

## INSIGHT

# Enhancing Timor-Leste's Connectivity through Trade Integration



In addition to trade policy, supply-side constraints to export growth also include challenges in transport connectivity. Photo credit: ADB.

*This piece highlights how trade integration and investments in connectivity can help Timor-Leste to achieve its goal of sustainable and inclusive development.*

## Introduction

Deepening trade and investment linkages are an important part of Timor-Leste's strategy for growing and diversifying its economy. Since achieving independence in 2002, Timor-Leste has been committed to joining the Association of Southeast Asian Nations (ASEAN) and the ASEAN Economic Community. The country has also begun the process for joining the World Trade Organization (WTO); it was granted WTO observer status in December 2016 and is preparing to negotiate for accession to full membership.

Joining ASEAN and the WTO will be important milestones in Timor-Leste's development. Achieving membership of the two organizations will require Timor-Leste to make binding commitments in a range of areas, including trade policy and intellectual property rights. In exchange for these commitments, Timor-Leste will gain secure access to export markets, and impartial and rules-based mechanisms to settle trade disputes.

*This piece is adapted from the July 2017 edition of the [Pacific Economic Monitor](#).*

# Analysis

## ASEAN and WTO membership requirements and benefits

Accession to ASEAN and the WTO will lead to changes in Timor-Leste's trade policies and market access. It is important to note that the precise policy changes that Timor-Leste will need to implement, and the time frames for implementation, will not be certain until negotiations with the existing members of each grouping have concluded. This means that it will be important for Timor-Leste to have a clear sense of its own priorities before beginning to negotiate the terms of its accession.

As a WTO member, Timor-Leste will need to comply with a core set of agreements regulating the trade in goods, trade in services, and trade-related intellectual property. However, as a Least Developed Country (LDC), Timor-Leste will benefit from special conditions for WTO accession that were agreed by WTO members in 2012. These conditions reduce the market access requirements for acceding members and allow for additional flexibility through transition periods following accession.

Joining ASEAN and the ASEAN Economic Community will require Timor-Leste to sign agreements on trade in goods and services that use the standards and mechanisms established through the WTO but aim for deeper levels of integration. The ASEAN Economic Community also extends into areas not covered by the WTO, including investment and labor mobility.

### Trade in Goods

For trade in goods, both ASEAN and WTO membership will require Timor-Leste to forswear the use of quantitative restrictions and nontariff barriers, and make binding commitments on future tariff policies. For the WTO, Timor-Leste will commit to maintaining its import tariffs at or below an agreed schedule of "bound rates." For ASEAN, Timor-Leste will have to negotiate the time frame for eliminating tariffs on imports from other ASEAN members, and any exclusions for goods where tariff liberalization will not be required. The country will also need to implement ASEAN and WTO standards for sanitary and phytosanitary protocols, customs valuation, and trade facilitation.

### Trade in Services

For trade in services, Timor-Leste will need to negotiate with interested WTO members on which of the 160 subsectors that are defined in the General Agreement on Trade in Services will be assigned for "national treatment" (i.e., equivalent treatment of domestic and foreign service providers) but will not be required to provide more extensive national treatment than the WTO's current LDC members. In the case of ASEAN, Timor-Leste will probably be required to match the commitments that ASEAN members have made to each other through the ASEAN Framework Agreement on Services. This includes liberalization of trade in business and professional services, construction, distribution, telecommunications, tourism, and maritime transport services.

Accession to ASEAN and the WTO will provide Timor-Leste with a range of benefits. As a WTO

member, Timor-Leste would retain any preferential market access received through generalized system of preferences programs, and access the markets of all WTO members on a “most favored nation” basis. As an ASEAN member, Timor-Leste would have tariff-free access to the markets of the other ASEAN members, and could also negotiate for accession to the free trade agreements that ASEAN members have signed with Australia, the People’s Republic of China, India, Japan, the Republic of Korea, and New Zealand. Besides securing and enhancing Timor-Leste’s access to export markets, accession should also support improvements in Timor-Leste’s policies and institutions for managing trade. WTO membership would allow access to impartial, rules-based mechanisms for trade dispute resolution.

Improved market access, better trade institutions, and increased confidence that policies will be maintained may help to stimulate private investment and increase competition. However, neither ASEAN nor WTO accession will directly address many of the supply-side constraints that have impeded the development of Timor-Leste’s exports since independence.

### Supply-side constraints to increasing Timor-Leste’s non-oil exports

LDCs such as Timor-Leste typically need to address a wide range of issues in order to meet the requirements for WTO membership and make the most of the resulting opportunities. The Diagnostic Trade Integration Studies (DTIS), completed in 2010, identified the reforms, investments, and capacity development needed to strengthen trade.

In addition to trade policy, the study considered supply-side constraints to export growth including transport connectivity, labor costs, the availability of skilled labor, financial sector development, and aspects of the business enabling environments such as business registration and contract enforcement. The study also featured (i) the agriculture sector, as the main channel for increasing non-oil merchandise exports in the short term, and (ii) the value chains for production and processing of coffee, mung beans, and cattle. Of these, coffee was chosen because it showed the greatest potential for export growth and poverty reduction, while mung beans and cattle were selected as value chains with a recent history of production for export (mung beans) or an existing base of production and exports that could be expanded (livestock).

Despite significant development partner support for agricultural development programs in Timor-Leste, most of the DTIS recommendations to develop the coffee sector are yet to be fully implemented, and programs to develop the mung bean and livestock value chains are still at an early stage. Although there has been some good progress, cross-cutting constraints to the development of agricultural exports—including limited capacity for sanitary and phytosanitary inspection and certification, and weaknesses in the public extension system—still need to be addressed. The experience in the agriculture sector highlights the importance of maintaining close coordination between and among the government, development partners, and private sector stakeholders during the planning and implementation of programs to develop export sectors. This can be especially challenging for sectors or products where private production is still in its early stages, but is no less important.

Agriculture and agroforestry continue to have great potential for export growth and poverty reduction. However, an updated assessment of trade potential would also have to consider other primary products such as fisheries, aquaculture, and minerals; manufactured products such as cement; and services such as tourism. The potential for the development of these sectors is clear, but there are still significant gaps in sector policy and regulatory frameworks. There is also a need to develop realistic strategies to develop these sectors that center on addressing sector-specific constraints to increased private investment.

## Implications

Timor-Leste provides an interesting case study on the limits of liberal trade policies. While there is no reason to think that protectionist policies (e.g., high tariff and nontariff barriers) would have been more effective in stimulating sustainable economic growth, it is also clear that low trade barriers and preferential access to major export markets have not been sufficient to spur development of the country's export sectors since 2002. Although Timor-Leste's limited export capacity makes it an outlier, other LDCs and fragile and conflicted states face similar challenges in completing the investments and reforms needed to catalyze export growth and take advantage of the market access provided by multilateral trade agreements.

Membership in ASEAN and the WTO is a sensible objective for Timor-Leste, but careful strategic planning will be needed to define the country's negotiating objectives and make the most of the opportunities that come with membership. It is important to recognize that (i) WTO and ASEAN accession will be a long-term undertaking, and (ii) there will be an ongoing need to build capacity for policy analysis and the design and implementation of trade-related initiatives.

Updating the 2010 DTIS is one approach that the Government of Timor-Leste could use to develop a carefully prioritized and sequenced program to strengthen trade competitiveness. However, the government and its partners may be able to achieve similar results through a more streamlined process drawing on the extensive analyses of trade policy, the business enabling environment, and specific sectors and value chains that are underway or have recently been completed. In either case, it will be important to use inclusive and participatory approaches, where possible, to ensure transparency and support the development of a strong consensus on the prioritization and sequencing of reform initiatives.

## Resource

D. Freedman. 2017. Timor-Leste: Improving connectivity through trade policy. *Pacific Economic Monitor*. July. pp. 18-22.

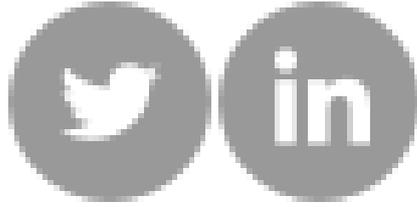


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