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**STATE-MAKING AND THE POST-CONFLICT CITY:  
INTEGRATION IN DILI, DISINTEGRATION IN  
TIMOR-LESTE**

**Ben Moxham**  
Development Studies Institute  
London School of Economics and Political Science

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The Editor, Crisis States Research Centre, DESTIN, LSE, Houghton Street, London WC2A 2AE.

## State-Making and the Post-Conflict City: Integration in Dili, Disintegration in Timor-Leste

Ben Moxham<sup>1</sup>  
Development Studies Institute

### Abstract

*Timor-Leste's celebrated journey to statehood violently unravelled in 2006, leaving the country's post-independence dream in tatters. Why has the young state stumbled so badly given the overwhelming national consensus for independence and firm international support for reconstruction? Many scholars have attempted to solve this puzzle, but none have succeeded in providing a comprehensive analysis. This paper seeks to build on the existing scholarship on state-building by introducing the city as the key site of 'internal integration' central to the fortunes of state formation under conditions of globalisation and crisis. Exploring the processes of state-building that took place in Timor-Leste under Portuguese and Indonesian occupation and the role of the international community post-1999, the paper concludes that the donor-scripted state-building model for Timor-Leste was inappropriate, ultimately precipitating urban crisis in Dili and the city's failure to drive state-making and 'internal integration' in the country at large.*

### Introduction

Timor-Leste's celebrated journey to statehood violently unravelled in 2006.<sup>2</sup> In April 2006, an internal military dispute, stoked by political elites, spilled over into protest and identity-based gang violence on the streets of Dili, the national capital. In the context of deepening urban poverty and disillusionment, what could have been contained instead became a generalised crisis that forced Prime Minister Mari Alkatiri to resign, put half the urban population in IDP camps, led to the return of international peace keepers and left the post-independence dream in tatters. That the young state has stumbled so badly, given an overwhelming national consensus for independence and firm international support for rebuilding, surprised most. It only strengthens the urgency with which we ask why conflict so often accompanies the 'post-conflict' moment.

Scholarly attempts at answering this question for Timor-Leste are plentiful. Yet while they have provided important pieces of the analytical puzzle, they remain theoretically weak and therefore incomplete. For example, in an otherwise thoughtful essay on recent political developments in Timor-Leste, Damien Kingsbury's analysis of the crisis ultimately consists of listing official state institutions, what they are supposed to do and how the Timorese leadership have failed to do that (Kingsbury 2007a). Without considering what makes institutions work, or whether they are appropriate, the result borders on accusation rather than analysis. Blame is placed on the governing Fretilin party, accusing it of being 'authoritarian', 'unaccountable' and possibly corrupt (Kingsbury 2007a: 19-24). Others reactively defend the

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<sup>2</sup> Despite 'Timor-Leste' simply being Portuguese for 'East Timor', the new government wants it to be referred to as such in all languages.

record of the government (The Age, June 1, 2006), instead highlighting foreign government meddling and anti-government destabilisation strategies (Anderson 2006). In neither account is there a critical engagement with how East Timor's long political economy of state building – including the latest, donor-scripted chapter – has shaped the crisis.

While existing scholarship helpfully identifies the proximate causes of conflict, it falls short in several regards. Firstly, it documents the manoeuvrings of elite actors to the detriment of other, more structural, causes (e.g. Simonsen 2006). Secondly, explanations are internalist, placing Timor-Leste in an 'isolation ward', rather than examining how Timor-Leste's integration into the external global system influences its chances of state failure (Wade 2005). Finally, explanations tend to focus on politics, to the detriment of the economy and the rules that shape it. To be sure, economic causes such as poverty and unemployment are often presented as contributing factors, but they appear as fixed variables – unfortunate and immutable features on the physical and historical landscape – rather than being socially constructed and hence amenable to redress. Where economic analysis does exist it is dominated, as Gunn (2007: 95) points out, by the World Bank's discourse of 'lean government, market-oriented economic policies, and export-oriented agriculture'.<sup>3</sup>

This paper seeks to remedy these gaps by first outlining an analytical framework that understands state-building as the outcome of historical processes of regularising and monopolising violence, and generating economic growth and political legitimacy (Milliken and Krause 2002; Cramer and Goodhand 2002). While building on the work of existing scholarship it seeks to introduce the city as the key site of 'internal integration' central to the fortunes of state-making under conditions of globalisation and crisis. It addresses possible theoretical objections to this before posing why Dili is a paradigmatic case to test this.

Employing this framework, the paper then presents an analytical narrative built around three questions: (1) what was the pre-existing political economy of state-building in Timor-Leste, resulting both from Portuguese rule and Indonesian occupation? (2) What were the core elements of the state-building agenda implemented by the international community since 1999? (3) What have been the consequences of implementing this agenda in Timor-Leste? Assessing and interpreting repeated state failure against this theoretical framework, this paper concludes that the donor-scripted state-building model for Timor-Leste was inappropriate. Small government, a conservative macro-economic framework, a highly unequal and short-lived reconstruction boom and an over-reliance on failed private sector and agrarian growth strategies, all drove unemployment, inequality and deprivation on the streets of Dili. Rather than Dili driving state-making through a process of what this paper labels 'internal integration', it housed it the failures to do so, where economic disintegration and political and violent challenges to the state were profoundly urban. Finally, the paper assesses competing explanations for the crisis and concludes with modest options for the future.

### **Theoretical Framework of State-Building**

This paper adopts a framework that emphasises the importance of monopolising violence and generating capital accumulation and political legitimacy in the reproduction and building of the State (Milliken and Krause 2002).

These processes are mutually reinforcing and closely related. Simply put, economic growth channelled correctly can sustain peace, legitimacy and the viability of the state (Cramer and

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<sup>3</sup> Two exceptions to this observation are Harrington (2007) and Neupert and Lopes (2006).

Goodhand 2002). A monopoly on violence is also critical, not because it is usually cited on some Westphalian checklist of statehood, but because it keeps conflict within the political sphere and encourages processes of economic accumulation to progress beyond predation. Within that sphere, a dominant state can more easily address conflict, and subdue competing systems of authority, through political and economic incorporation. State formation understood this way – as a drawn out process of taming violence and competing systems of political authority – sheds light on contemporary conflict. State failure is not senseless anarchy, but often a crisis of legitimacy (Ottaway 2002) as challenges to state authority overwhelm it, evident in much of the so-called ‘post-modern’ wars in Africa (Duffield 1998).

State-making is not an end unto itself but a means of promoting the developmental freedoms and spaces of those covered by the state’s juridical scope.<sup>4</sup> Within the framework advanced here, the State needs to effectively mediate between the political, social, class and other identity-based struggles, that themselves animate, shape and sustain the state. This constituent and dynamic relationship between citizen and state aims to deepen the idea of political legitimacy defined as simply the ruled accepting the political ‘rules of the game’.<sup>5</sup>

While the concept is downplayed in more historical examinations of the political-economy of state formation (Tilly 1990; Bates 2001), gaining political legitimacy is critical for a contemporary post-conflict state because it will usually inherit an externally imposed formal democracy, normatively desirable, but politically vulnerable. Further, the nationalist impulse is often either weak or divided in a post-colonial, and especially post-conflict, setting. This explains why so many post-colonial states eager to reinforce independence and shore up political legitimacy engage in the spread of official nationalisms, often synonymous with the developmental state itself (Anderson 1991: 114).

This framework also highlights a key theoretical blindspot in the state-building orthodoxy: the role of power in the process of state and institution formation. It is the interplay of political, economic and military factors among social forces that animates or builds institutions, not just the importation of donor ‘best practice’ (Ottaway 2002).

### ***The City in State-Making***

States are not immutable entities but are constructed over time and space. Accordingly, the framework advanced here historicises processes of state-building to better understand them (Berger 2006). Spatially, it places the city at the centre of the theoretical framework for several reasons.

Firstly, focusing on the city helpfully reveals the process of state-formation, as Tilly demonstrates with his sweeping review of second millennia Europe (1990). There, cities became regional points of market exchange, living off agricultural production. As centres of innovation and specialisation, they in turn fuelled their own growth through efficiency improvements in agriculture and transport, or when powerful pressures tore people from the countryside (Tilly 1990: 18-19; Bates 2001: 52-53). Yet it was the practice and preparation for war that most closely fused the country with the city. Specialists of violence, typically the landed nobility, relied on the wealth of the city to fund war and in turn provided conditions

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<sup>4</sup> The risk otherwise is to endorse any strong state with a growing economy, e.g. Suharto’s Indonesia, not matter how bad the human rights situation is.

<sup>5</sup> ‘Civil society’, when understood as just an amorphous mass of citizens that keep government to account, falls into a similar dichotomous trap.

more favourable for capital accumulation and the raising of taxes. The need to govern land spurred urban growth and the nascent state. As processes of accumulation grew, peace became more profitable than predation. Coercion was slowly regularised and monopolised as the countryside was disarmed through bribes and superior force. As Bates concludes, territorial domination of kinships groups was replaced by networks of privilege leading to the crown in the centre (Bates 2001: 66-69). The political economy of European nation-state formation was thus the fusion of violence and accumulation mirrored spatially by the nexus of countryside and city.<sup>6</sup>

Secondly, it is from the city that the post-colonial project to build a state has typically emanated, even if much of the population lived elsewhere. The colonial city has usually been primate: dominant as the administrative and trading capital. As a space of power, restricting access to the city has been paramount for colonial authorities in Africa: ‘fearful that city life would ‘detrribalize’ African society and foster anti-colonial solidarities’ (Davis 2006: 51, referencing Garth Myers). Indeed, the leaderships of anti-colonial movements have nearly always been urban. As the colonial state has deepened through education and the expansion of administration, it has required the creation of an urban native intelligentsia to mediate between the metropolitan centre and the periphery (Anderson 1991: 115-116). Even though peasant uprising drove decolonisation across the Third World, it was elements of this urban comprador class that defined the nationalist project and appropriated the vestiges of the colonial state.

Thirdly, global economic restructuring has increased the relevance of the city. The organisation of the global integration of finance, production and trade has clustered in a select number of ‘global cities’, transforming them into sites of spectacular growth, while causing others to wither (Sassen 2006). The city, no longer simply a point of exchange for wealth produced in the fields, mines or factories, is now the source of growth itself.

For the city of the South, the very act of integrating into the world economy creates urban clustering, however marginal a city or external flow may be. For example, external aid, tourism and the black market have drastically reshaped Cambodia’s Phnom Penh (Shatkin 2006). Even if a region is marginal, the act of ‘making’ globalisation, – of rewiring national economies (through, for example, judicial reform, property rights or regimes) – also creates urban growth as the ‘midwives of globalisation’: business, government and supra-national organisations such as the World Bank and IMF, set up shop.

Indeed, the post-conflict city houses a complex mix of forces: from the reconstruction industry and its associated boom to those escaping conflict. It becomes the centre of dialogue and political contestation over the shape of the post-conflict state, especially where the hinterlands continue to remain insecure.

### ***State-Making as ‘Internal Integration’***

Saying that the city is crucial to state-making is indisputable but hardly insightful. I posit rather that the post-conflict city must be at the heart of a state-making process of ‘internal integration’, as it mediates between the external global political economy and the internal territory (Simon 2006).

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<sup>6</sup> Add to this the legitimating glue of national consciousness and nationalism, made possible by the spread of language made dominant and codified by the rise of print capitalism (Anderson 1991: 44-45).

External flows into a post-conflict city dominate state-making: security is often guaranteed by peacekeepers; economic accumulation becomes closely tied with aid and the associated reconstruction industry; and political accountability to donors often trumps accountability to citizens within the internal territory. The post-conflict city is able to engage in state-making processes, often resembling a precarious city-state, largely distinct from the national territory itself, especially where the integration with the global economy excludes vast tracts of people and land from processes of economic accumulation and growth.

The challenge of state building in such circumstances is to promote ‘internal integration’ whereby from the post-conflict city, state-making ‘integrates’ economic, political and security processes across the national territory. The failure to do so can result in an unravelling or fragmentation of the state and nation, captured by the idea of internal disintegration.

This use of the term ‘internal integration’ is an expansion of the concept used by Robert Wade to describe effective development strategy (Wade 2003: xlviii). He distinguishes between ‘external’ and ‘internal’ integration: while free market advocates extol the virtues of ‘external integration’ – the opening up of national economies to the external market – development strategy, he argues, instead needs to emphasise the importance of ‘internal integration’, defined as the building of a dense set of linkages between sectors, the rural and urban, consumption and production, and employees and capitalists. It is the promotion of capital circulation within the nation that builds productive capacity and reinforces the political coalitions sustaining such a process. External integration can aid internal integration (through, for example, enhanced export performance) but can also undermine it (through, for example, retarding growth of national industries or agriculture).

Therefore, ‘development strategy has to operate in the zone where the two forms of integration reinforce rather than undermine each other’ (Wade 2003: xlviii). Likewise, from the post-conflict city, state-making processes integrating the hinterland, national markets, social coalitions, a sense of nationhood, and competing wielders of violence, need to operate in this zone of reinforcement.

### ***Objections to State-making as Internal Integration***

The key objection to this framework might be that it sounds like the developmental state rehashed. As a quick collection of stylised facts, the developmental state, from 1950 to 1980, was characterised by a commitment to national industrialisation: a profoundly urban attempt at strategically disengaging from the global economy in the name of internal integration, modernisation and nationalism. Through Import Substitution Industrialisation (ISI) states attempted to move resources out of their colonially-inherited low value primary commodity sectors and into ones promising higher rates of return and generating new comparative advantages. The city swelled under such policies of state-driven industrialisation, the modernisation of agriculture and the relaxation of colonial controls (Davis 2006: 57).

The intellectual attack against this model has several strands. Neo-classical economists argued that denying greater integration into the world economy denied greater productivity generated by the market best allocating scarce resources. Further, government intervention was both hurting the economy and encouraging rent seeking and corruption (Lal 2002). Political economists also identified an ‘urban bias’ that ‘squeezed the peasantry’ to fund urban growth, and entrench urban elites. Here, agricultural surplus was transferred to cities through overvalued exchange rates that favoured imports (industry) over exports (agriculture). State marketing boards provided cheap food for cities and rent havens and employment for

urban elites. Finally consumers, usually rural, had to purchase more expensive ISI-produced goods (Lofchie 1997: 25).

The legacy of these critiques is that within the development orthodoxy a complete theoretical inversion had occurred by the mid-1980s. Politically, the state was no longer modern but ossified and corrupt, whereas local civil society was no longer backward but, as Ferguson (2006: 96) wryly notes, 'could bring about democracy and development if only the state would get out of the way'. Economic liberalisation would therefore not only promote growth, but be 'spatially neutral', favouring neither the urban nor rural, as capital under market forces would iron out legacies of uneven development (Lofchie 1997: 36).

The neoclassical claims are empirically questionable.<sup>7</sup> One key reform promoted by this school of thought involved the abolition of state-marketing boards, a key culprit perpetrating so-called 'urban bias'. Yet for coffee, abolished rents flowed not to farmers but were instead captured by transnational companies wielding concentrated buying power and able to dictate price (Kaplinsky 2003: 11-19). The destruction of the extension support systems maintained by the abolished boards also led to a general decline in coffee quality. 'Urban bias', was replaced by 'global bias' or as Mkandawire (1991) argues, national capitalists were subordinated under global ones.

Yet this example does not excuse the excesses of urban elites in the developmental state, particularly in slowing agricultural growth in Latin America and Africa and engaging in conspicuous consumption (Kay 2002; Arrighi 2002; Palma 2003). Indeed, the idea of 'internal integration' presented here is the promotion of mutually reinforcing linkages between the urban and rural, not parasitic ones.

In defence of the developmental state, however, 'urban bias' is overstated as an explanation for poor economic performance, given the more significant roles played by political configuration and colonial legacy (Kohli 2004) and the positions in the global political economy each state faced (Arrighi 2002). In any event, the period of the developmental state delivered the best economic growth for the post-colonial world either before or since (Palma 2003; Arrighi 2002).

Finally, the claim that liberalisation would be 'spatially neutral' is the weakest of all. Since the period of economic liberalisation, rapid urbanisation has occurred with negligible economic growth in the South (Davis 2006: 14). This is largely the result of what Deborah Bryceson labels 'de-peasantisation': the erosion of rural safety nets by liberalisation, causing people to migrate to cities (Bryceson et al. 2000: 305). Indeed, all world population growth over the next 25 years will be absorbed by cities in the South (Beall and Fox 2007: 4). Spatially, liberalisation at its extreme has been more akin to driving internal disintegration where, 'the globally networked enclave sits right beside the ungovernable humanitarian disaster zone' (Ferguson 2006: 49). This description encompasses not just the hinterlands but the city itself.

### *Dili as a Paradigmatic Case*

This case study evaluates the international community's state-building efforts in Timor-Leste from 1999-2002 against this framework of state-making. Dili, the capital of Timor-Leste, provides a paradigmatic case, because it is a typical post-conflict city dominated by a state-

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<sup>7</sup> See the debate summarised in Kohli (2004: 374-378) and Wade (2003: 14-21)

making agenda receiving almost unprecedented levels of political will and material support. If ever state-building models were to succeed in a post-conflict environment, this should have been it.

Without an established national government, the United Nations Transitional Administration in East Timor (UNTAET) assumed quasi-sovereign powers (Downie 2007). The World Bank, along with the ADB and the IMF, assumed similar responsibility for economic development. Timor also received the comparative goodwill of the international community, reflected in the high levels of ODA committed to reconstruction.

After the violent and destructive exit of Indonesian-backed forces in late 1999, competing systems of political authority were either absent or insignificant. There was initially a general elite consensus across Timorese political factions for the involvement of international actors and the state-building agenda they implemented. A strong sense of national unity prevailed among the population, albeit not built around an agenda more specific than 'self-determination'.

Although the economy, infrastructure and institutions of Timor-Leste were severely damaged, burdening reconstruction, with the destruction went many of the politico-economic dynamics that often sustain conflict such as in Afghanistan (Cramer and Goodhand 2002). Further, it also provided donors with their self-described *tabula rasa* upon which to judge the success of state-building. As the *Asia Wall Street Journal* (October 7, 1999) noted, Timor-Leste was to 'become an important testing ground for the World Bank, the IMF and a group of wealthy donor countries'. This paper evaluates that test.<sup>8</sup>

This paper relies heavily on secondary scholarship and technical reports from multilateral agencies. It also draws on the author's observations and interviews conducted over multiple visits from 1999 to 2004. An admitted weakness of this paper is therefore the lack of primary, in-country research on the present crisis. As part of the framework of state-making advanced here, the paper places a strong emphasis on the economic policy of reconstruction and its consequences, because of its neglect in existing scholarship and centrality to the present crisis.

### **Failures of Incorporation**

Dili was established in the late-eighteenth century as the port and administrative centre of Portuguese Timor. Situated on the North coast, it lies on a narrow band of land hemmed in from the South by a jagged spine of mountains that run the length of the territory. From this administrative heart, neither Portuguese nor Indonesian rule could incorporate and develop the territory. Today, the people of Timor-Leste, three quarters of who still reside in its fields and on its farms, must grapple with this legacy of underdevelopment.

This section draws out three themes from these earlier periods of state-building in Timor-Leste from an already detailed literature (e.g. Gunn 1999; Taylor 1999; CAVR 2005). Firstly, it maps how Portuguese and Indonesian strategies of incorporation and development in Timor-Leste struggled to overcome the territory's underdevelopment and local resistance. Such attempts also provide a powerful comparative marker in assessing contemporary efforts at state building. Secondly, Dili has been at the centre of this dialectic of occupation and

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<sup>8</sup> None of this is to say that local context or agency were irrelevant. Indeed, a central argument of this paper is that failure to appreciate such undermined state-building.



resistance. Thirdly, strategies of development and subjugation have profoundly shaped the content and nature of Timorese resistance and contemporary nationalism.

### ***Portuguese Colonialism and the Rise of National Liberation***

Portugal's anaemic and indirect rule of Timor meant that its attempts at pacifying the hinterlands and establishing an export plantation economy along classical colonial lines failed (Gunn 1999: 241). Its political isolation and economic underdevelopment also meant that coherent anti-colonial and nationalist challenges to Portuguese authority occurred comparatively late in Timor-Leste (Anderson 1993).

A young urban and anti-colonial leadership only emerged in the 1970s, the first generation to benefit from a belated expansion of education.<sup>9</sup> Bitter with the experience of racial discrimination and inspired by their Lusophone cousins in Africa, they coalesced into what was to become the key independence party, the Revolutionary Front for an Independent East Timor (Fretilin). With the Carnation Revolution in Portugal in 1974 and uncertainty over the territory's future, nascent political parties began to fill the emerging political vacuum.

For Fretilin, the task of raising a national, anti-colonial consciousness required bridging the gap between themselves and an almost entirely agrarian people. Through song, education campaigns, proclamations and meetings, spread by the village level infrastructure of the party, Fretilin claimed the nation's future was, 'in the hands of the peasants' (Hill 2002: 84). They subverted the term *Maubere* – a derogatory label for highland peasants – elevating it into a source of national pride. 'Mauberism' stood for the struggle against hunger and colonialism itself. Further, Fretilin preached national unity, arguing that colonial domination had thrived on and exploited indigenous disunity (Hill 2002: 88).

While Fretilin called for immediate independence, their conservative Democratic Union of Timorese (UDT) rivals preferred a gradual transition. In the brief interregnum between Portuguese rule and Indonesian invasion, Indonesia stoked a UDT coup which was quickly suppressed by Fretilin who controlled the old colonial army. Branding Fretilin a communist threat, Indonesia invaded in December 1975.

The long dark years of Indonesian occupation would fortify the rural trust placed in Fretilin and its goal of independence. In the first party-based elections following Indonesia rule in August 2001, they won 57 percent of vote, although more for past loyalty than an endorsement of any political programme (Niner 2007: 122).

### ***The Political Economy of Indonesian Occupation***

Indonesia's 24-year occupation of Timor-Leste was caught between the contradictions of attempting to accelerate development to legitimise occupation (Saldanha 1994: 93), while at the same time committing one of the worst acts of mass violence of the twentieth century. From Indonesia's initial invasion in December 1975 to its brutal counter-insurgency campaigns, resettlements and famines of the late 1970s and early 1980s caused most of what Timor-Leste's Commission for Reception, Truth and Reconciliation (CAVR) (2005: 54-85) estimates to be between 102,800 to 201,600 deaths.

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<sup>9</sup> By the early 1970s only 1,000 students attended school (Wigglesworth 2007: 52).

Yet throughout this brutal occupation, the Indonesian state invested twice as much per capita in Timor than its national average, publicly keen to ‘decolonise’ the territory from Portuguese neglect (Soesastro 1989: 221). It invested heavily in integrating the rural household with the macro-economy, through both physical infrastructure and human capital to overcome a shortage of skilled labour, minimal marketing infrastructure and the majority of the territory being outside the monetised economy. According to Timmer (2004: 177), it was a formula that delivered Suharto’s New Order Indonesia the best ‘pro-poor’ growth in Southeast Asia. State-led promotion of goods and services produced by the poor, infrastructure investment to reduce transaction costs, the maintenance of exchange rates favourable to local production, and the stabilisation of food prices all drove rapid growth in Indonesian agricultural productivity from the mid 1970s to the mid 1980s (Timmer 2004: 191-193).

In Timor-Leste these policies were poisoned by the military logics of violence, population control and a predatory war economy. For example, the massive expansion of the road network may have linked the interior with markets (Soesastro 1989: 216) but also brought the military to the doorstep of the village (Guterres 2007: 47). To starve the resistance of mobility, the military attempted to control the movement of everything: villagers were relocated from mountainous areas to low lands to ensure easier surveillance; movement required military approval; and until the 1980s, the territory was cut off from the prying eyes of the outside world. This retarded agricultural productivity, undermined traditional land tenure and governance and entrenched control of the military monopoly on coffee, the territory’s only notable export (Nevins 2003: 690-691).

Crucially, ‘urbanisation’, according to Aurelio Guterres (2007: 47), was viewed by Jakarta, ‘as a threat and something to be restrained’. The administration employed both rural development and control to keep people on the farms, but the promise of safety and employment in Dili saw the town grow by twice the provincial average of 4.2 percent from 1980 to 1985 (Soesastro 1989: 219) to 80,000. By 1999 it had grown to 100,175 (Neupert and Lopes 2006: 26).

It is difficult to assess the developmental legacy of Indonesia. Would its developmental achievements have been better if the Indonesian State had not run the territory like a concentration camp or inherited such a low developmental base? Is it even intellectually or morally possible to assess such achievements, distinct from the mass violence that sustained them? However, some economic and social improvements were undeniable. From 1983 to 1997 the economy grew by 5.6 percent per annum, the ‘most sustained period of economic expansion in Timor’s history’ (Hill and Saldanha 2001: 7). Literacy and school enrolments rose rapidly (Wigglesworth 2007: 52). Yet poverty remained higher in Timor-Leste than in any other Indonesian province in 1993 and 1996 (Booth 2001: 241).

The economy also remained heavily reliant on the central administration. Dili was the engine of economic growth, generating construction, trade, transport and utilities and jobs in the civil service (Soesastro 1989: 214). Apart from ethnic Chinese petty traders, a barely extant private sector was crowded out by military/business monopolies infamous in Indonesia for engaging more in predation than productive capital accumulation (Robison 1986: 128). Concerns with unemployment forced the province to open up in the late 1980s in the hope of attracting investment (Saldanha 1994: 182). What emerged instead were shifts in the nature and reach of the resistance to Indonesian rule.

### *Tensions of Resistance and Collaboration*

Timorese resistance to Indonesian rule was resilient and ultimately successful. Yet behind this national liberation movement laid a series of fault lines born both of the political and strategic disputes of the resistance, and shaped by the Indonesian state itself.

From the initial invasion until the early 1980s, numerically superior Indonesian forces steadily ground down the Timorese armed resistance. Faced with a scattered and isolated rural guerrilla army the new leader of the National Liberation Armed Forces of Timor-Leste (FALINTIL), Xanana Gusmao, shifted to a strategy of national unity and political negotiation in the 1980s. He depoliticised the struggle to bring in all previously feuding groups, including Fretilin and the UDT, under an organisation of national unity, eventually named the National Council of Timorese Resistance (CNRT). By 1987, Gusmao took FALINTIL out of Fretilin to make it a nonpartisan army deepening divisions between him and the Fretilin leadership who were mostly ensconced in exile in Mozambique and Angola (Niner 2007; International Crisis Group 2006). This programme of moderation also saw a deep split with the *'isolados'* – disgruntled FALINTIL fighters – leaving to form their own political challenges, such as Cornelia Gama's cult-like *Sagrada Familia*, that persist today.

Significantly, like Indonesia resistance to the Dutch, Timorese national consciousness deepened as a consequence of the state's expansion of development and repression (Anderson 1993). By the late 1980s, a new generation of resistance emerged with the expansion of the Indonesian state. Youth educated under the Indonesian system, with a strong command of its language and institutions and hardened by discrimination and human rights abuses, formed a resistance that was more urban, clandestine and nuanced than their guerrilla elders (Carey 2005). As the province was opened up in the late 1980s they began to reach out and engage across Indonesia and the world using the language of human rights. It was this movement that met its tragic coming of age at the Dili massacre of 1991 and became the backbone of the clandestine network.

Gusmao's strategy of unifying disparate groups – from church to guerrilla, clandestine youth to middle class diaspora, and Marxist to conservative – behind a clear demand for self-determination, was pitched largely at the UN and international community. It was undeniably successful. But the price of unity was a shallowing out of the programmatic basis for independence. Further, the legacy of occupation left thick and fuzzy grey lines between those who resisted and those who collaborated, those who fled and those who stayed behind.

### **International Intervention and State Building**

The Indonesian occupation and its brand of developmentalism in Timor-Leste suffered three powerful shocks over two short years. Firstly, 1998 brought to Dili the shock of the East Asian economic crisis, the consequent IMF and World Bank promoted scaling back of subsidies on basic food commodities and most significantly an El Niño-driven drought. The city had the worst food security in the entire archipelago (Sumarto et al. 2001: 8) as inflation ran at 80 percent (National Planning Commission 2002: 19). Yet the crisis also brought the popular overthrow of President Suharto, and with it the political space for his successor, B.J. Habibie, to grant the half-island a referendum on its future.

Secondly, rejected by 78.5 percent of voters in the referendum of August 1999, the Indonesian military and its militia proxies created chaos and scorched-earth: 1,500 people were killed with tens of thousands more moved out of the territory. The Indonesian state either fled (some 75 percent of the public service returned back to Indonesia) or was burnt to

the ground (70 percent of the country's capital stock was destroyed) (Hill and Saldanha 2001: 3).

Finally, when the World Bank-led Joint Assessment Mission (JAM) came to Timor-Leste in December 1999 to plan for rebuilding, it deliberately abandoned the remnants of the old order. It proposed cutting the civil service from an estimated 33,000 to 12,200, reasoning that the previous government was bloated and corrupt. The World Bank's head of mission, Sarah Cliffe, castigated its multiple and overlapping layers of bureaucracy: a top down organisational culture with little popular participation and too many opportunities for graft (Cliffe 2000: 256). In so doing, the JAM disregarded anything Indonesian state-led development had achieved in the province.

During the transition period (December 1999-May 2002) the UN was to be responsible for building the civil service, maintaining law and order and organising elections. The World Bank, with its junior partner the Asian Development Bank (ADB), would oversee the Trust Fund for East Timor (TFET), a donor pool of money for economic reconstruction.

Rather than recount the machinations of the transition period (see e.g. Chopra 2002) this section analyses the key strategies of economic accumulation and internal integration within the new nation's National Development Plan (NDP) (National Planning Commission 2002). It highlights the early warning signs stemming from such strategies and how the new government, operating within a narrow policy space, was unable or unwilling to change course.

### ***The State-Building Agenda and the National Development Plan 2002***

In the lead-up to formal independence on May 20, 2002, the new government outlined its development priorities and strategies in the NDP, largely codifying many of the assumptions of the earlier JAM and TFET policy frameworks. It had widespread bipartisan legitimacy: being built on consultations with some 38,000 citizens, drawing on three extensive baseline poverty surveys and being ratified by the new national parliament.

Purged of the bureaucratic ghosts of Suharto, the NDP would have a, 'lean, efficient, effective, accountable and transparent' civil service with professional security forces and a decentralised administration 'closer to the people' (National Planning Commission 2002: 21). Big government would be replaced by 'good governance', spread across civil society, the judiciary, business, and multi-party democracy, embracing human rights, transparency and accountability (National Planning Commission 2002: 30).

Its goals of poverty alleviation, economic growth and employment generation all rested on the private sector becoming the 'engine of growth'. Government would withdraw to only providing the private sector with an 'enabling environment': a healthy and educated work force, basic infrastructure, effective property rights and macro-economic stability (National Planning Commission 2002: 28-29). An open trading environment would be pursued with internationally competitive wages. The US dollar was adopted to promote low inflation, eliminate exchange rate uncertainty and reassure investors of the monetary credibility of an inexperienced government (National Planning Commission 2002: 73-75).

Such was the faith placed in this strategy that the government hoped that by 2007 some 40,000 jobs would be created in the private sector and 55,000 more jobs in agriculture,

representing 98.3 percent of all predicted job growth. The public sector by contrast would creep up from 10,505 to 12,200 (National Planning Commission 2002: 76).

The NDP also made it clear what the government would not do. It explicitly forbade itself from ‘regulating/ controlling prices, or trying to pick winners and providing subsidies/exemptions to particular business or industries’ (NDP 2002: 59). This minimalist government would not practice any sort of industrial policy familiar to Indonesia and most of Southeast Asia.<sup>10</sup>

### ***Calling the Shots or Shooting Blanks?***

These elements would not be new to those familiar with the Post-Washington Consensus or the Poverty Reduction Strategy Papers. Indeed it is difficult to see how the detailed descriptions of poverty and the ambitious goals for the future from the popular consultation influenced policy formulation at all.

For example, fundamental to Timor’s development is addressing agriculture, which employs three quarters of the workforce, most of whom are engaged in subsistence farming, with very low levels of productivity in a largely non-monetised economy (National Planning Commission 2002: 18). While the NDP expounded a commitment to ‘integrated rural development’ (National Planning Commission 2002: 20) to address this legacy, it is unclear what this meant beyond the policy orthodoxy sketched out earlier. There was instead an implicit assumption that liberalisation and macro-economic orthodoxy would promote ‘spatially neutral’ development (Lofchie 1997: 34).

Yet by the time the NDP was written, after two years of post-conflict reconstruction following such a formula, several worrying trends of internal disintegration were emerging.<sup>11</sup> Both the NDP and World Bank acknowledged the rapid urbanisation of Dili (National Planning Commission 2002: 18; World Bank 2002: iii) the ‘recent phenomenon’ of open unemployment, particularly bad among the youth (National Planning Commission 2002: 18; World Bank 2002: 18) and the uncompetitiveness of adopting the US dollar and the pressure this would place on wages and prices (National Planning Commission 2002: 61; World Bank 2002: 19). The World Bank also noted a deterioration of rural infrastructure (World Bank 2002: 21) and marketing (World Bank 2002: vi) in contrast to the Indonesia agricultural system. Of course, by only 2002 it would have been difficult to apportion blame for the above trends between the weight of history and the new development strategy. Yet neither the government nor the World Bank entertained the idea of any re-evaluation being necessary.

If the government was concerned about the development strategy it would have been almost impossible to deviate from it. Despite formal independence, its policy independence was slight. Bilateral and multilateral donors funded and monitored direct budgetary support to the government, and a range of other programmes. Indeed, government revenues only exceeded such external assistance once substantial oil revenues flowed in during the 2004/05 financial year;<sup>12</sup> and the link between donor funding and policy control was made very clear in a leaked US Congressional Memo (US Government 2002):

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<sup>10</sup> To be sure, the NDP did contain creative ideas for direct government involvement in poverty alleviation, but they tended to be wish lists from individual departments or sectors, promptly subordinated by the core strategy sketched out here.

<sup>11</sup> Expanded upon and analysed in part 3.3 below.

<sup>12</sup> Calculations taken from RDTL 2006.

‘Put bluntly, it seems likely that assistance levels will decline if East Timor government (sic) pursues economic or budgetary policies which were (sic) unacceptable to donors’

Accordingly, any government deviations from donor orthodoxy were symbolic rather than programmatic<sup>13</sup> As Tim Anderson documents, early government proposals for state-owned enterprises were derailed by donors (Anderson 2002). Yet irrespective of the government’s role in setting policy, the people of Timor-Leste would ultimately hold it, and not the donors, responsible.

### **Consequences of State Building**

In stark contrast to the optimism of the NDP, Dili has been in flames for much of 2006 and 2007. In early 2006, a large part of the army went on strike over long-standing allegations of regional discrimination. The armed forces were divided between the FALINTIL-era leadership who, by virtue of patterns of survival, came from the Eastern districts, and the younger recruits from the West. Failed attempts at resolving the strike saw some 596 soldiers sacked (out of a total military of 1,600), leading to waves of protest, the splintering of the security forces and gang-based violence. Consequently, an estimated 72,000 residents are in IDP camps. Another 80,000 residents have returned to the rural districts (Neupert and Lopes 2006: 9).

Continued protests forced Prime Minister Mari Alkatiri to resign on June 26, 2006, to be replaced by the non-aligned Foreign Affairs Minister Jose Ramos Horta. By the parliamentary elections of June 30, 2007, Fretilin received only 30 percent of the vote. They were replaced by a motley anti-Fretilin coalition with Gusmao at the helm, while the nation struggled with its profound post-independence disillusionment.

The political machinations, accusations and paranoia causing and sustaining the crisis are well documented (ICG 2006). This section instead focuses on the policy roots of economic stagnation leading to internal disintegration nationally and fuelling challenges to state authority on the streets of Dili.

### ***The Shock of the New***

Dili has exploded in size since independence. According to the 2004 census, its population grew from 100,715 people in 1999 to 173,541 by 2004 (out of a total population of 918,458), implying an astonishing annual average growth rate of 10.9 percent (Neupert and Lopes 2006: 26). Part of the influx was from returning refugees choosing to remain in the capital (Harrington 2007), and from Timor-Leste commencing a demographic transition, resulting in the highest fertility rate in the world (RDTL 2006: 5). But most significantly, it has been the ‘pull’ of Dili’s reconstruction boom and the ‘push’ of agrarian stagnation that has made rural-urban migration the biggest contributor to urban growth.

Dili became the centre of economic activity with the arrival of the international presence. A 2005 study of the economic impact of the peace-keeping operation concludes that 80 percent of the economic benefits of reconstruction have been concentrated in Dili. Of all the local jobs directly created by the UN presence, 65 percent were in Dili. Indirectly, the figure jumps to 80 percent (Carnahan et al. 2005: 28). Such trends would no doubt hold true for other

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<sup>13</sup> It built alliances with China, Malaysia and Cuba and decided not to borrow from the development banks: all moves to increase its political space.

aspects of the international presence. Indeed, by 2006, the government estimated that Dili contained half of all non-oil GDP (RDTL 2006: 7).

Yet such growth has been distributed highly unequally. The limited number of jobs typically went to the better educated and multi-lingual. The high property rentals have gone to those with access to land (Carnahan et al. 2005: iii; Harrington 2007). Of the \$1.75 billion spent by UNTAET and UNMISSET from December 1999 to June 2004 barely \$93 million, or 5 percent, stayed in the local economy. Of this, only \$23.2 million, or 1.3 percent, was spent on local wages (Carnahan et al. 2005: 20-21).

Local wages have quadrupled given the shortage of skilled local staff and rising costs of living in Dili (World Bank 2002: 17). Inflation ran at 140 percent in 1999 due to the massive destruction of infrastructure and transport, the halting of trade in 1999 and the abolition of the Indonesian system subsidising rice, sugar, cooking oil, milk, eggs, sweet soy sauce, flour, salt and noodles (Carnahan 2005: 27). In addition, the purchasing power of the international presence, wielding a strong US dollar, placed further upward pressure on prices. Although inflation has stabilised since, prices have not deflated, leaving Dili in the unenviable position of being the eighth most expensive city in Asia, ahead of Singapore and Beijing (International Herald Tribune, January 10, 2006), yet capital of the region's poorest country.<sup>14</sup>

For Timorese, the economic pain of independence has been palpable. Timor-Leste has the most expensive power generating system in Asia. Electricity costs \$0.20 per kilowatt hour compared to just \$0.05 per kilowatt hour in Indonesia, partially due to UNTAET's refusal to invest in long term infrastructure (Carnahan 2005: 37). With a strong emphasis on cost recovery, a typical household has been hit with a power bill of \$15 per month (which many refused to pay), a large increase on the few dollars charged under the Indonesians (Interview with Domingos Freitas, June 7, 2004). Telecommunications is likewise more expensive than across the border (Lundahl and Sjöholm 2006: 16). The rise of smuggling from West to East Timor also illustrates the extent of such price differentials. For example, smuggled petrol and kerosene is between a quarter and a fifth of the price in Timor-Leste (Kingsbury 2007b: 89). The comparison with Indonesia serves as a bitter reminder for Timorese of some of the economic benefits of occupation.

### ***The Failure of Private Sector Growth***

As the international presence began to wind down in 2002, it became clear that the private sector was not becoming the fated engine of economic growth. Private fixed capital formation declined from a peak of \$30.2 million in 2001 down to just \$7.5 million by 2005 (RDTL 2006: 22). One World Bank study noted 'severe limits on the capacity of the non-farm sector to offer wage employment', characterising the urban economy as dominated by 'stagnant and derivate' informal economic activity (Conroy 2006: 5-6). Total investment as a percentage of GDP also declined from 39.5 percent in 2001 to 21.1 percent by 2005 (RDTL 2006: 22). While GDP had partially recovered from the 1999 violence it declined by 6.7 percent in 2002 and 6.2 in 2003, levelling out thereafter (RDTL 2006: 2).

By 2004 unemployment in Dili was at 26.9 percent. For young men aged between 15 and 29 – the key participants of rural-urban migration – the figure was 43.4 percent with barely 28 percent of them obtaining formal sector employment (Neupert and Lopes 2006: 19).

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<sup>14</sup> On the UNDP's Human Development Index, Timor was 140 out of 177 countries (UNDP 2006: 11).

Additionally, 11,200 people entered the labour market in 2006 with the number project to rise to 15,500 by 2015 (RDTL 2006: 8).

There are clear structural reasons for this quagmire. Firstly, the legacy of high wages and prices made business start-up costs 30 percent higher and operating costs 50 percent higher than the regional competition according to the estimates of the Ministry of Development and Environment (Interview with Jose Goncalves, June 12, 2004). Consequently, labour-intensive value-adding production has not materialised. Indeed, in 2004 an estimated 40 percent of the national coffee crop – the nation’s export ‘flagship’ – was smuggled out of the country for processing in Indonesia in the face of high labour costs (Far Eastern Economic Review, March 11, 2004). Further, modest attempts at upgrading in poultry production were thwarted as the import of cheaper Brazilian chickens forced a factory on the outskirts of Dili to close up after only a few months (Moxham 2004).

A rigid exchange rate regime did nothing to ease the pain. By using the US dollar, the Timorese economy was hardwired into a strong currency (especially in 2002) leaving the government without the exchange rate flexibility to adjust to external economic shocks or downturns. Rather than implement a devaluation to stimulate competitiveness, the only option for the government would be to cut wages, a painful, and piecemeal process (Sachs and Larrain 1999) that usually leaves a legacy of ‘severe recessions, high unemployment and social misery’ (Chang and Gabel 2004: 175).

External integration was not giving Dili labour-intensive growth but petty traders, a contracting services industry, and as James Scambary (2006: 4) documents, an estimated 300 youth groups responding to the deprivations of independence by engaging in everything from community improvement to gambling, extortion and border smuggling rackets.

### ***The Agrarian Roots of Crisis***

Perhaps the greatest force pushing people to the city (and the nation to the brink) has been the intensification of the periodic waves of hunger gripping the country from November to March each year (Moxham 2005). A recent Food and Agriculture Organisation (FAO) and World Food Programme (WFP) investigation into chronic food insecurity in early 2007 blames profound market failure. They conclude that limited marketing infrastructure and the lack of effective demand from either a non-monetised rural economy or impoverished urban dwellers, has seen agricultural production retreat into subsistence. Maize, the dominant staple, is barely traded across the country (FAO and WFP 2007: 13). The domestic rice trade is also very localised (Oxfam 2004: 17). The consequence has been a profound disconnection between city and country: during lean times farmers have lacked the purchasing power to get imported rice (WFP 2006: 12), while urban dwellers have not been relying on the rural sector as a safety net (Neupert and Lopes 2006: 15).

While those in rural areas have gone hungry, those in Dili have rioted. In early 2007, rice prices shot up from \$12 for a 38 kilo sack to \$18 by October 2006 and peaking at \$30 in early February 2007, due to importers nervous about continued violence in the capital and an international shortage. The consequence has been the looting of government warehouses in Dili, panicked rice buying by the government and conspiracy theories levelled at political parties of all stripes (Kammen and Hayati 2007).

This bleak picture, compounded by El Niño, has policy origins in the total collapse of Indonesian-era marketing infrastructure. Then, a village level co-operative network would



supply credit, subsidised inputs like fertiliser and an extension officer. Rice was sold for a guaranteed floor price and transported by a tertiary road network of some 3,000 km by the state logistics agency, BULOG (Oxfam 2004: 15).

With independence and a commitment to the free market the agricultural extension system for most farmers is now 'non-existent' (Oxfam 2004: 14). The tertiary road network is no longer systematically maintained. Nearly all inputs are more expensive and supplied very sporadically (Oxfam 2004: 7). Credit is either difficult to access (FAO and WFP 2007: 12) or issued at very high rates (Anderson 2003). Information about prices and training is limited (Oxfam 2004: 17). The consequent migration of young men to the towns has generated rural labour shortages (FAO and WFP 2007: 13). There is no longer a guaranteed floor price but an open market where larger, more efficient and often subsidised producers from Thailand, Vietnam and the United States have undercut local production. With low priced imports and little viable marketing infrastructure farmers have little incentive to produce surplus, limiting their own purchasing power, and retarding rural growth.

The responsible government department was in a state of self-described 'institutional crisis' (MAFF 2004: 25). In a draft policy document, the Ministry of Agriculture Fisheries and Forestry (MAFF) signalled a desire to abandon the previous strategy of relying on the 'uncoordinated', 'piecemeal' and 'inadequate' efforts of NGOs, donors and the private sector. It lamented its confused mandate, being under funded and understaffed. It received only 2.1 percent of total government expenditure despite agriculture contributing 26 percent of GDP that year (MAFF 2004: 4).

The government's key department for the alleviation of poverty and integrated rural development was barely able to reach outside the nation's capital. Prior to independence each of the country's 442 villages (or '*sucos*') had at least one extension officer (Oxfam 2004: 15). After independence, 75 percent of MAFF's 167 staff were located in Dili (MAFF 2004: 25). The pattern is not restricted to MAFF. As the UNDP calculated, 'only one-third of total public expenditure and one-fifth of goods and services' were going to the districts (UNDP 2006: 4). More generally, writer Paul Clearly (Wall Street Journal, May 23, 2007) observes 'a palpable dearth of government activity throughout the country'.

### *Crisis of Legitimacy*

It is difficult to reconcile this picture with a Fretilin party who, in 1975, proclaimed with anti-colonial fervour: 'we are a country of peasants and farmers, but our people are hungry (Hill 2002: 85). Of course Fretilin is nothing like the Marxist-Leninist group it proclaimed itself to be in 1977. Various explanations for this bleak state have been offered: Cleary (2007) blames governmental torpor; the Bretton Woods institutions highlight government inexperience and the slow pace of legislating for an 'enabling environment' (World Bank 2006); but this analysis strongly emphasises the donor-prescribed dimensions of the crisis.

Irrespective of the government's culpability for the economic crisis, it is perceived by Timorese as being responsible for it. Urban youth are particularly critical of the Fretilin government and its failure to provide jobs (New Matilda, April 25, 2007). Typical rural angst is conveyed by anthropologist Andrew McWilliam's study of the remote seaport of Com in Los Palos district. There, Indonesian rule was characterised by 'prosperity and persecution', but post-independence has seen the region economically decline as inter-island trade, resources and marketing have dried up. The local community sees the new government as 'long on rhetoric and short on practical assistance' (McWilliam 2007: 25-26). A survey in

2002 revealed Timorese to be happy with the political benefits of independence but lamented the economic deterioration of their circumstances (World Bank 2002: 17). By 2006, even these perceived politics benefits were deteriorating.

### *Anatomy of State Failure*

A confluence of popular discontent, economic stagnation and the loss of control of force created a profound crisis on the streets of Dili in early 2006 that persists to this day. What is remarkable about the present violence is that it is organised at the grassroots around the regional identities of those from the Eastern districts ('Lorosa'e' or 'Firaku') versus those from the West ('Loromonu' or 'Kaladi') (ICG 2006: 16). Markets and neighbourhoods are divided along these categories (ICG 2006: 6) despite their conceptual weakness – each encompasses multiple languages, regional groups and traditions – and historic vagueness.<sup>15</sup>

Yet unpacking the key elements of state failure explains the emergence of these categories. Firstly, the collapse of the state's monopoly on violence is the most proximate cause for the crisis. Early warnings about the dangers of increasing politicisation of different factions of the armed forces and the alienation of former guerrilla fighters were accurate (Rees 2003). The divisions are not just between the military leadership from the East and the newer recruits from the West. There were similar tensions between the army and a police force partially drawn from the old Indonesian police. Rogerio Lobato, the Minister of Interior Administration, a force unto himself, also created several well-armed policing units loyal to him (ICG 2006: 6). Amidst this, the Fretilin leadership had few armed allies. For reasons that deserve further analysis, it was unable to placate and control these competing groups and the internal fractures under the pressure of Indonesian occupation.

Other scholars point to a series of government blunders that increasingly isolated it (Simonsen 2006; Kingsbury 2007a; Borgerhoff 2006). For example, it toppled its own tower of Babel by choosing Portuguese as the key language of government. The choice clogged up the administration and alienated the generation educated under Indonesian rule. By the time the government alienated the church by proposing to remove religion from the school curriculum in 2005, it had inadvertently made a generic anti-government block of unlikely bed fellows including former guerrillas, the church and young generation political parties such as *Partido Democratico* (PD), with even the US government providing portaloos at protests. When the army 'petitioners' were fired, the streets were full of anti-government sentiment (New Matilda, April 25, 2007).

However, such government-driven political alienation does not explain the depth, persistence or spatial distribution of the violence. Gangs grew in the documented backdrop of inequality and the high numbers of unemployed young men, mostly from the countryside (Neupert and Lopes 2006: 19). Many gangs had links with ex-guerrillas or key political players (Scambray 2006: 6), meaning that violence was not monopolised but decentralised.

The pseudo-ethnic basis of mobilisation emerged for a multitude of reasons. Firstly, the urban setting initially gave salience to the distinction back in World War Two, when merchants from the East clashed with those from the West over 'controlling transactions in the local market' (Babo Soares 2003: 268). Such competition over resources was greatly heightened

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<sup>15</sup> A very rough indication of the later is that there is not one mention of either group in the index of Geoffrey Gunn's fairly comprehensive 500-year history of East Timor (1999).

after independence. Most in-migration was from the East, which, by virtue of circumstance, claimed most of the key housing stock during 1999 (Harrington 2007), a precious commodity in an overpopulated town. Survival strategies began to invoke regional identity, especially among larger gangs which clashed over market space and housing (Scambary 2006: 4).

The rivalry does have some historical basis and this was played upon by elites. Niner (2007: 113), for example, traces the distinction back to the early-twentieth century when the Portuguese co-opted 'easterners' to assist in suppressing an uprising of 'westerners'. Today groups from the East have antagonised those from the West with claims of 'winning the war', accusing the West of acquiescence and collaboration (McWilliam 2006). The regional tensions within the armed forces and police and their links to gangs, only inflamed matters. Appeals for organising violence, expressed in these identity-based terms, appealed to those seeking protection and status (Putzel 2004).

The causes of conflict are predominantly spatial and structural, rather than historical. As the concentration of violence in the capital shows, such categories exist only when in opposition to each other: it takes the city and the disintegration it houses for such categories to emerge. They are mobilising bases of social protection, status and accumulation in desperate times, as constructivist theories of ethnicity would predict (Giley 2004: 1159).

While the basis of identification may be fragile, that only underlines the even greater frailty of Timorese nationalism, as many seek protection and status outside the nation. As one young man said on the streets of Dili during the recent rice riot, 'someone might have been a hero during the struggle for independence, but today he can be a traitor' (Kammen and Hayati 2007).

## **Conclusion and Discussion**

This paper has sought to understand the outbreak of urban violence and state crisis in Timor-Leste by developing and applying a more robust theory of state-making. As outlined here, state-making consists of long, inter-related processes of building political legitimacy, guaranteeing economic growth and controlling the means of violence. By introducing the city into this framework of state-making, this paper attempts to reveal how these processes are acutely spatial, and for the post-conflict city, often embedded within it. Beyond simply sustaining such processes, the challenge of state-making is to extend them beyond the city, to internally integrate the entire national territory. Applying this framework, the core argument of this paper is that the model of state building pursued since 1999 was profoundly flawed, leading to the reverse of this process: the internal disintegration of Timor-Leste.

Following the violent departure of the Indonesian occupiers in 1999, Dili – as the home of reconstruction activity – predictably became a political and economic magnet. Yet rather than these state-making functions being transferred to build markets, engage citizens and extend the state across Timor-Leste, Dili was wedded to a counter-productive model of external integration. An open economy and commitment to the US dollar placed it in lockstep with the global economy, while policies of small government, macro-economic conservatism and private sector growth strategies were entrenched through donor funding and conditionality. Yet this model, implemented on a landscape of barely extant markets, ruined infrastructure and a polity united more by opposition to a brutal occupier than any programmatic vision of the nation, caused Timor-Leste to violently fragment.

Nowhere was this unravelling more evident than in agriculture. The commitment to lean government created an administration barely able to serve its rural constituents, while the removal of state marketing infrastructure in agriculture and a deregulated economy only stimulated a retreat into subsistence farming. The parlous state of agriculture spurred runaway urbanisation in Dili. State-building in Timor-Leste was not 'spatially neutral', as theories of economic liberalisation might predict, but turned Dili into a precarious city-state, increasingly economically, politically and psychologically isolated from the rest of the country.

With the profound failure of markets to take root, the dust that settled after Dili's reconstruction boom seemed to be all that remained. Those seeking opportunity in Dili were increasingly faced with acutely unequal and stagnant employment markets, a housing squeeze, unaffordable basic commodities and exposure to the volatile global rice market. Widespread discontent, and for some criminal strategies of accumulation, prevailed on the streets of Dili, only widening the social divisions reaching back into the period of Indonesian occupation. Eventually urban gang violence, mobilised largely around regional identity given salience by the shrinking and contested spaces of the city, prevailed in profoundly anti-state terms.

This analysis seeks to complement other interpretations of the crisis but also to deepen them. For example, other commentators more strongly emphasise the politicisation and collapse of the security forces as the key contributing factor. Indeed, if the government was able to placate dissent within its military ranks, Prime Minister Alkatiri might still be in power. However, within the framework of state-making advanced here, this violence should be understood as a sign of the state failing to address economic deprivation, social discontent and ultimately to rein in competing systems of authority, many stemming from the era of Indonesian occupation. Within this deeper crisis of legitimacy continued government control over the security forces would have been increasingly difficult, lurching toward unsustainable authoritarianism at best.

Violence within this framework is therefore something to be tamed or co-opted as part of a larger process of state-making and internal integration – practically, through engaging and empowering those isolated social groups. Understood this way, violence cannot be reduced to the irrational or cultural or to something capable of being weeded out in the classroom, as Damien Kingsbury implies when stating: 'the East Timorese have to learn that only official state institutions can legitimately employ violence' (Kingsbury 2007a: 26).

Another counter argument would be that the Fretilin government was responsible for its own plight by alienating too many political groups and classes. For example, the adoption of Portuguese by the government as its official language alienated the youth educated under Indonesian rule. Indeed, this was a serious policy blunder, but no choice of official language would satisfy all in a nation of regional and inter-generational linguistic diversity. This is the dilemma that has confronted nearly every post-colonial state. Instead, whatever the language chosen, the Timorese state needed a language policy that prioritised access between state and citizen – through comprehensive transitional and educational arrangements – rather than caused alienation.

Further, such government blunders need to be understood within what has been strikingly ignored in general analysis: economic failure and its policy roots. It was within an economically stagnant urban setting with high youth unemployment that most political issues turned into ones that threatened to topple the government. Indeed, it is not every state that

faces the wrath of destabilising clergy-led protests just because they propose a secular curriculum.

The policy roots of economic failure, as advanced by this analysis, would no doubt be strongly contested by the Bretton Woods institutions and other donors on two grounds.

Firstly, they would argue that economic failure was due to the inability of government to implement the right legislative ‘enabling environment’ for private sector growth. Yet for Timor-Leste, with its scars of occupation and underdevelopment, markets and capitalism will not bloom like flowers in the desert after rain. They must be actively built, not discouraged by the harsh economic environment imposed by external integration.

Secondly, donors would argue that their state-building model needed more time and resources to get the job done, especially given Timor-Leste’s underdevelopment. Unless there was a change in policy, it seems very unlikely. What is remarkable about the involvement of the World Bank and the IMF is that they repeatedly identified the early symptoms of crisis – over-urbanisation, an exchange-rate straight jacket, lack of government capacity, and the failure of the private sector to develop – but refused to shift. This paper has attempted to show that such early symptoms of crisis were caused or exacerbated by their policy prescriptions. Instead, the Bretton Woods institutions engaged in the same discursively-driven institutional amnesia best documented in James Ferguson’s *Anti-Politics Machine* (1994).

Could any state-building programme have succeeded given Timor-Leste’s legacy of underdevelopment and division? Neupert and Lopes’ (2006) otherwise excellent contribution on the demographic dimension of Dili’s crisis implies such fatalism. However, possible remedies emerge from the diagnosis of the crisis presented here: that given the pre-existing political economy of Timor-Leste, the predictable threat of concentrated urban growth and the fragility of political engagement with the state, state building that attempted to internally integrate, economic, political and security processes across the urban-rural divide would have had a stronger chance of success.

To take just one example: comprehensive state-coordinated labour-intensive projects to build rural infrastructure would have improved agricultural marketing, injected cash into the rural economy, provide vital off-farm employment, slowed urbanisation and restored some rural faith in the state and the idea of the nation. Additionally, supporting under-funded Timorese initiatives for enhancing local food security and productivity would be an excellent way of filling stomachs and engaging the rural population (Moxham 2005). Both ideas could be funded out of reconstruction petty cash.

Would such policies have been politically feasible? Ironically, such was the parlous state of Timor-Leste in 2006 that they were not only feasible but being belatedly rolled out by then Prime Minister Jose Ramos Horta (Kingsbury 2007a). Even the IMF and World Bank were forced to concede that massive public investment is needed in Timor-Leste. They are now marginalised and left fretting over how this can be done without aggravating their theoretical bugbear: inflation (IMF 2007).

Such projects would be part of an explicit process of engaging and empowering key Timorese social groups and movements – farmers, students, clandestine, guerrilla and returned diaspora – in a dynamic relationship with the state that expanded their developmental freedoms and the confidence in and relevance of the state. Internal integration understood this was – as a dialectical engagement between state and subject – moves beyond the more bloodless

political economy of state-making where the expansion of economic growth and security trumps all else. Indeed, Timor-Leste's tragic experience with Suharto-era state-making serves as a cautionary tale against the extremes of pursuing integration down the barrel of a gun. This paper has also emphasised the other extreme: the donor-driven emaciation of the state and consequent fragmentation of the nation and the city. If it is able to walk the line between these extremes, Timor-Leste might finally take the 'conflict' out of its 'post-conflict'.

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## Abbreviations

ADB	Asian Development Bank
CAVR*	Commission for Reception, Truth and Reconciliation
FALINTIL*	National Liberation Armed Forces of Timor-Leste
FAO	Food and Agriculture Organisation
Fretilin*	Revolutionary Front for an Independent Timor-Leste
IMF	International Monetary Fund
JAM	Joint Assessment Mission
MAFF	Ministry of Agriculture, Fishery and Forestry
NDP	National Development Plan
PD*	Democratic Party
RDTL*	Democratic Republic of Timor-Leste
TFET	Trust Fund for East Timor
TSP	Transitional Support Program
UDT*	Democratic Union of Timorese
UNDP	United Nations Development Programme
UNMISSET	United Nations Mission in East Timor
UNTAET	United Nations Transitional Administration in East Timor
WFP	World Food Programme

(\* ) Portuguese Abbreviation

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