

Final Technical Report  
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# Developing India - Timor-Leste Relations

Nitin Pai

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## **BASIC PROJECT INFORMATION**

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**Abstract:** India and Timor-Leste have geopolitical and developmental imperatives for a deeper engagement with each other. This report recommends that the two countries use human capital development as the basis of developing bilateral relations. It advocates that India consolidate its developmental initiatives in the form of a specialised agency to implement the "Indian touch" in international development.

**Keywords:** India, Timor-Leste, human capital development, business park, East Asia.

## **The Research Problem**

India is the world's largest democracy and fast emerging as one of Asia's key economic and geopolitical powers. In 2009, the size of the Indian economy was \$1.242 trillion in nominal terms, making it the 12th largest economy in the world. New Delhi embarked on a "Look East" policy in the 1990s designed to build strategic ties with South-east & East Asia. Timor-Leste is, according to its government, "the world's newest democracy" and one of the world's newest independent states. Though small in size (a population of 1.1m and an economy of around \$599 million) the country is endowed with natural resources (oil & natural gas) off its shores and also occupies a strategic location at the eastern extremity of the Indian Ocean.

The relations between India and Timor-Leste have been described as "sporadic although friendly and cordial". While there have been some Indian investments in Timor-Leste's oil & gas industry, by and large, the Indian involvement in East Timor's development story has been conspicuous by its absence.

Given that Timor-Leste faces some of the very same challenges as parts of India, and the Indian experience has demonstrated how these challenges can be successfully surmounted, it is conceivable that India can play a constructive role in supporting Timor-Leste's aspirations. Similarly, Timor-Leste's resource wealth and geographic location is likely to be of value to India. For various reasons—not least New Delhi's preoccupation with the more developed countries of ASEAN—insufficient attention has been paid to exploring the possibilities of developing a mutually beneficial, multi-sector relations between the two countries.

This study proposes to address the gap. It aims to unearth the opportunities and challenges that lie in the way of India - Timor Leste relations. It examines the current status of bilateral ties, identify and analyse areas that lend themselves to potential co-operation.

## **Objectives**

The outcome of the study will be a set of recommendations to the governments of India, East Timor on short-, medium- and long-term strategies to develop bilateral relations. It will also recommend measures that international development agencies could take in order to facilitate a mutually beneficial partnership between the two countries. The scope of the study will cover geopolitical and economic aspects of the relationship.

## **Methodology**

The findings in this report are primarily based on free-form interviews and meetings with high-level government officials, businesspeople, mediapersons and members of the civil society in India, Timor-Leste and Australia.

## **Project Activities**

In-depth face-to-face & email/ telephone interviews were carried out with senior government officials in New Delhi, Thiruvananthapuram, Dili, Singapore, Jakarta, Sydney and Canberra. Findings were validated in discussions with scholars at the National Maritime Foundation (New Delhi), officials from India's Ministry of External Affairs and the President's of Timor-Leste's office.

Three trips were made conduct face-to-face interviews and relevant field research.

Partial List of Interviewees:

### **TIMOR-LESTE**

Jose Ramos-Horta, President, Timor-Leste  
 Dr Mari Alkatiri, President, Freitelin  
 Dr Ana Pessoa, Prosecutor-General  
 Manuel Tilman, MP and Chairman of Parliamentary Committee  
 Amb. Hernani Coelho, Deputy Chief of Staff to the President of Timor Leste  
 Amb. Abel Guterres, Timor-Leste's ambassador in Canberra  
 Dr Abraham Joseph, economic advisor, UNMIT

### **INDIA**

Mr Shashi Tharoor, MP and member of Parliamentary Standing Committee on Foreign Affairs,  
 Ms Vijaya Latha Reddy, Secretary (East), Ministry of External Affairs  
 Cmde C Uday Bhaskar, Director, National Maritime Foundation  
 Hermanprit Singh, IPS, former deputy chief of police in Dili (UNTAET)  
 Atul Chandra, President, Reliance Petroleum  
 Mukundan Unni, agriculture specialist

### **INDONESIA**

Amb. Biren Nanda, Indian ambassador to Jakarta

### **SINGAPORE**

Mukul Asher, Professor of Public Policy, National University of Singapore  
 Amb. T C A Raghavan, Indian ambassador to Singapore  
 Captain (Indian Navy) Bopanna, Indian Defence Attache, Singapore  
 Daniel J Bell, South East Asia business specialist

### **AUSTRALIA**

John Fisher, Assistant Secretary, Department of Foreign Affairs and Trade  
 Officials from the Office of National Assessments

### **Project Outputs**

Policy Brief (attached)

Op-ed essay *Business Standard*, India.

### **Project Outcomes**

President Ramos-Horta's 3-day visit to India (September 2010)

Indian MP Shashi Tharoor's 3-day visit to Timor-Leste (January 2011)

Three exploratory visits to Dili by Indian entrepreneurs

### **Overall Assessments and Recommendations**

Refer to the attached policy brief

# **Policy Brief**

## Developing India - Timor-Leste Relations

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23 March 2011

# Contents

<b>ACKNOWLEDGEMENTS</b>	<b>2</b>
<b>GOALS</b>	<b>3</b>
Vision	3
Targets	3
<b>RECOMMENDATIONS FOR INDIA</b>	<b>4</b>
Upgrade diplomatic presence in Timor-Leste	4
Set up a business Park outside Dili	4
Establish India's International Development Agency	5
<b>RECOMMENDATIONS FOR TIMOR-LESTE</b>	<b>7</b>
Engage India globally	7
Make travel and telecom affordable	7
Keep the economy open and free	8
<b>RECOMMENDATIONS FOR INTERNATIONAL DEVELOPMENT AGENCIES</b>	<b>9</b>
Strengthen Timor-Leste's state capacity	9
Bolster accountability initiatives	9
<b>MOTIVATIONS FOR DEEPER ENGAGEMENT</b>	<b>11</b>
India - To be a credible player in East Asia	11
Timor-Leste - To develop human capital	15
Building the partnership - Opportunities & challenges	16
Making Human Capital Development the focus of the relationship	17
<b>INDIA: THE FOCUSED APPROACH</b>	<b>19</b>
Upgrade diplomatic presence in Timor-Leste	19
Set up a Business Park outside Dili	20
Establish India's International Development Agency	22
<b>TIMOR-LESTE: OPEN FOR ENGAGEMENT</b>	<b>25</b>
Engage India globally	25
Make travel and telecom affordable	25
Keep the economy open and free	26
<b>CONCLUSION: FOR AN INDIAN TOUCH IN TIMOR-LESTE</b>	<b>28</b>

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The findings in this report are primarily based on interviews and meetings with a number of key leaders, government officials and businessmen, in Timor-Leste, India, Singapore, Australia and Indonesia.

President Jose Ramos-Horta, Ambassador Hernani Coelho, Ambassador Abel Guterres, Ms Ana Pessoa, Dr Mari Alkatiri, Manuel Tilman, Mr Jose Alberto, Dr Abraham Joseph, Mr Loro Horta and Mr Aruna Urs shared their candid and valuable insights into Timor-Leste's politics, policy environment and foreign policy.

Dr Shashi Tharoor, Ambassador Vijaya Latha Reddy, Ambassador Biren Nanda, Ambassador T C A Raghavan, Captain (IN) Bopanna and Hermanprit Singh were always forthcoming when approached by the author. Some of them faced additional workloads due to my project. All share a genuine commitment to promoting India's engagement of East Asia.

Mr Rory Medcalf and Mr John Fisher helped the author in obtaining the Australian perspective.

To the ones named here, and to those who are not named here for various reasons, thank you.



# Goals

## 1. Vision

In the medium-term, India becomes one of Timor-Leste's five most important developmental partners, playing a leading role in developing human capital in the country.

## 2. Targets

### By 2013

- The two countries set up a formal diplomatic presence in each other's capitals.
- An India Business Park outside Dili to receive approval.
- Governance development camps, to train Timorese civil servants commences, in Dili.
- Competitive air and telecom connectivity between India and Timor-Leste

### By 2015

- Indian embassy, Dili and Timorese embassy in New Delhi are in place.
- An India's international development agency (InDA) is established and takes over development-related initiatives.
- India Business Park, Dili in operation incubating the pioneer set of occupants.
- Regular training of Timorese civil servants and security personnel both in India and in Dili

# Recommendations for India

## 1. Upgrade diplomatic presence in Timor-Leste

India does not have a diplomatic mission in Timor-Leste. Currently, the Indian ambassador in Jakarta, Indonesia is also accredited to Timor-Leste. This is in contrast to the United States, China, Australia, Japan and other major regional powers who have established diplomatic missions in Dili.

India must establish a full-fledged embassy in Dili in the medium-term. An Indian presence in Dili will be a manifestation of its commitment to engage in East Asia and will have a significant signalling effect on the countries of the entire region. Unless India has strong economic and political ties with all countries of the region, New Delhi's leverage in and benefits from participation in frameworks like the East Asian Summit (EAS) and related security architectures will essentially be limited.

India, already a regional maritime power, cannot afford to ignore Timor-Leste's strategic location on the Indian Ocean, at the easternmost reaches of Asia. While bilateral economic ties are in their infancy at this stage, the estimated oil & gas reserves in the vicinity of Timor-Leste are relevant to India's energy security goals. Furthermore, it is in India's interests to ensure that democracy takes firm root in the newly independent country. **A permanent Indian diplomatic presence is necessary in order for India to be in a position to shape favourable outcomes.**

Ahead of that, in the short term, New Delhi should appoint a Foreign Service officer, reporting to the Indian ambassador in Jakarta, charged with the responsibility of developing India's relations with Timor-Leste. Also, to protect the interests of Indian nationals and businesses in the country in the immediate term, a suitable resident of Timor-Leste should be engaged as a honorary consul.

## 2. Set up a business Park outside Dili

**The Indian government should establish an Business Park outside Dili**, in partnership with Timorese government, the private sectors of the two countries and international development agencies. Such a project is feasible,

tangible, meaningful and can become a focal point of the Indian development touch in Timor-Leste. Both Indian government and private sector entities have almost two decades of experience in building and managing "technoparks" — special one-stop facilities that make it easy for entrepreneurs to start and grow their businesses in a context of complex rules and risky politico-economic environments. India should create a similar facility, but targeted at a broader range of business activities, in Timor-Leste, preferably outside Dili.

The Park should be established on a Public-Private Partnership (PPP) basis with a competent private sector infrastructure operator selected to build and operate the facility. Important ancillary services like banking, trade facilitation, trade credit, technology, language and skills development institutes should be co-located within the Park.

The Park operator's performance indicators should include both the number of local entrepreneurs who set up their businesses in the facility as well as the number of Indian companies that establish a presence there.

### **3. Establish India's International Development Agency**

Over the last decade, India has increased its foreign aid outlays from \$100m to well over \$678m in grants and over \$500m in lines of credit. This aid is disbursed by the Ministry of External Affairs and channeled through Indian missions in other developing countries both in India's neighbourhood and beyond. To ensure that these growing outlays translate into desired outcomes **the India's Ministry of External Affairs should set up an International Development Agency (InDA) to spearhead developmental initiatives.**

The InDA should dovetail into the existing organisational structure of the MEA, with its chief executive reporting to the Foreign Secretary and its country heads to the respective Ambassador/Head of Mission. In addition to MEA personnel, InDA must have relevant officers from the Ministries of Finance, Commerce and Defence both at leadership and staff levels.

Tasking InDA with developmental responsibilities will allow embassy officials to focus on the traditional tasks of diplomacy, while allowing appointment of development specialists to maximise the impact from India's foreign aid outlays. The shortage of Foreign Service officers is unlikely to ease in the coming years. Leveraging on the talent available in India's private and non-

profit sectors through InDA reduces the constraints posed by this shortage, which today, are binding.

In the medium-term, initiatives like the proposed India Business Park in Timor-Leste must be undertaken by InDA.

# Recommendations for Timor-Leste

## 1. Engage India globally

**Timor-Leste should establish a consulate in New Delhi** in the immediate term, using it as the first step towards an exchange of embassies.

In addition, **Timor-Leste should engage India in third countries where both have diplomatic missions.** Hubs like Sydney, Singapore and Jakarta, for instance, present Timor-Leste to engage Indian businesses and nationals with only a incremental additional effort. Indian missions organise a number of exhibitions, forums, seminars and business networking events on a regular basis. Such occasions present Timor-Leste convenient opportunities to attract attention, investment, business and tourists from India.

While not strictly necessary, a Memorandum of Understanding (MoU) between the foreign ministries of the two countries can formalise such arrangements.

## 2. Make travel and telecom affordable

Arrivals from India constitute a major fraction of tourist arrivals in South East Asia, and have doubled in the last five years. Timor-Leste is located in a highly competitive market for tourism. To compete effectively, **Timor-Leste must ensure that there are no undue barriers to entry for legitimate tourists and businesspeople.**

The country is ill-served by few and relatively expensive airline connections. For instance, a Singapore-Dili return flight is 10 times more expensive compared to a Singapore-Bali flight. Given its potential and need to develop its tourism industry, Timor-Leste government must ensure that it welcomes and maintains a level-playing field for all airlines, especially the highly professional, low-cost carriers that have transformed South East Asian skies in recent years.

Immigration rules must be made more transparent and their implementation must be improved. The competent administration of tourist and work visas

is an important factor in attracting investment not only from India but in general.

Telecom charges in Timor-Leste are among the highest in the region. This acts as a deterrent for foreign investment. **The Timor-Leste government must reform its telecommunications policy to ensure that it is pro-growth and development.**

### **3. Keep the economy open and free**

The Timor-Leste government must resist pressure towards awarding government contracts by means other than competitive tendering. Allowing a wide range of foreign investors to bid for and acquire government contracts not only ensures value for money, but allows Timor-Leste with an important means to engage all the major regional economies.

Given the current stage and expected trajectory of Timor-Leste's economic development, government expenditure will remain a major contributor to country's economy. It can be expected that such contracts will be one of the reasons Indian companies will be attracted to Timor-Leste. **It is in Timor-Leste's interests to ensure that they have equal opportunities to win contracts and that procurement policies are fair and transparent.**

# Recommendations for international development agencies

## **1. Strengthen Timor-Leste's state capacity**

In the wake of the country's independence, there has been an abundance of international involvement and expenditure on Timor-Leste. Given the post-conflict scenario, this has been focused on stationing foreign administrators, experts and professionals in Timor-Leste. This approach has been criticised by many, including President Jose Ramos-Horta who complains that the United Nations, for instance, "is good at spending money on Timor-Leste, not in Timor-Leste". Even when the money is spent in Timor-Leste, it is important to ensure that it is spent in a way that rapidly restores human capital shortfall in the country.

**International assistance must be delivered in a form that develops, nurtures and strengthens local capacity.** From civil servants to businesspeople, from professionals and managers to policemen, Timor-Leste needs competent local personnel to take over from the UNMIT and other foreign teams. There must be a concerted strategic shift on the part of international development agencies to rapidly build this capacity.

## **2. Bolster accountability initiatives**

Relative to the government, Timorese civil society is weak. This balance will be skewed to a greater extent in the coming years as the government undergoes a major expansion on the back of income from natural gas proceeds. There is a risk that the political economy will empower individuals and groups ill-disposed towards an open economy. Already, there is a sense that tendering requirements, for instance, are being bypassed to award contracts arbitrarily. There are concerns over the manner of allocation of property rights, environmental resources and usage of the income from natural gas sales.

In the coming years, **international agencies should bolster civil society and community initiatives which seek to improve accountability.** International agencies must carefully retreat from initiatives where they are providing public services, hand them over to the appropriate government agencies, and focus on ensuring that the latter perform their functions effectively.



# Motivations for deeper engagement

## 1. India - To be a credible player in East Asia

From the time of Independence to the end of the Cold War in the 1990s, India's geopolitical imagination has been limited to the countries in its neighbourhood. The broad international orientation of the foreign policy of Jawaharlal Nehru, India's first prime minister, eventually narrowed in focus to a preoccupation, often reactive, with affairs across India's land borders. In the twenty-first century, engaging the countries of the subcontinent is no doubt necessary, but it is both accurate and important for Indian civil society, businesses and government to understand that the lands across the seas are neighbours too.

*Arc of advantage.* New Delhi's "Look East" policy — initiated in the 1990s by the government of Prime Minister P V Narasimha Rao as a response to an economic crisis — resulted, by 2010, in India being an integral part of the East Asia Summit (EAS), the region's pre-eminent high table. India is also a member of ASEAN+8, the ASEAN Regional Forum and has comprehensive economic co-operation with Singapore, Malaysia and Japan. India's trade with ASEAN countries has increased from \$ 30.7 billion in 2006-07 to to \$ 50 billion in 2009-10<sup>1</sup>. India's free trade agreement with ASEAN, signed in 2009, is expected to expand to include services and investment in the coming years.

Multiple political transformations occurring in the subcontinent have resulted in India's immediate neighbourhood becoming an arc of instability. While India's development trajectory depends to a large extent on the domestic reform agenda in the medium-term, the neighbourhood could pose risks to India's upward economic mobility in the longer term. It is therefore in India's interests to giving due importance to relationships with East Asian countries — members of India's extended neighbourhood — and invest in a

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<sup>1</sup> BBC, "India and ASEAN aim to boost trade", <http://www.bbc.co.uk/news/business-12630418>, accessed on 4 March 2011

network of mutually beneficial relationship<sup>2</sup>. Indeed, India's leaders have a lot more political space to pursue ambitious bilateral and multilateral agenda with East Asia than with any other part of the world.

In the words of Prime Minister Manmohan Singh, India sees the East Asian community as "an 'arc of advantage' across which there would be large-scale movement of people, capital, ideas and creativity."<sup>3</sup>

Today, despite a fresh impetus to relations with Indonesia after President Susilo Bambang Yudhoyono's visit to India in January 2011, effectively New Delhi's "Look East" policy extends only as far as Singapore. India must Look East beyond Singapore. To be an effective in the EAS, India must deepen its bilateral economic engagements with all key countries and economies of the region. It must also be part of the security equilibrium in East Asia.

*"Just an Indian embassy, flying your flag on its rooftop, will give us the confidence we need."*<sup>4</sup> That was one of Timor-Leste's key cabinet officials responding to a question on how India could play a role in the development of Asia's newest democracy.

Australia played an instrumental role in providing security after the violent tumult and socio-economic upheaval accompanying Timor-Leste's separation from Indonesia. It still retains a military presence in the country and provides around \$100m yearly in assistance. Australia also manages the natural gas fields that bankroll the Timorese government's budget. Portugal, the former colonial power, retains disproportionate political influence. Despite criticism from international human rights advocates, the Timorese leadership has frozen the cases of crimes committed by withdrawing Indonesia military troops and their proxies. Timor-Leste's relations with its giant neighbour, as a result, are not hostage to the terrible past.

China has made significant inroads into the country<sup>5</sup>. In just a handful of years, it built the presidential palace, the foreign ministry building, the defence headquarters and is now building staff quarters for the Timorese military officers. Even as Dili debates what kind of a navy the country ought

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<sup>2</sup> David Scott, "India's "Extended Neighbourhood" Concept: Power Projection for a Rising Power", *India Review*, 8, no. 2 (2009): 107.

<sup>3</sup> Manmohan Singh's speech at the Third India-ASEAN Business Summit, New Delhi on 19 October 2004

<sup>4</sup> A cabinet level Timorese official in an interview with the author, Dili, 24 November 2010

<sup>5</sup> See Ian Storey, "China's Inroads into East Timor", *China Brief* 9:6, The Jamestown Foundation, <http://is.gd/59K2zD> accessed 15 March 2011

to have, the Timorese government has already purchased Shanghai-class patrol boats. Some of these deals are clearly constitute official Chinese assistance, others the handiwork of resourceful businessmen disposing off surplus Chinese industrial and military equipment.

It is very hard for the government of a small country to say "No" to the foreign powers who have so much influence over its politics and its economy. If it wishes to retain a degree of autonomy over its internal affairs, its best bet is to engineer a balance such that no single foreign power can dominate. The less removed the foreign power is from domestic and regional politics the better. That's why Timor-Leste's political leaders want to see the Indian flag flying in Dili.

*Geopolitical balance.* The balance of power in Asia is undergoing dynamic change: China's rise can no longer be termed "peaceful", the United States's ability and willingness to support its Asian allies is being questioned, and political tensions are on the rise among the countries of the region. In this context, the small and medium-sized countries of the East Asian region are likely to prefer a balance where no single power dominates over them. If they do not see this forthcoming, they are likely to join what they see as the stronger side. One implication of this is that the importance they give to their relationship with India will depend on their assessment of whether New Delhi has the capability, and the will, to contribute to the Asian balance of power. India must therefore vastly increase its economic, diplomatic and military presence in and beyond South East Asia.

*Where things stand.* Currently India's assistance to Timor-Leste is in the following forms<sup>6</sup>:

1. Annual grants for the purchase of equipment and materials related to socio-economic development
2. Training opportunities for government officials under the Indian Technical and Economic Cooperation (ITEC) programme
3. Scholarships for undergraduate and postgraduate studies in India;
4. Training opportunities for diplomats in the Foreign Service Institute in New Delhi
5. Duty-free tariff preference scheme

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<sup>6</sup> Interview with Ambassador Biren Nanda, Indian Embassy, Jakarta, 6 October 2010

6. Grant assistance for the establishment of a pilot waste management project (done under an India-Brazil-South Africa initiative)

Major commercial activities in Timor-Leste involve Indian oil companies active in exploration activities in two oil blocs off the coast of Timor-Leste (one each in the EEZ and the JPDA). Also Indian companies are exploring opportunities in IT and the infrastructure sectors.

BASIX, a leading Indian microfinance institution is providing technical assistance to Tuba Rai Metin, a Timorese microfinance institution supported by United Nations and AusAID.

A number of Timorese students are enrolled at Father Muller's educational institutions in Mangalore, Karnataka.

*For an Indian touch on Timor-Leste.* Timor-Leste presents India with a good opportunity to construct and apply a model for the "Indian touch" in international development. According to Mukul Asher and Sushant K Singh, "India's economic model and its approach to engaging (developing countries in Africa) is consistent with what former World Bank economist William Easterly, called "searchers". They, unlike, "planners", eschew global blueprints and seek to meet the demand of customers in a way that uses decentralised and customised approaches, while applying the existing stock of knowledge in a practical way to reduce resource costs and improve efficiency."<sup>7</sup>

In his study<sup>8</sup> contrasting Indian approach to development in Africa from China's, Harry Broadman found that the Indian engagement generally involves private firms that are better integrated into domestic markets and overwhelmingly opt to hire local manpower even for managerial positions. The key features of this model are engagement and integration with grassroots communities, entrepreneurship and development of human capital. Combined with greater financial resources — grants and preferential loans — that the Indian government is allocating for assisting other developing countries, a coordinated approach is could achieve disproportionate results. Timor-Leste, a country of just over 1 million people, with a median age of 22.5, with a nominal per capita GDP of \$542 and spread over 14,874 sq km, is well-placed to be the launchpad for such an approach.

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<sup>7</sup> Mukul Asher & Sushant K Singh, "India's New African Safari", Mint, 24 April 2008, <http://www.livemint.com/2008/04/24231031/India8217s-new-African-safa.html> accessed on 10 December 2010

<sup>8</sup> Harry Broadman, "Africa's Silk Road: China and India's New Economic Frontier", World Bank Report, 2006

## 7. Timor-Leste - To develop human capital

Timor-Leste's first decade of independence has been characterised by a large UN involvement in administration, a repaired relationship with Indonesia, a robust one with Australia and a helpful one with Portugal. The benign external environment helped Timor-Leste consolidate its post-independence politics and prevail over domestic crises without serious damage to its economy and society. For a country recovering from three decades of instability and violence the period from 2001-2010 gave valuable breathing space. The coming decade might not be as conducive<sup>9</sup>.

*An uncertain decade ahead.* There are several uncertainties: over the government's capacity to shoulder aspects of administration as the UN withdraws, over the structural challenges imposed by a dollarised economy, over sea-bed resource sharing with Australia, over new finds of gas in its reserves and indeed, over whether the country will remain a real democracy. These uncertainties are exacerbated by an acute lack of human capital<sup>10</sup> — an unfortunate consequence of the violence that ravaged the country's history over the last three decades — even as the country faces the challenging task of creating an adequate number of skilled technicians, managers, professionals and civil servants.

*Avoiding the resource curse.* Revenues from natural gas exports, if properly managed, mean that Timor-Leste does not face the fiscal challenges that often overwhelm countries at similar stages of development. However, there is a real risk of the country facing the "resource curse", with the economy and society coming to rely on proceeds from natural gas exports, and failing to invest in the skills required to compete in a the modern economy. Excluding natural gas, Timor-Leste's exports are at around \$8 million, mainly coffee. Imports are more than 800 times higher, at \$828 million.

*Demographic dividend.* A "youth bulge" population without adequate skills and without productive occupations presents a risk to Timor-Leste's political stability. Many parts of India are in similar situations and there is growing realisation in New Delhi and among Indian civil society that the "demographic dividend" must be earned by investing in basic education, skills development, job training and entrepreneurship within a complex socio-economic context. Timor-Leste can benefit from the Indian

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<sup>9</sup> Mark Dodd, "East Timor 'at risk of anarchy' says UN report", The Australian, 23 December 2008, <http://www.theaustralian.com.au/news/e-timor-at-risk-of-anarchy/story-e6frg6t6-1111118392002>

<sup>10</sup> Craig Sugden, chapter on Timor Leste, Asian Development Outlook 2010, Asian Development Bank, Manila

experience, use technologies, infrastructure and processes developed in India and partner with Indian public- and private sector entities in order to develop its own capacities.

## 8. Building the partnership - Opportunities & challenges

Opportunities	Challenges
There is bipartisan support in Timor-Leste at the highest levels for improved relations with India	India lacks historical or strong cultural ties with Timor-Leste
India has technologies and solutions appropriate for use in developing country contexts.	Timor-Leste might not have the capacity to absorb and operate the technological solutions
India has modest but increasing budget for international development & technical assistance. Timor-Leste has adequate financial resources and is unlikely to need financial assistance.	
India is implementing the second phase of its "Look East" policy. Timor-Leste is strategically located and intends to increase its international engagement.	
	Distance and language barriers deter greater engagement. Distance factor can be mitigated by making air travel competitive. Language barriers will remain in the medium-term.

Opportunities	Challenges
	Shortage of foreign service officers in India constrains expansion of diplomatic missions. Shortage of middle- and senior-level civil servants in Timor-Leste. Capacity constraints will remain in the medium term.
India is looking for ways to diversify sources of energy supply. Timor-Leste sits astride natural gas reserves.	
India is on a high-economic growth trajectory with both large and SMEs investing in foreign ventures. The Timorese economy is in a re-building phase, with numerous opportunities in each sector.	
India has a number of places/scholarships available for higher education	Timor-Leste is unable to make full use of these opportunities due to a lack of suitable individuals
Timor-Leste seeks greater opportunities for higher education, especially at the post-graduate level in medicine.	Limited availability of places for postgraduate medical education in Indian institutions. Shortage of doctors, especially in specialist disciplines.

## 9. Making Human Capital Development the focus of the relationship

The analysis above shows that there is a case for both countries to pursue closer relations, that both sides have adequate financial resources for the purpose and that there are economic opportunities to be availed. On the other hand, relations have to be built almost from scratch and barriers such as distance and language to be surmounted.

*Human capital.* The biggest hurdle, however, appear to be in post-conflict Timor-Leste's low human capital base, which poses a major challenge to technology and knowledge transfers that form the basis of economic relationships. This is exacerbated by capacity constraints in the two governments, the foreign service in India's case, and the civil service in Timor-Leste's.

There are two broad approaches: gradualist and focused.

*A gradualist approach.* A gradualist approach suggests that India make prudent attempts to work around human capital shortages by engaging in transactional economic activities, with the hope that the engagement can be scaled up as Timor-Leste develops more skilled workers, professionals and managers. However, since private enterprises will take this route — to the extent that the Timor-Leste market attracts them — there is little additional value the two governments will add by taking this route.

Indeed, the gradualist approach might effectively fail, not just because of distance-language barriers and capacity constraints, but also because the lack of adequate human capital creates a vicious cycle. If Indian companies are unable to find sufficient numbers of Timorese employees and managers, they are likely to lose interest in doing business or investing in the country. Neither India nor Timor-Leste are likely to be able to increase the number of foreign service officers and government officials respectively, in the short-term. In such circumstances, even as New Delhi acknowledges the need for it to open a diplomatic mission in Timor-Leste, Dili will remain relatively lower down in terms of priority<sup>11</sup>.

*A focussed approach.* **A focussed approach centred around human capital development is more likely to succeed.** It involves a greater initial push and stewardship by the two governments at the early stages, but because it aims to jump over the biggest hurdle, it will fare better than a gradualist approach. The approach requires the Indian government to bring together a number of resources and competences that exist in the Indian private and public sectors, and, in consultation with the Timorese government, apply them on a small number of projects that have wide impact. These projects should be housed in or centred around an India Business Park outside Dili. Unlike the gradualist approach, an initiative like the Business Park is effectively impossible without the involvement of both governments.

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<sup>11</sup> Interview with a senior official in India's Ministry of External Affairs, New Delhi 29 September 2010



# India: The Focussed Approach

## 1. Upgrade diplomatic presence in Timor-Leste

*"You don't have embassies only because you have trade and other relations but because you need them some day"* - President Jose Ramos-Horta<sup>12</sup>

India does not have a diplomatic mission in Timor-Leste. Currently, the Indian ambassador in Jakarta, Indonesia is also accredited to Timor-Leste. This is in contrast to the United States, China, Australia, Japan and other major regional powers who have established diplomatic missions in Dili.

### **India must establish a full-fledged embassy in Dili in the medium-term.**

The UN Integrated Mission (UNMIT), which had helped bolster governance and security in the country for much of the last decade is likely to start winding down in the near term. This will not only challenge the administrative capacity of the Timorese government to fill up the gaps, but is also likely to result in the international community losing active interest in the country's security and development. The Timor-Leste government has applied for ASEAN membership and has a fair chance of joining the South East Asian grouping over the next few years. Even so, attention deficit from the international community could result in political developments that are inimical to Timor-Leste's development trajectory, as also to India's interests.

An Indian presence in Dili will be a manifestation of India's commitment to engage in East Asia and will have a significant signalling effect to the countries of the entire region. Unless India has strong economic and political ties with all countries of the region, New Delhi's leverage in and benefits from participation in frameworks like the East Asian Summit (EAS) and related security architectures will be essentially limited.

India, already a regional maritime power, cannot afford to ignore Timor-Leste's strategic location on the Indian Ocean, at the easternmost reaches of Asia. While bilateral economic ties are in their infancy at this stage, the

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<sup>12</sup> Interview with the author, Thiruvananthapuram, 8 September 2010

estimated oil & gas reserves in the vicinity of Timor-Leste are relevant to India's energy security goals.

Furthermore, it is in India's interests to ensure that democracy takes firm root in the newly independent country. A permanent Indian diplomatic presence is necessary in order for India to be in a position to shape favourable outcomes.

*Immediate next steps.* Ahead of that, **in the short term, New Delhi should appoint a Foreign Service officer, charged with the responsibility of developing India's relations with Timor-Leste.** Administratively, the officer could report to the Indian ambassador in Jakarta, charged with the responsibility of developing India's relations with Timor-Leste. Also to protect the interests of Indian nationals and businesses in the country **in the immediate term, a suitable resident of Timor-Leste should be engaged as a honorary consul.**

Upgrading India's diplomatic presence in the short term is necessary, to:

1. Provide consular and business facilitation arrangements to Indian nationals visiting Timor-Leste for business and tourism
2. To publicise commercial opportunities arising from the Timor-Leste government's plans to re-develop the economy. These would range from translating and tracking government and large commercial tenders, to ensuring that Indian companies are treated fairly and on par with those of other countries.
3. To organise and participate in trade missions.
4. To upgrade defence and security co-operation.
5. To provide focus, stewardship and high-level management of India-initiated development projects, both existing and those proposed in this report.

## **2. Set up a Business Park outside Dili**

**The Indian government, in partnership with Timorese government, the private sectors of the two countries and international development agencies, should establish a Business Park outside Dili.** Such a project is feasible, tangible, meaningful and can become a focal point of the Indian development touch in Timor-Leste. Both Indian government and private sector entities have almost two decades of experience in building and

managing "technoparks" — special one-stop facilities that make it easy for entrepreneurs to start and grow their businesses in a context of complex rules and risky politico-economic environments. India should create a similar facility, but targeted at a broader range of business activities, in Timor-Leste, preferably outside Dili.

*Public-private partnership.* The Park should be jointly owned by the two governments. They should jointly appoint a nodal agency for project implementation by selecting an appropriate Indian infrastructure development and management company to establish the park, on a Public-Private Partnership (PPP) basis. This could be in the form of a renewable 15-year build and operate contract.

*Incubating new businesses.* To promote entrepreneurship, the Park should be open to a wide range of business and commercial activities, and remain technology agnostic. It should be open for any commercial activity with wider spin-offs for Timor-Leste's society, and not only those which are technology-oriented or export-driven. It is recommended that the two governments consider the following areas to focus on initially:

1. Training and education services
2. Engineering services - including automotive maintenance and repair
3. Food processing
4. Handicrafts and eco-friendly cosmetics/home products
5. IT and computer services

*Infrastructure.* The park must provide security, electricity, water supply, telecommunications facilities and situated such that it has easy access to highways, sea and airports. Given the prohibitively high cost of communications, **the park could replicate the Software Technology Parks of India (STPI) model<sup>13</sup>, wherein the telecommunication services for the occupants of the park are provided by a specially licensed entity.** The Park could lease telecommunications capacity competitively from a number of Indian, Indonesian or other South East Asian satellite operators. Making telecommunications affordable is a critical success factor.

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<sup>13</sup> For a recent account of STPI's contribution to India's IT industry see K V Kurmanath, "Curtains down for STPI?", BusinessLine, 13 March 2011.

<http://www.thehindubusinessline.com/features/eworld/article1532137.ece> accessed 15 March 2011

*Ancillary services.* With encouragement and support from the Indian government, the park operator should bring together a number of important ancillary services like banking, trade facilitation, trade credit, healthcare, technology, language and skills development institutes should be co-located within the Park. Indian banks (including the Exim bank), micro-finance institutions, micro-marketing and rural development facilities should be housed in the park.

*Knowledge transfer.* The park could serve as the pilot case for the systematic sharing of India's development experiences with other countries, with a focus on knowledge interventions. For instance, making Indian television programmes like selected episodes of *Krishi Darshan*, dubbed in Tetum or Bahasa Indonesia, could have a disproportionate impact.

*Measuring progress.* The Park operator's performance indicators should include both the number of local entrepreneurs who set up their businesses in the facility as well as the number of Indian companies that establish a presence there.

### **3. Establish India's International Development Agency**

Over the last decade, India has increased its foreign aid outlays from \$100m to well over \$678 million in grants<sup>14</sup>. India has also set aside \$500m for lines of credit to least developed countries<sup>15</sup>. This aid is disbursed by the Ministry of External Affairs and channeled through Indian missions in other developing countries both in India's neighbourhood and beyond. To ensure that these growing outlays translate into desired outcomes **the MEA should set up an International Development Agency (InDA) to spearhead developmental initiatives.**

It should be assigned an initial budget of \$1 billion and increased at an annual rate equivalent to (at least) the growth of the Indian economy. This implies an effective doubling of the current outlays of financial assistance to foreign countries.

*Drawing talent outside the government.* Tasking InDA with developmental responsibilities will allow embassy officials to focus on the traditional tasks of diplomacy, while allowing appointment of development specialists to

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<sup>14</sup> Demand No. 31, Union Budget 2011-12, Ministry of Finance, Government of India

<sup>15</sup> "'Taj diplomacy' for development", The Statesman, 21 February 2011.

<http://meaindia.nic.in/mystart.php?id=230417203> accessed 15 March 2011

maximise the impact from India's foreign aid outlays. The shortage of Foreign Service officers is unlikely to ease in the coming years. Leveraging on the talent available in India's private and non-profit sectors through InDA reduces the constraints posed by this shortage, which today, are binding.

The existence of an InDA allows India to operate on developmental and humanitarian grounds in countries where diplomatic relations might not be normal or warm.

InDA's activities around the world, especially if they successfully involve NGOs and the private sector, could help pave the way for the Indian media and civil society to take a greater interest in foreign affairs. This will not only improve India's engagement with the world by making it more holistic, but such interactions are likely to be mutually beneficial.

*Organisation structure.* Administratively, the InDA should dovetail into the existing organisational structure of the MEA, with its chief executive reporting to the Foreign Secretary and its country heads to the respective Ambassador/Head of Mission. In addition to MEA personnel, InDA must have relevant officers from the Ministries of Finance, Commerce and Defence both at leadership and staff levels.

Currently, developmental objectives are, perhaps rightly, not key performance indicators for India's ambassadors and chiefs of missions. All of India's international development initiatives must be placed under InDA's aegis and the management of InDA made accountable for outcomes.

*An InDA pilot in Timor-Leste.* Given the ambition and complexity of InDA's vision, it is prudent to pilot it in a few small locations to refine its mission, strategies and organisational capabilities. Timor-Leste, being a small, conducive and at the furthest reaches of the Indian Ocean offers an ideal test bed for InDA. It is much easier, administratively, to consolidate a number of small projects, in a setting that does not require injection of large amounts of financial assistance, and explore how the Indian model of international development can be shaped.

In the medium-term, Indian initiatives in Timor-Leste must be taken over by InDA. In addition India's international development profile can leverage on its unique strengths by investing resources in the area of community governance development.

*Governance Development Camps.* Establishing formal governance institutions from the community/grassroots level to the national level is important if developmental initiatives are to succeed. In recent years there has been a

large-scale NGO-isation of international development, which, without appropriate investments in improving state functions, leads to a widening of the governance gap.

India's experience in establishing and sustaining institutions of governance, however imperfectly, is valuable and can benefit other developing countries. Transferring this experience is not easy and is highly context specific. It is, however, a project that InDA could undertake — in collaboration with multilateral institutions and development agencies of other countries. Serving and retired civil servants, faculty members and students from India's universities and management schools as well as youth organisations should be involved in these efforts.

In Timor-Leste, for instance, InDA could conduct Governance Development Camps, to train civil servants and administrators in specialised domains - for instance, in local self-government, rural development, rural electrification, law enforcement, IT and telecommunications, fisheries, coastal resource management, accountability, right to information and so on. These Camps would be run on a semi-permanent basis, with a fraction of the faculty rotating out every six months.

The Timorese government could identify mid-level and senior-level civil servants to be groomed under the programme. Talented graduates from these programmes can be selected for further training in India's civil service academies, or at public policy programmes at the Indian Institute of Management.

# Timor-Leste: Open for engagement

## 1. Engage India globally

**Timor-Leste should establish a consulate in New Delhi in the immediate term.** By taking this first step, Timor-Leste will set the stage for a broader, more formal engagement. A honorary consul, either a Timorese national familiar with India or an Indian national with experience of living in Timor-Leste may be considered for the position.

*Connecting at international hubs.* Even as the ball is set rolling for the formal exchange of embassies, **Timor-Leste should engage India in third countries where both have diplomatic missions.** This can start immediately at hubs like Sydney, Singapore and Jakarta, where there is a critical mass of Indian businesses, and a dynamic Indian community. Thanks to New Delhi's Look East policy, Indian missions in East Asia have been strengthened with talented and dynamic ambassadors, who have been empowered with adequate resources to pursue the Asian engagement.

Indian missions organise a number of exhibitions, forums, seminars and business networking events on a regular basis. Such occasions present Timor-Leste convenient opportunities to attract attention, investment, business and tourists from India. Indeed, such occasions present Timor-Leste with "low hanging fruit" because the companies that participate in such events have already decided to expand to, or have a presence in, the East Asian region. This mode of engaging India has thus far been overlooked.

While not strictly necessary, a Memorandum of Understanding (MoU) between the foreign ministries of the two countries can formalise such arrangements.

## 2. Make travel and telecom affordable

Arrivals from India constitute a fast growing segment of tourist arrivals in South East Asia. Crossing the 2 million figure in 2009 number of Indians visiting ASEAN countries doubled in the second half of the previous

decade<sup>16</sup>. Timor-Leste is located in a highly competitive market for tourism. To compete effectively, Timor-Leste must ensure that there are no undue barriers to entry for legitimate tourists and businesspeople.

*Make air travel competitive.* The country is ill-served by few and relatively expensive airline connections. For instance, currently, **a Singapore-Dili return flight is 10 times more expensive compared to the cheapest Singapore-Bali flight.** Given its potential and need to develop its tourism industry, Timor-Leste government must ensure that it welcomes and maintains a level-playing field for all airlines, especially the highly professional, low-cost carriers that have transformed South East Asian skies in recent years.

Immigration rules must be made more transparent and their implementation must be improved. The competent administration of tourist and work visas is an important factor in attracting investment not only from India but in general.

*Make telecom costs affordable.* Similarly, the high cost of communication — Timor-Leste has one of the most expensive set of telecom tariffs in its region — is not only a significant deterrent to foreign investment but also weighs down the Timorese economy<sup>17</sup>. **Reforming the telecommunications sector by introducing greater competition while providing incentives for universal access must be given the highest priority.** As Singapore did in 1999-2000, Timor-Leste will be better off ending the monopolistic arrangements in the telecommunications sector ahead of time, by paying due compensation to the adversely affected telecom operators.

Community Wi-Fi networks should be encouraged to deliver wireless broadband connectivity to remote villages. Finally, the Timorese government must link the country to the rest of the world by inter-connecting with one of the new regional undersea cable that are under constructions.

### **3. Keep the economy open and free**

The Timor-Leste government must resist pressure towards awarding government contracts by means other than competitive tendering. Allowing a wide range of foreign investors to bid for and acquire government contracts

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<sup>16</sup> "Tourist arrivals in ASEAN by selected partner country/region", ASEAN Secretariat, 15 June 2010. <http://www.aseansec.org/stat/Table29.pdf> accessed 10 February 2011

<sup>17</sup> Abel Pires da Silva, chapter on Timor-Leste, "Digital Review of Asia Pacific 2009-2010", IDRC [http://www.idrc.ca/cp/ev-140999-201-1-DO\\_TOPIC.html](http://www.idrc.ca/cp/ev-140999-201-1-DO_TOPIC.html) accessed on 10 February 2011



not only ensures value for money, but allows Timor-Leste with an important means to engage all the major regional economies.

Given the current stage and expected trajectory of Timor-Leste's economic development, government expenditure will remain a major contributor to country's economy (government spending is 168% of the non-petroleum economy in 2009)<sup>18</sup>. It can be expected that such contracts will be one of the reasons Indian companies will be attracted to Timor-Leste. It would be in Timor-Leste's interests to ensure that they have equal opportunities to win contracts and that procurement policies are fair and transparent.

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<sup>18</sup> Craig Sugden, *ibid.*

## Conclusion: For an Indian touch in Timor-Leste

(From the author's column in *Business Standard*, published on December 20th, 2010)

*"Just an Indian embassy, flying your flag on its rooftop, will give us the confidence we need."*

While the Indian Cabinet has approved a plan to expand the number of Indian diplomatic missions around the world, Timor-Leste might not be high priority: it is not a "problem" country, it does not have an Indian diaspora, it is not a member of the Commonwealth and there is very little trade and investment between the two countries. That last might change if an Indian firm discovers gas in an exploratory block in the Timor Sea.

Even without the natural gas angle, it is important for India to ensure that its Look-East policy does not leave Timor-Leste out of its ambit. This is not to suggest that India should follow the Chinese model of diplomacy by real-estate development. Rather, that India is well-placed to play a crucial role in Timor-Leste by addressing the country's fundamental challenge — developing human capital.

The conflicts of the last century have left Timor-Leste with a young population that lacks basic skills in agriculture, fishing, industry, services and government. Everywhere in the country one can find businesses unable to grow because of a shortage of skilled labour and trained supervisors. From coffee plantations that can't find enough workers to fish being hung out on trees because there is no fish market in Dili, Timor-Leste's economic narrative is that of the "missing middle". There are opportunities here for intrepid Indian entrepreneurs who can help close the skills gap by providing employment-linked training services.

The Indian government is providing small grants for socio-economic development, a duty-free tariff scheme for imports from Timor-Leste and a number of scholarships for undergraduate and postgraduate studies in India. The problem is, as President José Ramos-Horta told me, Timor-Leste has been unable to make use of the scholarships, mainly because they do not

have students capable to taking these up. Where they do need help — in graduate medical education — scholarships are hard to come by.

This speaks of the need for New Delhi to put greater thought in how it makes the most of its new role as a net giver of foreign aid. It is possible to translate relatively modest allocations of public funds into greater influence for India abroad if the energy of the private sector is harnessed. Human capital, entrepreneurship and bottom-up development can form the cornerstones of the Indian touch not just in Timor-Leste but in other countries as well. It is no longer tenable, though, to expect our ambassadors to do both diplomacy and development. New Delhi must create an international development agency, under the external affairs ministry, that will put the Indian development model in action around the world.

So, why can't India put its flag on a rooftop in downtown Dili? One reason is that we do not have enough foreign service officers. "All for the want of a horseshoe nail?"