

**ICAPP: International Conference of Asian Political Parties
Colombo, Sri Lanka, September 2014**

'Building an Asian Community'

Good day.

Before I start, I would like to express my gratitude to this Honourable Assembly for making us part of this big event and for giving me the opportunity to express myself before it.

The theme of this conference is: "Building an Asian Community" and I will try, even though I am a modest man, to predict the economic future of my country, and explain how I think it could prosper within the New Asian Community.

There are two dozen nations in eastern Asia, from the Indian Subcontinent to the Koreas in the north and Indonesia and East Timor in the south. As you know, these nations are vastly different, both from a population or an economic standpoint.

Population-wise, beside the giant China and India, with over a billion people each, and Indonesia, Pakistan, Bangladesh and Japan with well over a 100 million each, the smallest Asian countries have populations within only a million: Brunei, Bhutan and East Timor.

Economically, great differences in wealth exist, from Macao, which enjoys a gross domestic product exceeding \$75,000 per person per year, to Singapore with about \$55,000, Brunei, Hong Kong and Japan with close to \$40,000, and then down to the least fortunate, Bangladesh and East Timor, my country, with about \$1,000, and Nepal and North Korea with \$700 and \$500 respectively

East Timor receives most of its revenue from its oil and gas production, which is steadily dwindling and will dry up before the end of the decade, at which time East Timor will become the uncontested poor man of Asia with about \$300 a year per capita.

What could alter this sad predicament? I can think only of three alternatives:

- I. A miracle
- II. The immediate fast-track development of our sole remaining petroleum resource
- III. A fundamental cultural and economic transformation of the Timorese society

Relying on the first alternative would be somewhat unwise, and not very conducive to responsible self-betterment.

The second alternative would be a temporary relief for a couple of decades, but for that to happen, my country would need to immediately bury the hatchet and start cooperating with our esteemed partners in the south in an expedited fashion. The resource would take years to develop (and I pray the project is still economically profitable, in this day and age of significant changes in the natural gas industry and international market), but, with the utmost diligence, the revenue gap could be closed just before our currently operating offshore petroleum field dries up. Unfortunately, although not surprisingly, the new resource, with its “easy money” income, is limited in size and therefore in time, and our economic woes would only be deferred.

Which leaves us with the third alternative: a fundamental cultural and economic transformation of our Timorese society. I believe all of us in East Timor should strive to jump start it, and jump start it now.

In my country, petroleum revenue pays for all government expenses and represents almost three quarters of our national income. Once our oil and gas resource is exhausted, our predominantly agrarian people will produce only about \$300 a year per capita, putting our economy at the very bottom of the Asian economic ladder.

Therefore, the big question is: how can we work our way out of hardship, considering that our petroleum revenue is short lived? For the last decade, or so, we have saved a big chunk of it in the bank, but it won't last long once the wells dry up.

Can we compete in mass manufacturing against our neighbours and their huge populations, hundred- or even thousand-fold ours? Can we measure up to the wealthy, sophisticated and super-educated people of Singapore or Hong Kong, established in the very center of our Asian world? Can we dream of becoming the

Macau of the South and build an immense gambling industry from scratch, with no nearby market and no history or experience of the industry? I will leave the answers to the more clairvoyant in this Honourable Assembly. Personally, I have deep doubts.

So, what can we do to keep us out of ultimate wretchedness? We can of course produce more coffee and harvest more rice, but unfortunately only for a quite marginal increase of domestic income.

I think all that is left for us to do is whatever our neighbours, far and near, don't do. The few very small countries around the globe that manage to thrive don't try to emulate their large neighbours, they seek to provide services that others do not.

The main reason for their success is a legal and regulatory environment that does not coincide with that of their much larger neighbours. As they cannot compete in the same economic field, they elect, either by choice or rather because of a lack of choices, to engage in activities either uncommon or flatly frowned upon in stronger countries.

I am very concerned about the risk for our rather diminutive nation half-island, surrounded as it is by friendly giant neighbours, to compete in a New Asian Community where rules would apply uniformly to all its members, irrespective of their size, wealth, and physical particularities. It plainly appears to me that the colossal banyan (our beloved "bocy") and the fragile sandalwood tree both thrive using very different resources in quite dissimilar environments, but I wouldn't think for a minute to try transplanting a sandalwood tree into banyan soil, or vice-versa.

An environment fertile for East Timor's development would not necessarily be of choice for another larger land.

Let's come to the point: how do small successful countries prosper, and what keeps them alive? You already know: they first make their political environment, law enforcement, and currency, attractive for unencumbered foreign investment (within the framework of existing international law, of course); they maintain low or inexistent income tax, capital gain tax, value added tax, sales tax, wealth tax, inheritance tax, for nationals and foreigners alike; they repeal anything resembling a redundant withholding tax as they refrain from double or hidden taxation; they offer duty free status; they lower excise and import taxes as much as they can; they turn

themselves into financial centers by welcoming financial service companies; they offer inexpensive corporation registries; they create national ship registries; they open their doors to hedge funds and mutual funds; whenever their currency happens to be that of the largest world economy, they refrain from the temptation to create their own; they promote tourism, not by trying to compete on the same turf as the beautiful and incomparably friendly nearby world capital of tourism, but by offering services not available there; they make residence visas easily accessible, instead of discouraging visitors; they educate their people to become capable of employment in the wide range of the services which support the business environment they have created; and last and foremost, they invest whatever substantial savings they still have to build a solid road infrastructure and secure affordable energy for all.

I think that what I just described is for us the only honorable road to success, but I also fear that the New Asian Community could frown upon such policies, reproaching us for trying to establish a better business environment for ourselves. I feel we need to stand our ground and, while I appreciate our bigger friends' concerns about lost revenue, I also believe they will need to resist the understandable temptation to create a monopoly on taxation, and will allow smaller political entities such as ours to survive and even prosper.

Dear Honourable Assembly, let us build together an Asian Community where all, huge and tiny, have an equal opportunity to flourish, with rules adapted to the particular circumstances of each. Short of that, the small will perish.

Thank you for your attention.