budget deficit was projected at US\$1,020 million, 96.4 per cent of which would be financed by the withdrawal from the PF. The closing balance of the PF in 2022 was projected at US\$17,446 million. If oil revenues are depleted in 2023 and Timor-Leste's government continues to have the same level of budget deficit as in 2022 and finances 96.4 per cent of its deficit with the PF, the PF will be depleted within eighteen years. This means that using the PF to finance the budget can last only until 2040. In this case, the fiscal account would be unsustainable if there is no alternative revenue source. This will raise further concerns over the country's capacity to sustain its financial contribution to ASEAN. In this regard, Timor-Leste is encouraged to put extra effort into fiscal consolidation and to create fiscal space to support structural reforms (e.g., raising labour productivity, improving business environment, modernizing the agricultural sector, strengthening the effectiveness of anti-corruption reforms) for more inclusive and private sector-led growth.

Underpinning all the assurances that the Timor-Leste leadership may proffer is the question of whether Timor-Leste can successfully identify a new engine of economic growth. The World Bank has advised Timor-Leste to develop a strategy to address its many short and medium-term challenges. A June 2022 World Bank Economic Report<sup>72</sup> recommends

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<sup>72</sup> World Bank, “Investing in Next Generation”, June 2022, <https://openknowledge.worldbank.org/server/api/core/bitstreams/16b9a123-7ab9-5fb3-9469-e8dc0ff4f17f/content>

that the government implements fiscal consolidation, public financial management and structural reforms, and export diversification. It should also increase agricultural productivity; diversify energy sources for a more sustainable future; invest in human capital to avert a human capital crisis and tap into the demographic dividend that Timor-Leste possesses.

## **SECTION IV: POTENTIAL IMPLICATIONS FOR ASEAN**

There is no doubt that Timor-Leste has shown a willingness to carry out its obligations under the ASEAN Charter and fulfil its commitments under the three ASEAN Community pillars. However, there are concerns over Timor-Leste's ability to implement all the agreements and work plans, as well as the potential implications of its membership in ASEAN.

In the *State of Southeast Asia 2023 Survey Report* carried out by the ISEAS – Yusof Ishak Institute, 61.5 per cent of ASEAN respondents support Timor-Leste's membership, while 15.8 per cent oppose it; 22.7 per cent are unsure. A majority of the respondents who felt that Timor-Leste should join ASEAN are of the view that a new member will enhance ASEAN's unity and centrality (48.7 per cent) and increase intra-regional trade and investment. Anchoring Timor-Leste will also help to shield the young country from excessive foreign interference.

However, there are reservations within ASEAN and among observers that Timor-Leste's economic limitations may slow down the realization of the ASEAN Economic Community, especially where the free flow of goods, services, capital and labour is involved. There are also concerns that Timor-Leste's membership will entrench divisions within the bloc, dilute the organization's effectiveness, and further complicate the consensus-based decision-making process, due to the country's reliance on China or its dependency on foreign aid.

Growing Chinese influence in Timor-Leste has caused a certain degree of unease within the region, especially following ASEAN's failure to issue a Joint Communique of the ASEAN Foreign Ministers' Meeting in 2012 when Cambodia refused to endorse the language being used to describe the South China Sea issue. ASEAN is concerned about encountering similar future incidents. A related concern is whether



## CONCLUSION

The reports of the three fact-finding missions have shown that Timor-Leste has made good developmental progress in its brief independence. It has taken concrete actions including establishing embassies in all ASEAN capitals and is in the process of setting up a Permanent Mission to ASEAN.

Despite concerns over Timor-Leste's economic limitations or the possibility of diluting ASEAN's effectiveness, its accession to ASEAN will anchor the young nation to the regional grouping and provide it with a sense of belonging. There will be greater opportunities for trade and economic cooperation as well as information sharing. Having an additional member will spread the costs of membership and the responsibility of coordinatorship in ASEAN.

Teething problems for Timor-Leste are inevitable. ASEAN member states will need to provide capacity-building and technical support to ensure that Timor-Leste is able to accede to all legally binding agreements and to implement the plethora of work plans under the three Community pillars. Failure to do so or a delay in negotiations over new documents will certainly slow down the ASEAN Community-building process.

Timor-Leste will need to show its commitment by: (i) attending all ASEAN meetings regardless of its manpower, resource, or technical limitations. This includes the meetings of the ASEAN Committees in Third Countries and International Organizations (ACTCs); (ii) expeditiously ratifying all ASEAN instruments and agreements; (iii) supporting the capacity-building programmes provided by ASEAN member states, the ASEAN Secretariat and external partners; (iv) ensuring adequate infrastructure and facilities to host large-scale ASEAN meetings; (v) addressing concerns from ASEAN with regards to economic diversification; and (vi) adhering to strict disciplines including protecting the confidentiality of documents.

# APPENDIX

## List of Abbreviations

ACIA	ASEAN Comprehensive Investment Agreement
ACTCs	ASEAN Committee in Third Countries and International Organizations
ADMM	ASEAN Defence Ministers' Meeting
AEO	Authorized Economic Operator
AFAS	ASEAN Framework Agreement on Services
AFTA	ASEAN Free Trade Area
AHTN	ASEAN Harmonized Tariff Nomenclature
AIA	ASEAN Investment Area
ASCC	ASEAN Socio-Cultural Community
ASEAN	Association of Southeast Asian Nations
ASEAN IGA	ASEAN Investment Guarantee Agreement
ASW	ASEAN Single Window
ATFF	ASEAN Trade Facilitation Framework
ATIGA	ASEAN Trade in Goods Agreement
ATISA	ASEAN Trade in Services Agreement
CEPT	Common Effective Preferential Tariff
CPLP	Community of Portuguese Language Countries
EWGs	Expert Working Groups
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
g7+	Group of Seven Plus
GDP	Gross Domestic Product
HADR	Humanitarian Assistance and Disaster Relief
HS	Harmonized System
MFN	Most-Favoured Nation
NSW	National Single Window
PF	Petroleum Fund
RCEP	Regional Comprehensive Economic Partnership
SDP	Strategic Development Plan 2011–30
SEANWFZ	Southeast Asia Nuclear Weapon-Free Zone
SMEs	Small and Medium Enterprises
SOP	Standard Operating Procedures
SPS	Sanitary and Phytosanitary Measures
TFA	Trade Facilitation Agreement
UN/CEFACT	United Nations Centre for Trade Facilitation and Electronic Business
US	United States
WTO	World Trade Organization



### **List of Timor-Leste Legislation/Programmes**

Anti-trafficking National Action Plan (NAP) 2023–28  
Civil Service Commission (2009) (Law No. 7/2009 establishing the Civil Service Commission)  
Code of Conduct for Civil Servants (Law No. 8/2004 on the Civil Service)  
Critical Elements for Accession Work Plan (CEA)  
Economic Recovery Plan  
Electoral Law (2006)  
Framework For the Management and Conservation of Forests (National Policy on Forests of Timor-Leste, May 2017)  
Human Capital Development Fund  
Labour Law (Law No. 4/2012 on Labour)  
Media Law (2014)  
National Action Plan on Gender-Based Violence  
National Authority for Water and Sanitation (2020) (Decree Law No. 38/2020)  
National Maritime Authority (Decree Law No. 26/2023)  
National Maritime Integrated System  
National Policy on Forest of Timor-Leste, May 2017  
National Strategic Concept for Defence and Security  
National Water Supply and Sanitation Program  
Petroleum Fund  
Private Investment Law No.15/2017  
Strategic Development Plan 2011–30 (SDP)  
Timor-Leste ASEAN Mobilization Programme (TLAMP)

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