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THE SECURITY OF EAST TIMOR IN THE REGIONAL CONTEXT

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IEEI INTRODUCTION

The future stability and security of East Timor depends critically on its reconciliation with Indonesia but also on a smooth and harmonious integration into the Southeast Asian region. The regional environment presents both opportunities and challenges for East Timor and conditions its domestic stability and development. In turn, the domestic stability of East Timor is a matter of considerable interest for ASEAN countries and Australia insofar as domestic unrest can have potential spillover effects in the region.

Considering the linkages between East Timor's security and the regional context, in 2001 the IEEI took the initiative to organise an independent and diversified group of experts from *thinks thanks* from ASEAN countries, Australia, Britain and France. These experts accepted, in their personal capacities, to carry out, together with East Timorese experts and the IEEI, a joint reflection on the security challenges East Timor is likely to face in the near future and how best to respond to them. The first meeting held in Lisbon, in which the IEEI Director Álvaro de Vasconcelos participated, besides setting the tone and the basic plan of the Report has also contributed to create an excellent atmosphere among the members of the group which proved to be a crucial ingredient for the success of our common endeavour.

The Report is the result of the collaborative effort among the contributors. The IEEI had the privilege to have been able to involve in this project some of the most distinguished specialists in Asia security affairs and would like to thank them for their extremely valuable contributions. The Report has benefited greatly from their insights and expertise.

Our aim with this Report is to offer a non-governmental, independent and regional perspective on the policy options that can facilitate a successful integration of East Timor in the regional security community and bring about greater security for the new state. The IEEI and the authors hope this can stimulate, and constitute an input to, an open and meaningful debate in East Timor and the region involving both government and civil society organisations.

Miguel Santos Neves
Head of the Asia Programme

CHAPTER 1

INTRODUCTION

With its birth as an independent nation in May 2002 after 400 years of colonial rule, military occupation and annexation, East Timor faces major challenges not only in terms of state and nation-building, but also in its accommodation and integration into the regional community. Independent East Timor is also arriving on the scene when the global and regional situation is decidedly unfavourable. An extended economic downturn, global attention riveted on the 11 September terrorist attacks and the ensuing bombing of Afghanistan, the protracted domestic travails of neighbouring Indonesia's and the listlessness of the Association of Southeast Asian Nations (ASEAN) all contribute to create a challenging regional context for the consolidation of East Timor as an independent state.

1.1. The Challenge of Nation-Building

The country's domestic challenges are formidable and comprehensive. In many respects, East Timor's infrastructure – political, security, economic and social – is still very fragile despite the early rehabilitative work accomplished by the United Nations Transitional Administration for East Timor (UNTAET). A massive and sustained national, regional and international effort on all fronts is required to assure the security of the newly independent country.

On the political front, democratic institutions and practices are still rudimentary and essentially date from the UNTAET period. A constitution has just recently been drafted. The country had no prior experience of a functioning democracy during its entire history.

Much will depend on how the new parliament acquits itself. The initial years will be critical. Fostering a political culture conducive to healthy democracy will be as important as functioning, effective institutions. Reconciliation among different political groups and

the integration of former pro-integrationist into the new polity will be crucial for political stability.

Given the lack of skilled indigenous resources at the managerial level and the difficulty of attracting back the small number of Timorese lawyers presently working overseas, developing the human resources necessary to run an efficient bureaucracy and rule of law-based judicial system will also be critical to the future of East Timor. Encouraging a bureaucratic culture that emphasises customer-service, minimal red tape, aversion to corruption, and a strong adherence to transparency and accountability will be central to this effort.

On the economic front, the primary challenges are rehabilitation, reconstruction and development. Again, some of these problems are basic and others systemic. Militia violence destroyed virtually any semblance of a working economy, and UNTAET rehabilitation and reconstruction programmes are only just beginning to address this. With a *per capita* income of about US\$400, East Timor is also one of the poorest economies in the world. Since more than half of the population (a total of 780,000) live below the poverty line, poverty alleviation must be at the top of the economic agenda. Associated problems include widespread unemployment, the collapse of the banking and payment systems, and the education system.

East Timor will also have to look beyond its present coffee and sandalwood economic mainstays to sustain a healthy economy. In this regard, it must ensure that the promise of oil and gas, as well as tourism and agribusiness, is fully realised. Foreign direct investment (FDI) will be absolutely vital for this and for the development of East Timor in general.

Domestic peace and stability will be fundamental to successful nation building and economic sustained growth. Again, institutions and trained personnel are crucial, for which UNTAET has already laid the framework. Key elements include a disciplined, well-organised police force backed by effective and fair laws to ensure peace and security. Threats to internal security and law and order include potential conflicts and incidents between former pro-integration groups and nationalists, political violence, and common crime, including those perpetrated by refugees from across the border in West Timor.

1.2. East Timor and the Region

East Timor's prospects as an independent nation greatly depend on how well it engages with the surrounding countries of the region and copes with the challenges that these may pose. Relations with the immediate neighbours, Australia and Indonesia, will be of topmost importance.

East Timor's relations with Indonesia are expected to be uneasy, at least initially, as the leaderships of both countries strive to overcome the bitter legacy of the recent past. Refugee activity in West Timor and unresolved differences between former pro-integration and nationalist elements are among the issues that may prove to be irritants. The farsighted, moderate and conciliatory position adopted towards Indonesia by the East Timorese leadership, particularly by Xanana Gusmão and Ramos Horta immediately after the 1999 crisis, has been crucial for promoting bilateral reconciliation. East Timor must also guard against becoming a pawn in Indonesian-Australian geopolitics or of unwittingly offending one side by favouring the other, thereby complicating relations between the two.

It is to be expected that East Timor's relations with Australia are better than those with Indonesia. The country can anticipate significant support and economic assistance from Australia, at least in the first years, after which enthusiasm may naturally wane in Canberra. Australia will also have a deep economic interest in East Timor, but is likely to balance its support for East Timor with an appreciation of the strategic importance of Indonesia.

East Timor must also develop good and productive relations with other Southeast Asian countries, both within and beyond ASEAN. Bilateral relations with the older members of ASEAN, particularly Singapore, Malaysia, the Philippines and Thailand, will be especially important for assistance, investment and trade. A common cultural legacy of Iberian colonialism and Catholicism will make relations with the Philippines important in a more specific way.

East Timor must choose whether it wants to become a member of ASEAN or the Pacific Islands Forum (PIF). Its best interests are perhaps optimally served through ASEAN membership. Despite its recent problems, ASEAN is still a more productive and vibrant institution and can possibly yield greater benefits for East Timor. Its politics of inclusiveness, good neighbourliness, peaceful relations, emphasis on economic development, mutual assistance, help for the newer members, and extensive networking with other regional groupings and important countries, will all prove useful.

There are powerful reasons for ASEAN to solicit the membership of East Timor. There is much goodwill among the ASEAN countries towards East Timor. The territory was in ASEAN when it was a part of Indonesia, and Indonesia and other ASEAN members can manage their relations with East Timor with greater ease if the latter is a member of the group.

1.3. East Timor and the World

A benign foreign policy is to be expected from East Timor. The country does not represent a threat or source of concern to no one. As a small country, its political and security interests are best secured if it avoids partiality in any major power rivalry or machination. It will need all the help it can get to rebuild, rehabilitate and develop itself. It is, therefore, in East Timor's national interest to foster the best of relations with all countries and organisations relevant to its immediate and long-term development needs.

Among the countries most important to East Timor are Portugal, with which it presently has a special relationship, and Japan. Both countries, along with Australia, have pledged to provide financial assistance during the transition period, and can be key benefactors and investors in the critical early years. The European Union (EU) is also an important source of investment and assistance. East Timor will also continue to depend heavily for assistance on institutions such as the World Bank (WB) and the Asian Development Bank (ADB), and on relief aid from the United Nations High Commission for Refugees (UNHCR). Last but not least, the country will continue to need the moral and political support of the United Nations (UN). In this regard, a positive factor is the lesson the UN

learned in Cambodia: to have a lasting impact, its involvement in peace building should not end with the formation of a new government.

East Timor has endured much agony and hardship in the past. It was all but decimated. It continues to face tremendous odds at present. Ensuring the security of the new state is a key objective and a condition for domestic development and prosperity. It is therefore crucial to understand the nature of the major security threats that East Timor may face and to discuss possible adequate policy responses to them. The following chapters will address this fundamental issue.

CHAPTER 2

DOMESTIC CHALLENGES

In the process of building a democratic state East Timor will have to address different domestic challenges at the political, economic, social and internal security levels. There are strong two-way links between domestic and regional stability. Peace and stability in the region are necessary conditions for East Timor to consolidate the state and foster domestic development. In turn, despite its size, East Timor's domestic stability is also important for regional stability insofar as any domestic unrest can have potential spillover effects in the region. On the other hand, given the country's high international visibility and the active involvement of the international community the post-crisis recovery, the capacity to respond to these challenges constitutes an important test of the quality and effectiveness of the UN and international community action, which, depending on the outcome, can either weaken or strengthen their credibility.

2.1. Political Challenges

The future stability of East Timor critically depends on the consolidation of democratic institutions and the development of a democratic culture which transcends respect for formal procedural rules. If the 1999 referendum can be taken as the first manifestation of democracy in East Timor, the 30 August 2001 elections for the 88-member Constituent Assembly to draft and approve a Constitution can be seen as the first step in the process of democratic transition. A total of 16 parties (seven of them formed very recently) contested the elections, demonstrating the pluralism and vitality of the party system. The consolidation of political parties' institutional capacity, in the areas of internal organisation, financing, ideological identity and international links is a crucial condition for the consolidation of democracy and the emergence of a more mature political system. In addition, by establishing international ties with political parties from neighbouring countries, East Timor's political parties can help strengthen confidence, defuse tensions and increase trust.

The drafting of the new Constitution is now completed. This provides the basic framework for the organisation of the state, for safeguarding and protecting human rights

and for framing state-society relations. The Constitution includes the fundamental elements of a democratic system, namely the principle of separation of powers and a system of checks and balances, direct election by universal suffrage of the main organs of power (the president and parliament), a pluralist party system, and the rule of law. Some of the most controversial issues have been the choice of the official language, the choice of national symbols and the principle of separation of Church and State.

The most complex question concerns the implementation of the latter principle. The Catholic Church has strong influence in East Timor and has expressed some reservations about a system of separation that does not preserve its special position in East Timorese society. This is a very sensitive question and if it is not carefully managed it could become a source of domestic political tension. Another crucial aspect of the constitutional process has been to see how far the majority party resisted the temptation to adopt a “winner takes all” strategy and show willingness to compromise with minority parties in order to arrive at a more consensual constitution. The ability of the majority party to compromise, to accommodate the concerns of other parties, and to build a system where the opposition does not feel excluded is particularly important during the first phase of democratic transition, in order to ensure a healthy system where the rights and status of the opposition are recognised and respected.

The separation of powers is fundamental for democracy, insofar as it prevents abuse of power. One of its crucial dimensions is the existence of an independent judiciary that is able to resist government pressures and to control effectively the legality of its acts. The major challenge for East Timor lies in the practical implementation of this principle given the weakness of the judiciary produced by the deficit of judges and lawyers. There are currently only 40 judges, public prosecutors and lawyers for the whole country, while the estimated required number is close to 200. The presently limited experience of local legal professionals is also a shortcoming. An additional problem is related to the complexity of legal translation and the shortage of skilled translators to ensure the operation of the courts and the production of legislation. It is uncertain to what extent the judiciary can resist any illegitimate political interference and perform its functions of peaceful settlement of social conflicts and protection of individual rights and liberties. It should also be pointed out that apart from the central role of an effective judiciary for political

and social stability and the normal operation of a market economy, there is also a strong link between the justice system and security insofar as the judiciary's role is crucial in combating organised crime (which is likely to be one of the most important potential non-military security threats to the new state).

Relations between the new democratic institutions and traditional structures of power are another complex issue, which could compromise future stability. Traditional leaders and structures of power still wield considerable social influence and prestige in East Timor and so there is a potential overlap between modern and traditional structures in some areas. The new state must resist the tendency to see traditional structures as competitors or as threats to the affirmation of democratic institutions. It must avoid any confrontation with, or marginalisation of, these structures. Indeed, bringing them into the democratic system on the basis of clearly defined rules could pre-empt any attempt to use traditional legitimacy as an alternative to democratic legitimacy. At the same time, democratic institutions can benefit from the specific contributions that traditional structures can make. Strengthening them, namely by introducing democratic elements, will strengthen rather than weaken new democratic institutions.

The area of justice provides a clear example of the potential contribution traditional leaders and structures can make to community stability and conflict resolution, by assisting the judiciary with the settlement of private disputes over domestic violence, land and property rights, inheritance, gender issues, and so on. It is essential to legally recognise such a dispute settlement mechanism and the binding nature of its decisions, as well as ensure its adherence to due process rules.

Political stability depends in great part on national reconciliation and efforts to mitigate the wounds opened by the violence of 1999. The process of establishing a Commission for Reception, Truth and Reconciliation is almost complete following the designation of national commissioners in December 2001. Progress with reconciliation was given great political stimulus by initiatives adopted by of Xanana Gusmão. In November 2001 he attended the Batugade reconciliation meeting between Manatuto and Aileu leaders and refugees from those areas, and visited West Timor where he met militia representatives, refugees and pro-autonomy leaders. However, there is a major challenge ahead: how to balance reconciliation and justice. There is a strong feeling among the East Timorese that

the authors of the most serious crimes, namely crimes against humanity, must be prosecuted. This dilemma affects also relations with Indonesia. Reconciliation between the two countries could be impaired by the failure of Jakarta to ensure that senior TNI officers and other Indonesian citizens involved in the human rights violations of 1999 are brought to trial.

The success of reconciliation efforts is strongly linked with security, as the former is seen as crucial to create the conditions and confidence for the return of the majority of the 56.000 refugees still in West Timor and the closure of the camps, which constitute a dangerous breeding ground for militia activities. In order to balance justice and security and to reduce uncertainty and raise confidence, an amnesty law could be useful by establishing clear rules and provide legal guarantees (in particular establishing a clear distinction between the crimes which will not be prosecuted and the more serious crimes which will be prosecuted).

For a state whose origins are so closely associated with an occupying power's massive violations of human rights and an international campaign to protect those rights, it will be politically crucial for East Timor's international credibility and image to boast an excellent human rights record and meet international human rights standards. East Timor will most likely be a strong advocate of human rights and their universality in Southeast Asia, reacting to violations and pressing for the improvement of human rights standards in the region, as well as an active member of the UN Human Rights Commission in Geneva. This may well be one of the distinctive features of its foreign policy, although a potential source of tensions with some other Southeast Asian countries that impede East Timor's regional integration.

Adequate training of the police force, civic education and the consolidation of the role of NGOs as independent human rights monitoring bodies are all key measures to prevent violations of human rights in the future. Furthermore, effective protection requires a well-functioning judicial system able to guarantee the protection of individual rights against any excesses or arbitrary interventions by the State. It is also necessary to address socially tolerated and less visible violations in two particularly sensitive areas, however: women's and minority rights.

Building a democratic culture, based on tolerance and respect for differences, is a long-term challenge for East Timor, and it is particularly difficult because it must face the effects of a 24-year legacy or culture of violence, distrust and intolerance. Although there has been a sharp reduction in violence, the risks of violence being used as a political tool by marginal groups cannot be dismissed, and suggests the need for further investment in civic education. The work of the National Steering Committee for Civic Education, a good example of state-civil society co-operation, which involves five major civil society organisations (the Catholic Church, NGOs Forum, Association of Veterans, Student's Solidarity Council, and Women's network) and two government departments, has already yielded results and must be strengthened.

2.2. Administrative Capacity-building

The promotion of an efficient, transparent and «clean» Public Administration is of the utmost importance for the success of East Timor's future given the high costs that weak institutional capacity can have at both the domestic and external levels. Domestically, a weak and dysfunctional bureaucratic system has highly detrimental consequences in terms of the provision of social services, poverty mitigation, economic regulation and the credibility of the legal and political systems. In addition, it undermines the capacity to collect taxes and to manage the fiscal system and therefore the state's financial ability to implement public policies. This is particularly relevant because of the low fiscal basis and the high dependence on volatile indirect taxes, namely border and services taxes, whose evolution has been below expectations thus far.

Externally, weak institutional capacity is one of the causes of a low absorptive capacity for foreign aid which could lead to donor fatigue and result in reduced international financial commitments exactly when East Timor most needs increased aid flows (during the first three to four years after independence) to cover the considerable budget deficit and finance imports and investment projects. In addition, institutional weakness can undermine the effectiveness of East Timorese diplomacy, which will be crucial to maintain international commitments and aid flows. Lack of diplomatic capacity would

also weaken East Timor's ability to participate in multilateral *fora* and defend national interests in the context of international negotiations.

In the process of strengthening administrative capacity East Timor will face various obstacles. First, the endemic culture of corruption established under Indonesian rule has created social habits and a tolerance of corruption that undermines development and generates an inefficient allocation of resources. Second, there may be pressure for public administration structures to be a source of employment creation, as was the case under Indonesian occupation, in the face of high urban unemployment rates. Thus far there has been a prudent policy of creating a small bureaucracy, limiting the total number of civil servants to 10,554 (less than half the 25,000 employed in the Indonesian administration), but pressure for further admissions is likely to increase. If it is not resisted, this could generate an oversized bureaucracy, which will not only be financially unsustainable in a context of scarce public resources but will also undermine the efficiency of the system. Third, there is a considerable shortage of qualified human resources as the majority of candidates admitted up to now lack adequate experience and know-how.

The creation of an optimally sized and decentralised professional public administration system, which balances the requirements of state action and budgetary constraints, is fundamental. This implies a policy of on-the-job training, which necessarily requires technical assistance from the international community, a simplified structure of services, a career structure and a transparent promotion system based on merit and regular auditing. A crucial condition for effectiveness will be the existence of good communication channels with the population, which implies careful consideration of the issue of working languages.

Another priority is the control of corruption, implying not only repressive measures to punish guilty officials but also preventive measures related to the simplification of administrative procedures to reduce opportunities for corruption, training, incentives and public campaigns to raise the awareness of the public. The prevention and control of corruption within the police force is critically important considering that, elsewhere, corrupt police forces have been strongly associated with the proliferation of organised

crime, and a serious deterioration of internal security, not to mention human rights violations.

2.3. Human Development

The low level of human development in East Timor is the most serious constraint on development. With a high illiteracy rate, particularly among the older generation, an infant mortality rate of 143.5 per 1000 and a life expectancy of only 57 years in 2001, East Timor has one of the lowest Human Development index in the world (see annex 1). This is a clear indication of the immense task ahead in upgrading the human development level, a crucial condition to reduce poverty levels and allow the East Timorese the freedom to choose their individual destinies.

A consistent and coherent policy for the social sectors, in particular education and health, should be one of the priorities for East Timor. However, the new state will be confronted with several obstacles in implementing this strategy, namely the shortage of financial resources, the deficit of qualified professionals and a low institutional capacity. The state cannot act alone, however. The nature and magnitude of the task requires the involvement of the entire society, implying the need for the state to develop an active partnership and co-operation with civil society institutions, notably the Catholic Church and the NGO Forum, which besides expertise can contribute with resources.

As far as education is concerned, the physical rehabilitation of schools has resolved initial infrastructural problems, but critical questions are still to be addressed, particularly teacher-training, taking into account the large number of teachers who lack adequate qualifications, the quality of the curricula and the balance between different types of education. There is a consensus that basic formal education should be a priority, with some attention devoted to the development of the pre-school system, justified by the lower costs and higher return rates on investment at this level of education. However, the effects of investment in child education will be felt only over the long term. In the meantime, East Timor needs rapid short-term improvement in the qualifications of its people, because of the needs of the economic system. The resolution of this dilemma implies that East Timor must balance formal and informal education, also giving priority

to a programme of adult education that can contribute to reducing illiteracy and providing the current economically active population with the skills to improve their capacities and productivity.

The curricular orientation is another crucial issue. Proper curricular design can make a decisive difference in helping the East Timorese to respond to the challenges of globalisation and to work within the information society, and to ensure that the country is open to the outside world and an international centre. This means making important choices in terms of the teaching of international languages, world history and geography. It is only natural that in the first years following independence one of the main concerns of the education system should be the consolidation of national identity. But there is a clear advantage in combining this with a regional perspective that deals with Southeast Asian history, economy and culture, so as to facilitate East Timor's integration in the region, and an international perspective, including the links with the Lusophone community. The existence of an international relations department in the National University and the development of regional studies and close co-operation with other universities in the region, namely in Indonesia, can also go a long way towards cultivating positive and stable relations with neighbouring countries. It should be noted that the existence of a private education sector is a healthy element in a democratic society as it widens the range of choices.

The question of languages is of strategic importance both for state and society. The adoption of Portuguese and Tetum as the two official languages is an important aspect of East Timor's identity in the region and should be seen by ASEAN countries as a positive contribution and an asset. Portuguese opens up new opportunities for strengthening inter-regional ties with the 570 million-strong communities of Portuguese-Spanish speakers (210 million Portuguese-speakers and 360 million Spanish-speaking communities) in Europe, Africa and Latin America. The practical implementation of this project requires consistent efforts and investment to ensure both the learning of Portuguese (at present only a minority of the population is fluent) and the development of Tetum as a full official language, namely grammar, the written word and technical language for which the National Institute of Linguistics at the National University is responsible. One of the most complex tasks is the creation of conditions to carry out the

legal translation of laws from Portuguese into Tetum so that the two versions have equal value.

The adoption of two official languages does not mean that other languages should be excluded or marginalized, however. One of the main characteristics of East Timor is its linguistic diversity and this must be seen as an asset rather than a liability. The preservation of this diversity will be a real advantage for East Timor. Besides the expansion and consolidation of Portuguese and Tetum respectively, the development of skills in English and the preservation of existing knowledge of Bahasa serve East Timor's national interests. Tetum has mainly a function at the national level, as it is the common channel of communication between the 37 languages and dialects that coexist in East Timor. Portuguese, besides its functions at the national level, has an important international role as a strategic link to Portugal and other Latin European countries as well as to Lusophone Africa and Latin America. English is increasingly the working international language crucial for external economic and political relations, a key link to the international community at large. The preservation of the existing competence in Bahasa Indonesia should be seen as a comparative advantage for East Timor insofar as it provides an important link to the region, in particular to Indonesia but also to Malaysia. This is useful for the country's direct trade and investment relations with Indonesia but also to develop East Timor's role as a window to the Indonesian market and as a facilitator of economic relations between the Lusophone countries and specific regions in Indonesia.

The health sector is another major component of a human development strategy. Primary health care, the coverage of rural areas and access for the most vulnerable groups, namely children, women and the elderly, are clearly priorities for the new state. The deficit of qualified professionals, particularly doctors, and financial constraints constitute the most severe obstacles. It should be mentioned that the improvement of health conditions and an efficient health system have a positive impact in upgrading human development but is also an important condition for the development of economic activities, especially tourism, and for the presence of expatriates connected with foreign investment projects. The response to, and prevention of some of the most serious health problems implies not only close co-operation with health authorities at the regional level

but has also an important link with security insofar as the expansion of drug trafficking and illegal traffic of women linked to prostitution can have a negative impact in terms of the increase in drug consumption and HIV incidence.

Increasing qualified human resources is a long-term process requiring consistent policies and patience as it takes time to train people. However, there are some options available that may accelerate the process. One is the mobilisation of qualified members of the Timorese diaspora through the creation of incentives for their return. Another one is the development of regional technical co-operation mechanisms with countries such as Singapore with successful experience in human resources development, and others beyond the region, specifically with Portugal, focused on the mobilisation of trainers.

2.4. Economic Challenges

East Timor's economy suffers from two fundamental structural limitations. On the one hand, it is a low-income economy with a GDP per capita of US\$ 400, one of the lowest in the region, with very low savings and investment rates. On the other, it also suffers from the problems typical of a very small economy. The costs of being small are associated with high vulnerability to external shocks, which in turn generates volatility of incomes, a tendency towards the concentration of resources in the capital, a reduced level of competition leading to the emergence of a monopolistic economy and higher unit costs in terms of public services.

The 1999 crisis and the massive destruction of economic infrastructure, as well as the interruption of activities had a devastating effect on the economy. It caused a major decline in GDP, which registered a negative growth of -34% in 1999, according to IMF estimates (see annex 2). Despite the recent improvement of economic conditions with growth rates of 15% in 2000 and 18% in 2001, this was achieved from a very low basis and only means that output recovered to pre-crisis levels. In addition, the recovery has been mainly driven by the service sector in Dili, strongly associated with the presence of international staff (whose withdrawal will have a negative impact on growth in the short term), and by infrastructure reconstruction and public works.

Current projections indicate that economic growth will slow down in the next two to three years, to a level between 1% and 4%. This implies that independence will take place in a less favourable economic environment and the first years after independence will be marked by low growth, which prevents more rapid progress in terms of employment creation and poverty alleviation. The capacity to reduce the high level of unemployment, particularly in urban areas, which tends to fuel social unrest and criminality and thus pose a threat to internal security, is one of the major challenges for the new state. Solving the problem implies not only the promotion of a labour-intensive economic growth model, but also the reduction of the current pattern of population concentration (more than 50% live in 4 districts, Dili, Baucau, Ermera and Bobonaro) by reversing the trend of internal migration with the creation of incentives for the return of people who migrated to Dili and other major cities back to rural areas where the growth of farm and off-farm activities provide better opportunities for income generation.

The level of poverty is very high in East Timor, mostly concentrated in rural areas. It has been estimated that in 2001 41% of the population fell below the poverty line, the most vulnerable group being small subsistence farmers (see annex 1). The significant reduction of poverty will constitute one of the major priorities of the new state involving not only the promotion of the access of the poor to social services but also the removal of the factors that contribute to economic discrimination, which prevent the poor from reaching higher levels of productivity and efficiency in their economic activities.

Achieving broad-based and equitable growth will be crucial for poverty alleviation. In the short- to medium-term, agriculture, by far the largest economic sector accounting for 25% of the output, 75% of employment and responsible for the bulk of East Timor's exports (coffee), will be the strategic sector for economic recovery given its greater flexibility, rapid response and low investment and import-intensities. An agriculture-led growth strategy based on both food crops and cash crops, however, requires policies aimed at improving the productive conditions of small subsistence farmers in terms of access to credit, greater security of tenure, regulation of land rights (taking into account traditional systems of access to the land), marketing and access to inputs, and fair producer price policies. Fisheries is also a short term potential source of growth but so

far the ability to move off-shore and explore East Timor's exclusive economic zone is very limited, constrained by the pending question of the settlement of maritime borders with Indonesia and by the inability to control illegal fishing activities.

The diversification of economic structures has been one of the concerns of East Timorese planners and a strategy has been under consideration by the Planning Commission in charge of the elaboration of the National Development Plan. Some of the ideas discussed point to the possibility of diversification into industry, developing small scale labour-intensive industries such as textiles, furniture, food processing, and into services, namely tourism. The success of this strategy depends critically on increasing the current low levels of private investment, both domestic and foreign, which are crucial to build up the new sectors.

Increasing investment rates depends on improving the currently unfavourable climate for private investment by tackling its main causes, namely poor infrastructure (in particular energy and telecommunications), the lack of skilled labour, institutional weaknesses (mostly related to the absence of a legal and regulatory framework for businesses), and most importantly the confusing situation regarding property rights and land ownership. Some observers have considered that the single most important obstacle to investment in East Timor is precisely the lack of a Land and Property Code to sort out conflicting claims between rights acquired under the Portuguese administration, those gained under the Indonesian administration, and traditional property rights. Moreover, the existence of a simple tax system with low taxation for corporate profits could be another element to stimulate domestic investment and attract FDI.

The underdevelopment of financial intermediation and the fragility of the banking sector is another obstacle to the increase of domestic investment, particularly small and medium enterprises. The attraction of the investment of Overseas Chinese economic groups, the second major economic force in Asia with a dominant position in the Southeast Asian economies, might be a strategic option for East Timor. Not only do they have the financial capacity to invest in East Timor but also their regional linkages could be instrumental in strengthening economic ties with neighbouring countries, thus facilitating East Timor's insertion into the regional economy. For this reason, it would be a priority

to ensure close contacts with, and the location of representative offices in the two regional centres and safe havens of Overseas Chinese interests, Hong Kong, the world capital for the management of Overseas Chinese interests, and Singapore.

A second strategic option relates to ties with Lusophone countries and business communities from Brazil, Portugal and others, which might also see East Timor as a convenient platform for the expansion of their economic interests in ASEAN. East Timor's capacity to use Indonesian Bahasa will be an asset when playing the role of business facilitator. Membership of the Lusophone community (presently consisting of Portugal, Brazil, Angola, Mozambique, São Tomé and Príncipe, Guinea-Bissau, and Cape Verde) is likely to be one of the fundamental options for East Timor together with joining ASEAN, and can be a strategic tool for the affirmation of East Timor's identity in the region and of its capacity to contribute to the diversification of ASEAN's international links. The fact that East Timor joined recently the ACP group (Africa, Caribbean and the Pacific) can facilitate trade and economic relations with some of these countries as well as with the EU as a whole, thus contributing to the diversification of East Timor's economic relations.

The improvement of the internal security situation and the consolidation of security relations with neighbouring countries will be crucial underlying factors strongly affecting investors' confidence and FDI inflows insofar as it influences the level of political risks associated with investments. The creation of an environment favourable for long-term private investment and the support to private sector development, particularly of SMEs, will be a crucial task for the new state in order to attain sustainable growth and to reduce unemployment and aid-dependence.

Another structural issue is the need to prevent the consolidation of a monopolistic or oligopolistic economy that tends to emerge in very small economies leading to a high cost structure with a negative impact on external competitiveness. To avoid this, the new state must develop its regulation capacities, implementing a sound competition policy and establish public regulatory bodies able to control natural monopolies and the abuse of dominant positions.

The oil economy can help East Timor accelerate its development process and generate higher levels of income. Under the treaty signed with Australia in May 2002 on the exploitation of the Timor Sea natural gas and oil resources, East Timor will receive 90% of the royalties from oil and gas production in Zone A of the Joint Development Zone (JDZ). Estimates of the value of these royalties range from US\$28m to US\$250m per year for up to 20-25 years. However, there are other areas in the Timor Sea with even greater production potential in relation to which jurisdiction and rights have still to be clarified. The settlement of maritime borders with Australia will be decisive. This process will require the greatest of care on the part of the Dili government in order to ensure that international law is respected and the country's legitimate sovereign rights and economic interests are not violated.

There are three important notes of caution when analysing the potential positive impact of oil revenue. The first one is that the real amount of revenue is still very uncertain, and the estimates vary by a factor of 10. The second is that this revenue will not be available in the short term, and some uncertainty remains regarding the exact moment when it will become available to East Timor (probably not before 2005). Third, this is not net revenue because it does not take into account the expenses East Timor will have to incur, namely in terms of maintaining the investment.

This question has to be addressed very carefully because there is a risk that inaccurate and over-optimistic estimates could change the perception of aid donors who might reduce aid efforts in the short term on the basis of future potential benefits which are not available during the first three to four years, exactly when the new state needs more support from the international community.

On the other hand, an excessive reliance on future oil revenue as a ready-made solution for all problems also presents clear dangers. The lessons learned from other countries that have fallen victim of the "Dutch Disease" syndrome clearly show that mineral resources, when unwisely managed, become a liability rather than an asset for long-term sustainable development. A diversified economic structure is the best insurance policy against the risks of external shocks.

Besides growth, the equity aspects of development require particular attention both at the individual and regional levels. Individual income inequality is currently low by international standards, with a Gini coefficient of 0.31 in 1999. This means that there has been some equality in poverty. However, it is likely that income and asset inequalities will grow, widening the gap between rich and poor in the coming years. The capacity to moderate this trend and keep inequality within reasonable limits is an important condition for achieving robust growth and maintaining social stability, the more so as the starting point is one of low inequality which suggests a low level of social tolerance to a significant increase in inequality. Another major challenge for the new state is the achievement of a regionally balanced path of development. The attenuation of asymmetries between the poorest areas in East Timor, particularly the districts of the Southern Coast (Suai, Lautem) and the more developed areas, namely Dili and Baucau, through a balanced plan of public investments, equal access to public services and transfer of resources from the central budget to local governments in the poorest regions, is a crucial condition for long term political stability, particularly in a country with such a diverse ethnic structure. An aggravation of regional inequalities, especially if marginalized regions coincide with the predominance of specific groups, could trigger political tensions and mobilisation along ethnic lines.

2.5. Internal Security

The internal security situation has improved since 1999 and East Timor still has a low crime rate by international standards. However, there are several potential internal and external threats that could seriously degrade security. They include the infiltration of criminals into sensitive border areas, drug trafficking, political violence and the absence of gun control.

The creation of a professional and transparent East Timorese police force is a major component in a strategy to address internal security problems. A 3000-strong police force should be in place by the end of 2003. The training process began in 2001, carried out both in the Police College in Dili and overseas, in areas requiring very specialised training (criminal investigation, maritime policing, crowd control), and at present involves a total of 1450 officers. As far as training is concerned, in addition to technical skills a crucial

horizontal aspect is adequate preparation in human rights and legal matters to ensure that police action respects human rights and is consistent with the rule of law.

In the 18 months after independence the UN Civilian Police (Civ Pol) presence will be necessary until the process of training the East Timorese police is completed. The articulation between Civ Pol and the new police force will be crucial, particularly in terms of managing the gradual transfer of operational functions to ensure that there is no break in the security system.

However, the creation of a police force is not a sufficient instrument to control internal security. There are two other institutional requirements. One is the establishment of an effective and credible judicial system able to supervise criminal investigation and to prosecute offenders. Another vital instrument is the creation of a civilian intelligence service with the capacity to collect and verify information on potential threats to East Timor's internal security, and to interact and exchange information with its counterparts in the region and beyond. An effective response to domestic security threats requires the development of close regional co-operation and coordination. The establishment of co-operative ties in the region will be one of the priority tasks for the new East Timorese police force and intelligence service and will be facilitated by the more favourable climate for intelligence co-operation in place since September 11.

There are other factors specific to East Timor that could have a negative impact on internal security. First, the considerable number of weapons in the hands of civilians is a serious risk factor. This requires the comprehensive disarmament of the civilian population, through the creation of incentives for the voluntary surrender of weapons, in order to prevent higher levels of violence and the expansion of organised crime.

Second, there is the situation of former FALINTIL members who have not been selected to the new defence forces. It is desirable that all those who wish to join the defence forces should be allowed to apply. For those who do not qualify to join the regular forces it is crucial to promote their integration as reservists or in civilian life. Another important issue, which tends to be overlooked, is the situation of the members of the former civilian clandestine East Timorese resistance. This structure of resistance involved several

thousand people with a good level of organisation and cohesion. The people involved possess organisational skills and capacities, which could be a valuable resource for East Timorese society. Special attention should be devoted to addressing the concerns and meeting the needs of these people in order to ensure they do not feel excluded from the new project and to prevent risks of violence.

Meeting these domestic challenges is crucial to ensure internal stability, which in turn is an important condition to consolidate East Timor's security. Instability would not only weaken the capacity of the state to respond to internal and external threats but would also create the risk of East Timor becoming increasingly isolated in the region and perceived as a source of regional problems. However, East Timor security is also constrained by the nature and intensity of external security challenges that have to be considered.

CHAPTER 3

EXTERNAL SECURITY CONCERNS AND CHALLENGES

East Timor is in the fortunate position of not facing any acute or major short-term security threats. Even over the long term, it is unlikely to face a new threat of invasion and occupation. However, the new state will be unable to escape a regional environment that has been characterised by widespread instability since the late 1990s, largely as a result of prolonged economic recession and regime change in Indonesia. At the same time, East Timor will be intrinsically vulnerable because of its size, low level of economic development and the fledgling status of its political, administrative, legal and security institutions. For these reasons, its government would be unwise not to take seriously the wide array of low-intensity security challenges which it will face.

3.1 Political Developments in Indonesia and Indonesia-East Timor Relations

Relations with Indonesia will be central to independent East Timor's security concerns, and political developments in Indonesia will exert a strong influence on the tenor of bilateral ties. Following the events of August-September 1999, the People's Consultative Assembly in Jakarta recognised East Timor's separation and revoked its own 1978 decision to integrate the territory as Indonesia's twenty-seventh province. Subsequently, democratically elected President Abdurrahman Wahid adopted a proactive and conciliatory policy towards East Timor, visiting the territory, cementing close personal links with Xanana Gusmão, and emphasising the need for future bilateral relations to be based on policies of good-neighbourliness. However, tensions on the border between UN-controlled East Timor and Indonesian West Timor continued, mainly because of the activities of pro-Indonesian militias, which culminated in the killing of three UN aid workers in September 2000.

In July 2001, President Abdurrahman was impeached by the People's Consultative Assembly and replaced by Megawati Sukarnoputri, widely seen as a more staunchly nationalistic figure. However, President Megawati's full recognition of the reality and

legitimacy of East Timor's separation in her first state-of-the-nation address in August 2001 represented a significant step towards equitable bilateral relations. Xanana Gusmão's consistent emphasis on the need for reconciliation with Indonesia and between East Timorese factions, and his statement in late August 2001 that East Timor should not seek reparations from Jakarta for the destruction caused in 1999 also bode well for future relations. Tensions between pro-Indonesian East Timorese and East Timor's nationalist leadership had by late 2001 been reduced to the point where Gusmão was able to visit West Timor and meet João Tavares and other militia leaders for talks, with both sides agreeing to support the repatriation of East Timorese refugees. José Ramos-Horta, the Minister of Foreign Affairs and Co-operation, has also adopted a conciliatory attitude towards Indonesia. However, while Gusmão will almost certainly exercise a moderating influence on East Timor's foreign policy as the country's president, other East Timorese politicians may not be so positively disposed towards Indonesia.

In early 2002, the main point of controversy between Jakarta and Dili concerned the issue of human rights abuses perpetrated by the TNI or their East Timorese allies. In late January, the government appointed 11 ad hoc judges who joined 12 career judges in overseeing the long-delayed trials of TNI and militia personnel allegedly responsible for some of the outrages committed in 1999. However, it remains to be seen whether senior officers (such as Major-General Adam Damiri) allegedly responsible for abuses will be tried. Once in power, the independent East Timorese government may still exert pressure on Jakarta for not only the trial of senior TNI officers before an international tribunal, but also for substantial reparations. Thus, future bilateral relations may continue to be fraught by residual tensions stemming from the events of 1999 and Indonesia's 24 year long occupation.

Moreover, there remain grounds for concern that until Indonesia's overall political situation has stabilised the potential will remain for this huge neighbour and former occupying power to continue to be a source of security concern for East Timor, although threats are most likely to be of an indirect nature. Any near-term recovery from Indonesia's multi-dimensional crisis seems unlikely. Overall, Indonesia remains a weak state. The government is unable to promote good governance or combat corruption, collusion and nepotism are endemic and a 'New Order mentality' remains strongly

embedded within the bureaucratic system, obstructing democratisation. A process of administrative and fiscal devolution to districts throughout Indonesia began in January 2001, and 'special autonomy' was granted to the rebellious provinces of Aceh and Papua (formerly Irian Jaya) a year later. However, the military instrument is still used extensively to repress separatist movements.

A specific concern is that TNI is not yet effectively under civilian political control and remains highly influential politically both in Jakarta and in the territorial commands throughout Indonesia's provinces. In the future, Indonesian nationalist or Muslim political leaders could revive bilateral tensions by exploiting disagreements with East Timor. Despite the bilateral reconciliation at the top political level, some TNI officers find it hard to accept East Timor's separation and might support efforts to undermine the new country's stability.

Another possibility is that if the stability of eastern Indonesia deteriorates further through a weakening of Jakarta's control and/or an escalation in communal (especially Muslim-Christian) conflict, East Timor's security could be challenged by a wide array of low-intensity problems, including a refugee influx. Moreover, any major Indonesian military deployments in eastern Indonesia, particularly in West Timor, could alarm East Timor's leaders and undermine bilateral relations.

East Timor's size, location, vulnerability and lack of significant military capability mean that it is likely to remain dependent on external security assistance for many years. The UN military presence may be extended for several more years, but it is unlikely to provide a durable long-term solution to East Timor's external security requirements. Though many Indonesians will be apprehensive over East Timor entering into long-term security arrangements with Australia, this is a likely outcome. Such arrangements could encompass the provision of equipment and training. Given the importance of Australia as an aid donor, trade partner and almost certainly as security guarantor in the future, East Timor's security will be sensitive to developments in relations between Jakarta and Canberra. In the event of tensions in Indonesian-Australian relations, East Timor could find itself in a particularly vulnerable position.

3.2 Border Issues, Militia Infiltration and Displaced People

Maintaining control over East Timor's rugged and mountainous land border with Indonesian West Timor will be a primary security concern for the foreseeable future. Militia infiltration from across the border has been diminishing since mid-2001 and there have been no serious clashes or incidents since then. This is largely because the TNI has shown a commendable willingness to assist in minimising militia activity on the Indonesian side of the border by disarming civilians and encouraging militia leaders to return to East Timor. Assuming continued TNI co-operation and the willingness of the UN Security Council to extend the UN peace-keeping mandate for a few more years, the remaining hard-core militia members - who number a few hundred at most - are unlikely to threaten seriously the territorial sovereignty or stability of East Timor. However, this assessment would have to be revised if TNI elements were to resume their support for the militias. In July 2001, Kofi Annan referred to the concern of the UN over the fact that 'militia elements have adopted a strategy of lying low until independence'. Dili's long-term aim should be the disbandment of all the militias and their reintegration into East Timorese society.

Even if the militias were to be disbanded, though, border-related issues would still be security concerns. According to the University of Durham's International Boundary Research Unit, while the delimitation of the land boundary between East Timor and Indonesian West Timor is not disputed, most boundary markers (originally placed in 1915) have been damaged or destroyed and need to be replaced in order to clarify the situation on the ground and minimise the likelihood of incidents in the future.

Moreover, while East Timor's leaders understandably focus on the residual threat posed by the militia groups who devastated the country in 1999, Jakarta is worried that members of the local population in West Timor may agitate for union with East Timor, possibly with support from non-state groups there. The TNI has already expressed concern about the activities of the embryonic Greater Timor State movement that aspires to establish an independent state encompassing both halves of the island.

Establishing a viable border regime that protects the security interests of both Indonesia and East Timor is fundamental to the stability of the whole island. It will be important to ensure that such a regime includes provisions to deter effectively unsanctioned cross-border movements in both directions. The land and sea border between the Oecussi enclave and West Timor, and the corridor linking Oecussi with the rest of East Timor will require special attention.

The successful repatriation of refugees from camps in West Timor will be crucial to border security as well as East Timor's long-term development as a nation. Some 260,000 East Timorese were forced across the border into West Timor in the chaos that followed the Indonesian withdrawal in September 1999. While some are supporters or related to pro-Indonesian militias and may choose to remain, most have expressed their desire to be repatriated. By the end of May 2002, nearly 210,000 had returned home leaving around 50,000 refugees in camps throughout West Timor. It is important that the remaining refugees return to East Timor or are permanently resettled in West Timor and other parts of Indonesia. The camps must be closed so that they do not become a breeding ground for resentment, the politics of despair and anti-East Timor activities. Under the Indonesian security forces' Operation 'Komodo Restoration', the camps were scheduled for closure by the end of April 2002. The TNI and Indonesian police have promised 'stern measures' against any refugees (or, by implication, militias) who attempt to disrupt this process.

3.3 Maritime Security: Resource Protection, Piracy and Smuggling

East Timor also faces the challenge of monitoring and protecting its sea borders and marine resources. In July 2001, the UN Transitional Authority in East Timor and Australia came to an interim agreement to govern the exploitation of East Timor's most valuable natural resources, the Timor Gap's undersea oil and natural gas fields, which was followed by the May 2002 Agreement. These agreements replaced Australia's 1989 Timor Gap treaty with Indonesia, which became void following the Indonesian parliament's decision in October 1999 to recognise East Timor's separation. Ensuring the protection of oil and gas installations (notably against terrorist threats) within the JDZ will be a key security issue for independent East Timor, especially once the Udan Bayu and Sunrise

fields enter full production in 2004. This task may be beyond the capabilities of East Timor's own defence force.

There is still some doubt over the future of the maritime boundary between Australia and East Timor, which the Timorese side hopes to renegotiate largely with the aim of enhancing its share of royalties from the JDZ. However, given the overall benefits for East Timor of its close relations with Canberra, it seems unlikely that this issue will be allowed to cause serious bilateral tension, unless Dili feels that its legitimate rights over oil and gas resources are not respected by Canberra. Three maritime boundaries - at each end of boundary dividing the island, and adjacent to Oecussi - also remain to be negotiated with Indonesia. Although the room for contention is rather limited, the overall condition of bilateral relations is likely to affect the ease of any future negotiations.

There are already tangible threats to East Timor's other important marine resource: fish. East Timor's waters have become prey to Indonesian, Chinese, Thai and Taiwanese fishermen. Living marine resources will need to be protected if East Timor is not to lose a valuable source of food and livelihood. There is also a danger that, if East Timor's surrounding waters are not properly policed, they will be seen as a haven for illegal maritime activities such as piracy, the smuggling of individuals and narcotics trafficking.

3.4 Transnational Crime and Terrorism

Transnational crime, smuggling and terrorism are growing security problems for the Asia-Pacific region. Small states, especially those that are short of funds, lack robust democratic institutions and are emerging from extended periods of conflict and instability, are particularly vulnerable. This assessment certainly applies to East Timor, which is confronted by a number of non-military threats to security.

Certain criminal activities have crossed over from law enforcement into the international security domain, blurring the distinction between the two. Pacific Island states have already fallen victim to the predations of organised crime and East Timor could be targeted as a conduit for drugs, money laundering, smuggling and other illicit activities.

Of these threats, drug trafficking is the most serious. The 'Golden Triangle' of mainland Southeast Asia remains a major source of drug production. There is already evidence that maritime drug trafficking across the Pacific Ocean and the transshipment of narcotics via small Pacific Island states to major consuming countries have become common practice. Small states such as East Timor are vulnerable to criminal organisations that attempt to influence and intimidate governments by establishing powerful connections with politicians, officials and law enforcement officers, threatening national sovereignty. At the same time, the spread of drug abuse locally could weaken the social fabric and undermine economic well-being. While there is no hard evidence to suggest that major criminal organisations have yet established themselves in East Timor, there are credible reports that known criminals and drug traffickers are assessing the territory as a possible transit destination for smuggling illicit contraband into Australia and Southeast Asia.

Illegal trafficking in people is another lucrative activity of international crime syndicates. The unregulated movement of people has become a defining humanitarian and security issue for the Asia-Pacific region since the end of the Cold War. Destinations are usually developed countries, but other states are often used for transit purposes. Such transit states are chosen for their geographical setting, relatively lax immigration procedures and port of entry inspection, and the potential corruptibility of local officials. East Timor's East Asian neighbours are reluctant hosts to between two and three million refugees and internally displaced people as well as four to five million undocumented labour migrants while, to the south, Australia has been grappling with an influx of asylum seekers from Afghanistan, the Middle East and China. It is not inconceivable that people smugglers will seek to exploit East Timor's strategic location at the maritime crossroads of Asia and the Pacific as a transit destination for asylum seekers and illegal migrants bound for Australia. This could complicate relations with Canberra as well as pose resource and security problems for Dili.

Failed and weak states provide fertile operating environments for terrorists, as witnessed in the southern Philippines and increasingly in Indonesia. Terrorist organisations and criminal groups are collaborating in ways that are injurious to the states that host them and to their neighbours. However, a realistic assessment must be that East Timor's

overwhelmingly Christian population would not provide a hospitable environment for individuals or groups linked to Islamic terrorist networks.

CHAPTER 4

POLICY RESPONSES

As argued in the previous chapter, the precise nature of the external security concerns and challenges that East Timor faces as an independent state, is unpredictable. However, it is clear that the quality of East Timor's bilateral relationship with Indonesia will exercise substantial influence over its external threat environment. Good-neighbourly relations based on reconciliation and institutionalised through a bilateral border regime, would help prevent minor disagreements from escalating, and also help East Timor to deal with a range of non-traditional security challenges. However, while equitable bilateral relations with Indonesia are clearly desirable, they are by no means assured. East Timor must ensure its security not only by building credible security forces of its own (within financial and manpower constraints), but also by securing external sources of countervailing diplomatic and military support. Membership of ASEAN, which will cement relations with Indonesia within an established framework of mutual restraint and confidence building, should be a priority. In terms of functional security co-operation, establishing a long-term bilateral security nexus with Australia is desirable, although East Timor will probably wish to avoid undue and exclusive reliance on Canberra in its defence relations.

Given its unique geopolitical position East Timor needs to sustain an “open and multi-pillared” foreign policy, balancing bilateral relations with its regional neighbours. The country's priorities should be to promote co-operative security and enhance regional economic relations, particularly as these can serve to revitalize the economy.

East Timor's foreign policy should stress the concern that small states have over avoiding either major power dominance or major power abandonment, suggesting the pursuit of “pragmatic hedging behaviour”. Over the long term, all smaller states in the region are anxious about having a voice in regional systems based on the management of power relations or similar forms of major power politics.

This chapter analyses the post-independence web of security interactions necessary to secure East Timor's sovereignty, territorial integrity and national security within the context of a regional framework, and the possible policy responses of different players.

4.1. East Timorese Responses

a) Domestic Policy Responses

Building credible defence forces of its own is one of the policy responses already adopted by East Timor. The creation of East Timor Defence Forces (ETDF), comprising a light infantry force of 1.500 regulars and 1.500 reservists was decided in September 2000, which corresponded to option three of the King's College Report. After some hesitation it was decided that ex-FALINTIL soldiers should constitute the core of the first battalion. Training the ETDF will take some time, probably until 2004. The first battalion, already formed and currently based in Los Palos, is now operational and is responsible for the Lautem district. The second battalion is expected to be operational by late 2003. The defence forces will have also a small maritime component of 70 personnel located in Port Hera that will operate two Albatross-class patrol boats. Understandably, attention and resources have been thus far concentrated on the training of the regular forces but the creation of the reserves cannot be neglected.

The ETDF will have to address two fundamental challenges: ensure the credibility of the forces; define their mission, and adequacy to the security environment and risks analysed in the previous chapter.

The credibility of the ETDF depends on three fundamental factors. The first is how the co-operation between the Defence Forces and the UN peacekeeping forces will develop after independence and how the division of labour should be organised. It is essential for the consolidation of the ETDF's credibility that they do not appear to be too dependent on, or under the tutelage of, UN forces, or assigned missions of little significance. At the same time, the transfer of responsibilities has to be gradual and carefully managed. A premature withdrawal of UN forces when it is clear that the ETDF are not yet ready to carry out their missions would certainly undermine their credibility.

The continued presence of UN peacekeepers in East Timor for the next four years will be crucial for the security of the country although their number had been reduced to 5.000 by the time of independence and subsequently gradually downsized as a function both of progress in the training of the East Timorese forces and the evolving security situation. Their presence implies that relations between the ETDF and UN forces have to be agreed and subject to clear rules, considering that the two forces are subject to different commands. A realistic timetable for the handing over of responsibilities to the ETDF must also be established. In terms of mission, it seems prudent that for the first years the ETDF should not be involved in border control or in the management of the Tactical Co-ordination Line, and that these should continue to be handled by UN forces. One of the priority tasks for the new state will be the definitive delimitation of land and maritime borders with neighbouring countries. This will be the first test of bilateral relations and its outcome may condition the pattern of future security relations. It will be a complex process not exempt from difficulties, and may generate tensions. The UN's involvement as a facilitator in bilateral negotiations with Indonesia and Australia can ensure that international rules are applied and prevent this process from poisoning future bilateral relations.

Second, there is the question of the ETDF budget. It is clear that East Timor cannot bear the costs alone, at least initially, and therefore adequate financial international assistance is critical. The challenge for East Timor is therefore to combine domestic and external resources to secure proper funding for the defence forces, not only to pay for training, to which Portugal and Australia have been the two main contributors of financial resources and technical co-operation, but also for infrastructural development and equipment to ensure operational readiness. Lack of resources can erode the ETDF's operational capacity and its image as a credible force thus increasing, rather than reducing, East Timor's vulnerability to external threats.

Third, there is the question of the military's subordination to the civilian power. The Government's capacity to control the defence forces effectively is important not only to strengthen domestic stability by preventing the military from becoming involved in politics, but also to prevent uncontrolled acts from generating external tensions. An

important principle is that the military should not be involved in internal security matters but deal only with external security. Although the boundaries between the two are less clear-cut with the rise of international terrorism, which requires more intense exchanges of information between the military and civilian security forces, the distinction is still valid. The creation of professional forces subordinated to democratic civilian powers is an important factor for the ETDF's credibility.

Furthermore, success in this field has a potentially positive role to play regionally insofar as East Timor is able to provide an instructive model of civil-military relations under democracy. This is particularly important in a region where the military has often remained highly politically influential and has successfully resisted attempts to institutionalise civilian control, a situation that has not contributed to regional security.

As far as the nature of its missions is concerned, the ETDF should mainly be focusing on, and trained to respond to, low intensity threats and maritime protection. Taking into account the nature of security challenges and the need to control maritime borders and resources highlighted in the previous chapter, the possibility of strengthening the naval branch of ETDF should be considered in the medium-term, depending on the availability of financial resources.

The second aspect relates to the regional dimension. The ETDF must become an integral part of the security architecture of the region. Apart from bringing economic benefits, East Timor's integration into ASEAN could also act as an important security guarantee. Formal membership is not enough, however. East Timor's security depends to a large extent on the development of sub-regional co-operation in response to common threats such as maritime piracy and terrorism. East Timor has a clear interest in contributing politically to progress in this domain and should be operationally prepared to participate in regional efforts to combat piracy and terrorism, or even to participate in regional peacekeeping operations. To facilitate such operational co-operation, it is important that the ETDF acquire experience of interaction with forces from neighbouring countries and develop a capacity to perform missions related to regional security cooperation.

The contribution of the ETDF to East Timor's security should not be overestimated. While important, it is only one instrument that can work as a deterrent, and cannot ensure security in and of itself. In the event of a serious security crisis or a major military attack, East Timor's forces will be unable to deter the aggressor, leaving no alternative but to call upon the assistance of its closest allies and the presence of foreign forces, most probably from Australia. Moreover, it should be stressed that security is as much a product of military strength as of adroit diplomacy and soft power. In this context, the foreign policy of East Timor and its ability to forge stable bilateral relations with neighbouring countries is more fundamental than military capabilities at this point.

b) Bilateral Linkages

East Timor's security should be founded upon three bilateral building blocks. The first involves bilateral relations with its two "big" neighbours Australia and Indonesia, clearly a priority for East Timor. The second involves Southeast Asia, particularly the Philippines, Singapore, Thailand and Malaysia. The third includes relations with countries outside the region namely Portugal, other European countries, the US and Japan. East Timor's best strategy is to articulate the three circles and build stable bilateral relations in such a way as to achieve diversification and avoid becoming a prisoner of its relations with Indonesia and Australia.

It is vital for East Timor to establish a functioning relationship with Indonesia. Despite the sad legacy, trust and stability in its relations with Jakarta are crucial for security. The involvement of defence forces in traditional bilateral military co-operation initiatives is of great interest for East Timor. The early development of direct contacts and relations between the ETDF and the TNI will increase trust and open channels of dialogue. Establishing a *track two* channel between the East Timorese think tank and Indonesian think tanks dealing with security is also important. Moreover, the surest route to ASEAN membership would be through Indonesian sponsorship. Most ASEAN states would be obliged to listen to Indonesia's views and would welcome the reconciliation of East Timor and Indonesia within the ASEAN context. More importantly, such an endorsement would remove most of the political impediments to East Timorese membership.

Australia, the other large neighbour, played a decisive role in the resolution of the 1999 crisis and is presently one of the major development donors and providers of defence assistance. This is partly explained by the fact Australia has a clear strategic interest in East Timor's security against outside aggression or subversion not only because of the country's relevance to control over energy sources, but also because East Timor is close enough to Northern Australia to make the risk of hostile forces using East Timor as a base for its operations to be a real security concern. Although some sectors in East Timorese society might harbour resentment towards Australia because of Canberra's acquiescence in the 1976 incorporation into Indonesia, bilateral relations are presently cordial. However, it is important for East Timor not to be seen as too dependent on, or dominated by Australia. It should be stressed that Australia also has an interest in moderating its influence in order not to harm its own relations with Indonesia.

The evolution of Australian-Indonesian relations, rather than East Timor's bilateral relations with either country, is likely to be more of a crucial conditioning factor for East Timor's security, and indeed, regional stability. East Timor has basically no capacity to influence this variable which is strongly influenced by other crucial factors such as the situation in West Papua, the most important potential source of bilateral tension. Two alternative long-term scenarios can be foreseen implying different responses on the part of East Timor.

The first is of "strategic competition" between Indonesia and Australia, in which both sides assume they have competing interests in the region and struggle to assert their influence according to a balance-of-power logic. East Timor would be seen as a liability to bilateral relations and become a mere pawn in a wider power game. Its best bet would be for its large neighbours to contain each other and counterbalance one another's actions. This would be a precarious equilibrium leading to a highly tense environment, however, in which East Timor could easily be caught in the middle of its neighbours' conflicts. This is a negative scenario for East Timor, likely to produce long-term instability. The implications for East Timor would be complex. First, the country's room for manoeuvre will be reduced, bringing higher vulnerability and greater insecurity. Second, East Timor would have to be extremely careful not to disturb the delicate

equilibrium and be extremely skilful in balancing bilateral relations with Jakarta and Canberra. If conditions allow, the negotiation of parallel security arrangements with the two neighbours could be a useful tool. Third, it would be crucial for East Timor to establish strong security arrangements with a credible outside power that could offer a security guarantee, although this would prove to be very difficult.

The second scenario is one of “strategic partnership” between Australia and Indonesia, in which both countries recognise that they have a common interest in the security of East Timor and are prepared to co-operate to that end insofar as this is the best solution to guarantee their own security. In this scenario, East Timor would be basically regarded as an asset in relations between Jakarta and Canberra and a catalyst to improve them further. This is the best-case scenario, in which both Indonesia and Australia would jointly protect East Timor’s sovereignty and guarantee its security against third parties, thus providing a very effective deterrent to any attack. For East Timor this would generate more stability and contribute to a more robust security situation. In this context it would be possible for East Timor to propose or support the development of trilateral arrangements and even an agreement to promote co-ordination regarding common security concerns such as maritime piracy, drug trafficking or illegal fishing.

There is a possible third scenario of “negative convergence on benign neglect” whereby Australia and Indonesia «agree» to disengage from East Timor and show no interest in, or commitment to, the security of the new state. This scenario of abandonment would be also unfavourable for East Timor.

It is uncertain which scenario will evolve. The situation was closer to the “strategic competition” scenario after the 1999 crisis when relations between Jakarta and Canberra reached their lowest point in years. More recently, however, there have been positive signs that, as Indonesian democracy is consolidated, may pave the way for a transition to a “strategic partnership” scenario. In any case, the first years after independence will be characterised by a mixed picture and East Timor will have to cope with this ambiguity and adjust policy accordingly. At the same time, it should do its best to contribute to the improvement of Indonesian-Australian bilateral relations.

The second building block involving other key countries in the region, in particular the Philippines, Thailand, Singapore and Malaysia, all of fundamental importance for various reasons. First, in terms of the UN peacekeeping these countries are already playing a key role in security as they have, together with Australia and Portugal, contributed the bulk of PKF forces and assumed their command (the Philippines and Thailand). In the future it is likely their role will be further enhanced, together with Japan's, following the reduction of PKF personnel, as the operation will gain an even more regional nature. Second, these ties are instrumental in facilitating East Timor's regional insertion and in providing a basis for East Timor to counterbalance any pressure from Indonesia. In addition, military co-operation with these countries can provide an opportunity for East Timor to learn from their experience in dealing with non-military security threats in the region. Third, Singapore and Malaysia provide a link to the Five Power Defence Arrangements (FPDA, also involving Australia, New Zealand and Britain), which are considered by many observers as the most effective security arrangement in the region. The FPDA could even provide an alternative regional framework to assist East Timor in case of a serious security crisis.

As far as the third level is concerned, East Timor has important ties outside the region and has a clear interest in cultivating those relations. Military co-operation with the US and European countries with a view to strengthening senior officers' training, particularly with Portugal and Britain, would help diversify East Timor's options and secure the global levels of assistance that will be required. Furthermore, this would give East Timor some leverage in its relations with both Indonesia and Australia.

c) Multilateral fora

The South Pacific Forum

It is unlikely that membership in the South Pacific Forum would make a difference for East Timor. Part of the reason lies in the Pacific's lack of power and wealth. The two sizeable actors, who have historically taken an interest in the South Pacific, in particular Australia, reflect a priority on Southeast Asia in their foreign and security policies and place greater importance in engaging that region rather than the South Pacific.

The South Pacific Forum does not attract enough developmental assistance, which would in many instances remove some of the causes of conflict in that region. Likewise, the poor bargaining position of the South Pacific states does not allow them enough leverage in pressurizing countries like Japan and the United States to make terms of trade more advantageous for developing Pacific island states as well as helping to alleviate some of the harsher consequences of globalisation.

Similarly, the Pacific Islands could benefit from establishing an institutional framework for dispute resolution and preventive diplomacy. Exploring the potential for the use of third-party mediation, increasing the power of the Secretary-General of the South Pacific Forum and creating a “good offices” role, and the provision of technical assistance could all go a long way towards helping the Pacific become more stable and secure. Also, there is a need for the small states of the Pacific to build stronger institutional ties with the larger states of the Pacific Rim. Such a linkage, while not necessarily solving the region’s difficulties, would at least contribute to the goal of raising the profile of the Pacific’s security and developmental problems. Such shortcomings make it difficult to see how this regional organization could benefit East Timor.

It would be best for East Timor to consider the limitations of the South Pacific Forum and its inability to contribute to the long-term well-being of East Timor as it takes its formative steps towards consolidating its independence.

ASEAN

East Timor has an objective interest in becoming full member of ASEAN for three basic reasons.

First, from a security perspective, for East Timor, a small and vulnerable player, ASEAN membership would provide an important implicit security guarantee and would achieve more security for the new State than any security agreement with Australia or Indonesia. Seeking membership should therefore be an important component of any East Timor

foreign policy strategy, and should be seen as complementary to the development of bilateral ties mentioned earlier.

Second, from an economic point of view, the member countries of ASEAN are and will be the major trade partners of East Timor. By joining the ASEAN “club”, the new state should benefit from more favourable trade conditions.

Third, in diplomatic terms by being inside ASEAN and contributing to strengthen its credibility, East Timor can gain greater weight and voice in international affairs than if it stands alone, in particular as the international visibility and attention for East Timor will tend to decline in the coming years.

It is true that there are some difficulties that might contribute to delay the process. The enlargement of ASEAN has affected its ability to function with a higher degree (if not the same) degree of cohesion and trust built up among its original members in order to achieve its organizational objectives. Indeed, the expansion of membership has resulted in the evolution of a two-tier system with negative consequences. To mitigate this phenomenon, the older members had recognized the need to help the new members to accelerate their growth and structural change, and to move from central management of the economy to a market system as quickly as possible. Initiatives had been taken by the organization and its older members to establish training and assistance programmes to integrate Cambodia, Laos, Myanmar and Vietnam.

Unfortunately, this simple equation has become complicated, as the growth path and political evolution of some of the older ASEAN members have been interrupted as a consequence of the economic crisis. Indonesia, especially, has experienced discontinuous change. This has taken a toll on ASEAN’s commitment to its newer members. During the 1990s, the Association’s sluggish handling of high profile regional problems such as the persistent cross-border “haze” outbreaks caused by the fires in Indonesia, and the East Timor crisis, eroded its international credibility. Furthermore, the entry of four new members, since 1995 has slowed down the pace of progress towards AFTA and has diluted the ASEAN dialogues with the European Union and other developed countries. As a result, in some ASEAN circles concerns about the need for rejuvenation and

housekeeping before admitting new members might contribute to slow down the process of accession.

On the other hand, the ASEAN form of multilateralism has always emphasized that strong bilateral relations are the building block for sound multilateral cooperation. In this regard, the normalisation of relations between East Timor and Indonesia is the crucial litmus test for East Timorese membership. In this regard, the best way forward would be for the normalization of ties between East Timor and Indonesia to set the backdrop for membership in ASEAN following a similar pattern of regional reconciliation where both rapprochement between ASEAN and the Indochinese states in the 1990s, and the earlier political settlement between Indonesia and Malaysia, were located within an institutionalised structure of regional relations.

In addition, there might be some concerns about East Timor's institutional or human resource capacity to participate in various ASEAN economic initiatives, in particular the ASEAN Free Trade Area (AFTA), the ASEAN Industrial Cooperation Scheme (AICO) and the ASEAN Investment Area (AIA). Particular attention should be devoted to the development of a capable group of people that could become the core of the ASEAN Department within the East Timorese foreign ministry. Competence in the English language is vital for East Timor in the context of participating in the numerous ASEAN meetings.

ASEAN membership could be achieved in two stages. In the first stage, East Timor would join ASEAN as an observer and seek to understand the many processes and mechanisms of ASEAN. At this early stage, it is important that East Timor understands the "rules of the game". This is the opportunity for East Timor to learn the history and experiences of ASEAN and to spend as much time as possible to learn, study and research and generally to prepare itself before moving to the second stage, full membership of ASEAN.

East Timor needs to maintain peace, stability and security despite the various challenges it will face in giving substance to its new independent status. Full membership in the ARF and observer status within ASEAN would mark the beginning of the integration of

East Timor into the community of nations and into the global economy through Southeast Asia's only existing and viable regional body.

ASEAN Regional Forum (ARF)

Beyond the sub-regional level, the participation of East Timor in wider multilateral regional fora dealing with security is another important dimension of its external security policy. The early participation of East Timor in the ARF, the pan-regional forum for security dialogue and consultation based on a concept of cooperative security and a multi-tier approach to security cooperation, and involving confidence-building, preventive diplomacy and conflict resolution, would be particularly important. The ARF has emerged as the only regional forum where sensitive issues are discussed and has facilitated the reduction of tension in spite of the fact it has not gone as far as to resolve disputes or prevent conflicts. Participation in the ARF would provide an excellent opportunity to expose East Timor to regional thinking on, and perceptions of, security. At the same time East Timor could benefit from the preventive diplomacy mechanisms that the ARF is now trying to implement. ARF membership could precede full membership of ASEAN, in the short term East Timor should become a member of the ASEAN Regional Forum, allowing it maximum exposure to the various debates on regional security.

d) Non-Governmental *Fora* and Track Two Initiatives

Besides governmental fora, East Timor should actively participate in track-two, non-governmental security networks, in particular ASEAN-ISIS and CSCAP, the track two dialogue process linked to ARF. It will need to think about the establishment of an independent Institute of Strategic and International Studies which could assist East Timor to participate in regional networks, promote track-two initiatives and contribute to the development of civilian expertise on defence and security matters.

4.2. Regional Response: ASEAN Members

At the multilateral level, ASEAN members have a clear interest in responding positively and quickly to East Timor's application for full membership. The immediate offer of observer status to allow East Timor to become acquainted with rules and institutions, and the accession of East Timor to the Treaty of Amity and Cooperation in Southeast Asia (TACSEA) is a useful preparatory stage, but full membership should not be delayed too far into the future. It would be desirable for talks for accession to start before the end of 2002, with accession taking place by 2004.

Some ASEAN members might be inclined to adopt a cautious strategy and attempt to delay the admission of East Timor on the basis of concerns about the pitfalls of previous enlargements, the fragility of East Timor's economy, and its lack of readiness to comply with ASEAN obligations. However, the benefits of early admission would far exceed the costs. First, it would contribute to rebuilding ASEAN's credibility, which was damaged by its inability to act and respond to the East Timor crisis in 1999. The fact East Timor, the victim of that inaction with legitimate reasons to question the effectiveness of the organisation, is willing to join, is the best possible recognition that the grouping is still relevant and plays a useful role in maintaining regional stability.

Second, through East Timorese membership, the region will be better able to address transnational issues such as drug trafficking, illegal cross-border trade, human trafficking, ecological exploitation and environmental degradation, not only because the area controlled by the new state is not left out of the scope of coordinated action, but also because East Timor is likely to be an enthusiastic supporter of enhanced co-ordination to deal with transnational security issues. In short, ASEAN's own strategic credibility would be enhanced through East Timorese membership, and enable it to deal with transnational regional security issues affecting maritime Southeast Asia more effectively.

Third, East Timor's membership would provide an opportunity for ASEAN to diversify further its international links and strengthen diplomatic ties with the Portuguese-speaking world, Latin America, the EU and the International NGO community. This would further increase the political and diplomatic voice and add to the leverage of ASEAN in international affairs.

Fourth, normalisation of relations between Indonesia and East Timor within the framework of ASEAN consolidates bilateral relations and contributes to a more durable reconciliation. Moreover, it ensures that any eventual bilateral disputes will not be handled exclusively by the two states but can be mediated by regional partners. East Timor's membership serves the interests of ASEAN insofar as it is an important mechanism to mitigate tensions and potential conflicts between Dili and Jakarta, thus reducing the risk of regional instability.

Fifth, East Timorese membership also offers ASEAN members (with the exception of Indonesia and Brunei) facing a growing structural energy deficits, which are likely to be one of the most serious bottlenecks to future long-term growth, a better chance of securing access to alternative sources through preferential trade terms for East Timor's oil and natural gas.

Most of these potential benefits can only be translated into reality if the decision to allow East Timor to become a member of the club does not take too long to materialize. If ASEAN is seen as too hesitant and half-hearted, this would not only prevent the organisation from strengthening its credibility and improving its image in the eyes of the international community, but would also send a negative signal to East Timor, forcing the new state to rely more heavily on its relationship with Australia and possibly with the South Pacific Forum. This outcome would not be in the best interest of ASEAN. The decision to approve East Timor's candidature is by and large a political one. It should be determined not by mere technical considerations, but rather by the long-term benefits for regional stability. It is worth recalling that the prime motive behind ASEAN's creation in the 1960s was political and security related rather than economic and this logic remains valid today. The longer East Timor is outside the ASEAN family, the longer it will constitute a weak link for ASEAN and the longer it remains prone to external intervention.

At the bilateral level, countries in the region should seek to establish productive security co-operation with East Timor with a view to strengthening East Timor's capacity to defend itself and respond to security challenges. Exchanges between senior military personnel and the regular sharing of relevant security information are important

mechanisms that can be developed at minimal cost. In addition, wealthier countries in the region could consider increasing financial aid to meet ETDF costs. Moreover, regional states' advocacy role at the UN will be important for East Timor's security in terms of maintaining the UN peacekeeping mission in East Timor and preventing any premature withdrawal of the UN forces.

On the other hand, it is vital that countries in the region fully respect the sovereignty of East Timor, abstaining from acts that might generate tension such as the failure to notify the East Timorese government in advance of naval exercises taking place near its maritime borders. In order to build confidence and to contribute to training East Timor's military personnel, it would be useful if nearby countries were to invite East Timor to observe their military exercises or the combined multilateral military exercises carried out with other regional partners.

4.3. Global Responses: The UN and Outside Powers

The presence of UN peacekeeping forces was a crucial factor ensuring stability during the transition to independence and will remain vital for East Timor's security in the first stage of the post-independence period. The massive rebuilding of Afghanistan and the emergence of other crisis spots will no doubt result in the scaling down of the priority that the UN attaches to East Timor. However, the UN commitment should not be allowed to fall below a minimum critical level. The successor mission to UNTAET will be smaller and the number of troops will be reduced gradually but should not fall below 2,000. It is crucial that the UN does not withdraw before the ETDF is fully operational and able to carry out the tasks currently performed by UN forces. Given that the training of the ETDF's second battalion will last until early 2004, and that the full integration of the forces, the consolidation of their experience and the transfer of responsibilities will take some time, the withdrawal of UN forces should not take place before the second half of 2005. Moreover, any plan to reduce forces and withdraw should be flexible, so that it may be adjusted in light of two crucial variables: progress in ETDF training and the evolution of the security environment. Delays in the consolidation of ETDF capabilities or an eventual degradation of the security environment will certainly require

the revision of current plans, and possibly the postponement of the withdrawal of UN forces.

In the area of defence and security, the UN should perform two fundamental tasks. First, it should advocate the mobilisation of international support and financial resources from donors with a view to overcoming the problem of ETDF under-funding that undermines, among other things, the ability to purchase basic equipment. Second, it can assist and mediate the demarcation of maritime borders between East Timor and its two big neighbours and the precise configuration of East Timor's exclusive economic zone, which may prove more difficult than expected.

In the area of development assistance to improve economic and human development conditions which are a crucial condition to domestic stability, the UN support and commitment to one of its poorest members is particularly important, because multilateral aid is less tied than bilateral aid. It is important that multilateral agencies, specifically the WB, the UNDP, the ADB, maintain or even increase commitments. The role of international NGOs, which for many years supported the cause of East Timor, is crucial to put pressure on national governments and on the UN so that they comply with their obligations towards East Timor.

As far as outside powers are concerned, their potential contribution to strengthening East Timor's security can occur at three different levels. First, there is financial support to ETDF to meet its considerable costs, which currently amount to US\$ 3-4 million per year. Bilateral financial contributions are essential to secure proper funding for the ETDF, which in turn is crucial to ensure credibility. Thus far Australia and Portugal have taken the lead and carried most of the burden. However, the costs tend to increase as the entire force becomes fully operational and other sources must be mobilised to meet additional costs. It is essential that outside powers, in particular the US, Britain, France, Japan and China increase their financial contributions. They can also contribute to solving equipment problems by donating material or supplying it on favourable terms. Over the medium-term, outside powers should focus particularly on developing the ETDF's naval component, for which external financial assistance will be required.

Second, outside powers (US, Britain, China) can contribute by engaging in bilateral military co-operation with East Timor and by training senior ETDF officers. Furthermore, they can contribute to facilitate the integration of East Timor into Asia's security community by supporting its accession to the ARF in which they participate and by inviting East Timorese officials to participate as observers in combined multilateral military exercises that both the US and Britain organise on a regular basis with various Southeast Asian countries.

Third, as permanent members of the Security Council, they can make it clear to other countries in the region that violations of East Timor's sovereignty will not be tolerated and ensure that in the unlikely event of such violations occurring there will be a firm reaction from the international community. This commitment of outside powers can work as an important deterrent to aggression against East Timor.

CHAPTER 5

CONCLUSIONS

This Report, based on a comprehensive and multi-dimensional view of security and an analysis of the interaction between domestic and external factors, presents five fundamental conclusions.

First, the security environment in which the state of East Timor is born is rather unfavourable. The new state must cope with a regional security environment that has been characterised by widespread instability since the late 1990s largely as a result of prolonged economic recession, regime changes and instability in Indonesia, as well as increasing strategic competition between the US and China in the region.

Second, the most important external security threats East Timor is likely to face in the short to medium-term are non-military transnational challenges like drug trafficking, money-laundering, maritime piracy, smuggling, illegal fishing, and organized crime. The likelihood of a conventional military attack is minimal. Non-military transnational threats have increased in the region in recent years as a result both of weak states and of slow progress in regional security co-operation. The development of such co-operation and the active involvement of East Timor is an important condition for reducing the country's vulnerability and the intensity of these threats. Any negative developments in Indonesian-Australian bilateral relations, particularly the consolidation of a scenario of "strategic competition" between the two, would constitute a long-term problem for East Timor's security.

Third, in order to respond to these challenges a small and vulnerable country such as East Timor should consider the possibility of adopting a pro-active three-tier strategy articulating the creation of (i) positive conditions for internal stability (ii) autonomous defence capabilities; (iii) bilateral security relations and participation in regional multilateral *fora*.

Domestic stability constitutes a priority as instability will increase vulnerability to external subversion, and should also be a major concern for neighbours who could face the risk of “infection” from East Timor. Internal stability depends critically on the capacity of the new state to (i) consolidate democratic institutions and facilitate national reconciliation; (ii) promote economic reconstruction based on broad-based equitable growth able to create employment, higher levels of human development, and to reduce the current high levels of poverty (iii) establish a professional and «clean» bureaucracy; and (iv) build a credible law and order system with an efficient police force and an independent judiciary.

The creation of the ETDF promises to provide an important instrument for maintaining security but its limitations have to be recognised. Alone it cannot guarantee East Timor’s security. The ETDF is confronted with a triple challenge: to ensure the credibility of the forces; the definition of adequate tasks adapted to the nature of security challenges; its subordination to civilian power and abstinence from any involvement in politics. Credibility is dependent not only on training but also on adequate funding, which requires higher levels of external financial assistance, namely from powers outside the region (from US, UK and France, for example), which are crucial to finance investments, notably in equipment, indispensable to ensure operational capacities.

Building a network of bilateral security relations is the second pillar, involving three complementary levels. The first and most important level includes East Timor’s relations with its two “big” neighbours, Australia and Indonesia. Although the nature and quality of bilateral relations with each are very relevant, it is highly likely that the evolution of relations between Jakarta and Canberra will be an even more important determining factor for East Timor’s security. The impact on East Timor depends upon whether the Australian-Indonesian relations follow the logic of “strategic competition” or “strategic partnership”. The former will have a negative impact and generate insecurity over the long term, while a strategic partnership, insofar as it would facilitate co-operation and joint efforts to defend East Timor’s sovereignty, would strengthen security.

The second level involves bilateral relations with key countries in the region, in particular the Philippines, Thailand, Singapore and Malaysia. These are important not only to facilitate the integration of East Timor in the Southeast Asian security community, but

also to alleviate pressure at the first level, particularly as these countries can mediate and reduce potential tensions with Indonesia.

The third level relates to countries outside the region whose commitment to East Timor's security is crucial to secure proper funding for the ETDF, complementing the effort already made by Portugal, to dilute Canberra's involvement (thereby alleviating Jakarta's concerns), and to provide political support that could counter-balance regional pressure.

Moreover, regional bilateral relations are a crucial basis for participation in regional multilateral *fora*, which in turn contributes to cement bilateral relations, and to moderate potential tensions. A small and vulnerable country like East Timor can better defend its interests in the context of multilateral organizations and rules.

Fourth, membership of ASEAN should be regarded as a priority as it offers an important security guarantee to East Timor and would achieve more security than any bilateral security agreement with Indonesia or Australia. Conversely, existing ASEAN countries can also derive political advantages from East Timor's membership in terms of restoring the organization's international political credibility, consolidating the reconciliation between Indonesia and East Timor, thus preventing future conflicts that can destabilise the region, and diversifying ASEAN's international ties.

East Timor's full membership in ASEAN should materialize as soon as feasible. Delaying the decision too long fuels uncertainty with potentially negative effects on regional stability. East Timor will remain a weak link for ASEAN as long as it stays outside the organisation. Thus, while interim observer status is a short-term solution, full membership should be attained before 2004. Meanwhile, East Timor could join the ARF in the short-term, allowing the new state maximum exposure to regional concepts and debates on regional security. In short, full membership of ARF and observer status in ASEAN could well mark the beginning of East Timorese integration into the regional community.

Fifth, international support will be critical for East Timor's security for the first five years following independence and should be sustained and increased. Independence should not be seen as the end of the process but rather the beginning of a new phase. International support is fundamental at different levels. The presence of UN peacekeepers must be maintained long enough to consolidate the ETDF and for the police to become fully operational. The UN presence will probably be necessary at least until the second half of 2005, and any premature withdrawal could severely compromise security. International financial support to meet ETDF costs and technical co-operation at the military and security forces levels are two other important dimensions of the contribution the international community can make to strengthening East Timor's security.

In sum, the non-traditional nature of the most serious security threats that East Timor is likely to face, combined with the country's small size and vulnerability, suggest the need for an eclectic approach to ensure its security based on a three-tier system: building up its domestic economic, political and military resilience preserving internal stability and a sound democracy; building up bilateral security linkages; and integration in regional multilateral institutions. Security is a product of adroit diplomacy and soft power as well as military strength. In this light, security will depend much more on the effectiveness of East Timor's foreign policy and its capacity to forge a balanced network of bilateral relations and participate in ASEAN than on building up military capabilities.

With wise leadership (which has already proven its skills in building good relations with neighbouring countries, particularly through reconciliation efforts regarding Indonesia), sound policies and the goodwill and help of the regional and international community, East Timor can be transformed into the peaceful and prosperous nation that its people desire and deserve.

ANNEX 1

EAST TIMOR SOCIAL INDICATORS

	1996	1999	2001
Population, total (persons)	839,719	779,567	794,298
Urban (% of total)	9.5	9.8	23.5
Rural (% of total)	90.5	90.2	76.5
Age structure (% of total)			
0-15 years	43.5	41.1	43.9
15-64 years	54.8	57.0	53.7
» 64 years	1.7	1.9	2.4
Life expectancy at birth, total (years)	53.9	56	57.4
Under 5 mortality rate (per 1000 live births)	177.6	158.8	143.5
Adult literacy rate (aged 15+ %)	40.4	40.6	43.0
Urban	79.6	80.4	81.5
Rural	36.2	36.6	37.2
Education: gross enrolment ratios (%)	55.5	59.1	56.1
Primary education	90.6	94.4	111.6
Lower secondary	60.5	63.9	62.4
Upper secondary	36.1	37.2	27.0
Tertiary education	3.3	5.1	3.9
Poverty			
Population below national poverty line (%)	41.5	42.4	41.1
Head count ratio (% of poor in total pop.)	31.7	29.9	41
Urban	14.2	20.1	26.0
Rural	33.6	31.1	46.0
HPI (Human Poverty Index)	51.0	46.0	49.0
Gini Coefficient	34.1	30.5	35.4
HDI (Human Development Index)	0.393	0.395	0.421

Pour memoire

HDI of some ASEAN countries (1999) : Malaysia 0.774 ; Thailand 0.757 ; Philippines 0.749 ; Vietnam 0.682 ; Indonesia 0.677 ; Myanmar 0.551 ; Cambodia 0.541 ; Laos 0.476

SOURCE: UNDP East Timor Human Development Report 2002 (annex tables 1-7)

ANNEX 2

EAST TIMOR ECONOMIC INDICATORS

	1997	1998	1999	2000 a)	2001 b)	2002 c)	2003 d)
GDP, total (million USD)	383	390	263	312	380	392	412
Real GDP growth (%)	4	-2	-34	15	18	0	2
GDP per capita (US\$)	442	424	337	396	478		
GDP structure by sector (% of total)							
Primary	25.2	26.1	26.5	22.7			
Secondary	26.2	26.0	20.0	27.4			
Tertiary	48.6	47.9	53.5	49.9			
Investment rate (% of GDP)	52.9	47	27	27	44	27	17
Domestic savings (% of GDP)	29.0	26	26	-7	-17	-13	-12
External savings (% of GDP)	24	21	1	34	61	41	30
Inflation rate (CPI Dili)	10	80	140	20	3	3	3
Exports (millions of USD)		54	49	48	40	59	38
Imports (millions of USD)		142	89	96	428	494	481
Trade balance (millions USD)		-88	-40	-48	-388	-435	-444
Budget revenue (millions USD)				28.5	31.1	36	52
Budget expenditure (millions USD)				51.3	63.4	97.2	111.7
Overall budget balance (millions USD))				-22,8	-32,3	-61,2	-59,7
Overall budget balance (in % of GDP)				-6,5	-8,1	-15,4	-14

Source : UNDP East Timor Human Development Report 2002 annex table 8

IMF statement for Donor's meeting on East Timor (Oslo, December 2001)

a) estimates b) projections c) IMF projections d) IMF projections

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