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# Avoiding the Political Resource Curse: Evidence from a Most-Likely Case

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## Abstract

Why do some countries escape the political resource curse while others do not? Most scholars argue that avoiding the claimed anti-democratic effects of natural resources, especially oil, largely depends on the quality of pre-existing political institutions and/or the effectiveness of contemporary resource management institutions. Drawing on the most-likely case of Timor-Leste, one of the world's most oil-dependent countries that nevertheless successfully consolidated democracy, we challenge these dominant theories and highlight new important factors to consider. We show that Timor-Leste did not avoid the curse because of good pre-existing political institutions, good natural resource governance institutions, or an otherwise favorable environment for democracy. Instead, we find that the ideological beliefs of major political actors, their strong popular legitimacy, the absence of a hegemonic actor among them, as well as the approaches of external actors, have produced a consolidated democracy despite strong incentives for the development of authoritarianism. These findings highlight the importance of ideology and agency, of the composition of independence movements, and of constructive international engagement, in particular at critical historical junctures. In short, even countries facing serious political and economic challenges can avoid the political resource curse, and both scholars and policymakers should consider a broader approach to the phenomenon.

**Keywords** Resource curse · Political resource curse · Oil · Democracy · Democratization · Resource management · Institutions · Post-colonial · Post-conflict · Timor-Leste

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## Introduction

On its face, oil wealth should be a boon for democratization. Resource wealth gives states the funds necessary to support inclusive economic development, build state capacity, and avoid particularly harsh distributional choices. Yet, oil wealth has usually been linked to *less*, not more democracy, seemingly confirming long-standing hypotheses about the existence of a so-called “political resource curse” (Prichard et al. 2018; Ross 2015).

But why do some countries seem to escape this curse while others do not? Scholars studying the resource curse in both its political and economic forms—the latter stipulates that natural resource wealth produces slower economic growth—broadly agree that avoiding the curse largely depends on the quality of pre-existing governance institutions and/or the establishment of effective resource management institutions in the present (Adams et al. 2019; Amundsen 2014; Badeeb et al. 2017; Khanna 2017; Masi and Ricciuti 2019; Mehlum et al. 2006; Papyrakis 2017; Prichard et al. 2018; Robinson et al. 2006; Tornell and Lane 1999; Torvik 2009; van der Ploeg 2011). Specifically, Amundsen contends: “A country will be cursed when the discovery of oil or diamonds, for instance, is made before accountable and democratic state institutions are established and consolidated” (2014, 171). Similarly, governments with “good” institutions to manage oil wealth are said to be more likely to avoid the curse. These include private ownership of the oil industry or the creation of effective, accountable, but politically insulated sovereign wealth funds (Dixon and Monk 2011; Luong and Weinthal 2006, 2010).

Timor-Leste is one of the most oil-dependent countries on Earth. Yet, it has successfully consolidated democratic government. How did this poor, extreme rentier state avoid the political resource curse? Our study of this most-likely case reveals that dominant institutionalist explanations are inadequate. We show that Timor-Leste did *not* avoid the political resource curse because of good pre-existing institutions, good natural resource governance institutions, or a favorable environment for democracy. Instead, we argue that the ideological commitment of main political parties to democracy, the legitimacy of those parties, the lack of a hegemonic actor among them, and the approaches of external actors have supported the creation and consolidation of democratic institutions and counteracted the strong incentives for authoritarian rule to develop in Timor-Leste.

These findings have important implications for understanding the political resource curse and the governance of natural resource wealth in general, but especially in states facing serious developmental challenges, post-conflict settings or a combination thereof. These dynamics are commonplace in resource-dependent countries of the Global South that are most likely to be acutely impacted by the political resource curse rather than wealthy, Global North states such as Norway which have received far more attention both independently and in relation to other resource-rich countries (Listhaug 2005; Holden 2013; Onditi 2019). The case of Timor-Leste challenges the predominant explanations which emphasize the importance of certain institutions but often tell us little about why, or why not, political actors choose to establish, modify, or disregard them (Rosser 2006b). Our findings highlight the importance of ideas and agency of political actors at critical historical

junctures in determining the success of a country's democratic development in rentier, post-conflict contexts. In addition, this article provides further evidence of how the political composition of liberation movements impacts post-independence governance by their successor parties (Dorman 2006; Melber 2015, 2019; Müller 2012). From a policy perspective, our research suggests that external actors can support the democratization process in adverse contexts of resource wealth and post-conflict reconstruction but should avoid “picking winners” or otherwise undermining democratic competition. Good pre-existing political institutions and good natural resource governance, while not detrimental, paradoxically also do not appear to be crucial. Timor-Leste successfully democratized without either.

This article first discusses existing literature on the resource curse and how countries can escape it. After discussing our research design and methodology, we then test how well they explain the case of Timor-Leste in comparison to the hypotheses we put forward. Lastly, we conclude.

## Literature Review

Vast scholarship has sought to determine whether natural resource abundance or dependence has a negative impact on the following: (1) levels of democracy; (2) conflict; and (3) economic performance. The first two are often subsumed under the label the “political resource curse” while the latter is dubbed the “economic resource curse” (Tsui 2010; Wiens et al. 2014). We focus here on the political resource curse,<sup>1</sup> more specifically, the relationship between oil wealth and levels of democracy.<sup>2 3</sup>

The political resource curse proposes that natural resource abundance or dependence is linked to authoritarianism “by disconnecting governments from their citizens, supporting the expansion of corruption, patronage, and repression, and increasing the risk of conflict” (Prichard et al. 2018, 296; Ross 2015). Scholars have long debated whether the curse is “real” or perhaps just a spurious finding caused by poor data and methodological flaws (Smith and Waldner 2021). When it comes to the relationship between oil and levels of democracy, findings have long supported the existence of a political resource curse (Aslaksen 2010; Jensen and Wantchekon 2004; Ross 2001; Rosser 2006a; González 2018) but not universally so (Cotet and Tsui 2013; Haber and Menaldo 2011; van der Ploeg 2011; Herb 2005; Dunning 2008; Smith and Waldner 2021).<sup>4</sup>

<sup>1</sup> On the economic resource curse, see Badeeb et al. (2017). On the political resource curse beyond its relationship to democracy (i.e., conflict, poor governance, etc.), see Ross (2015).

<sup>2</sup> Subsequent references to the political resource curse, therefore, denote the effect of natural resource wealth on levels of democracy.

<sup>3</sup> While not our primary focus, it is notable that Timor-Leste has not experienced significant conflict or political violence since 2006.

<sup>4</sup> Dunning goes even further arguing that under situations of high inequality and relatively low resource dependence, resource rents may support democratization (Dunning 2008). These scope conditions, however, do not apply to Timor-Leste. According to the most recent World Bank data for Timor-Leste from 2014, it had a Gini Score of 28.7, which makes it the world's 19<sup>th</sup> *least* unequal country (World Bank n.d.). With oil accounting on average for 40% of annual GDP since 2001, it is one of the planet's *most* oil dependent states.

Recently, Prichard et al. (2018) reassessed the debate with improved data and extensive robustness checks to address earlier methodological critiques (Andersen and Ross 2014; Haber and Menaldo 2011; Wiens et al. 2014). They concluded a political resource curse exists and is primarily driven by oil, because turning that commodity into government revenues is particularly easy (Prichard et al. 2018). They also find empirical support for the theoretical mechanisms linking oil and lower levels of democracy as posited by the rentier state literature, such as patronage, higher security spending, and opportunities for illicit enrichment (Prichard et al. 2018; Ross 2001, 2015; González 2018; Greene 2010; Ross 2012). Smith and Waldner (2021), however, remain skeptical of a universal political resource curse and argue that the effects of oil vary considerably.

Despite ongoing debates, scholars agree that some countries are democratic despite the presence of significant oil resources and have sought to understand why. Answering this question is of great significance because it allows us to gauge whether the factors driving it are amenable to change—and can therefore be shaped through policy—or if they are more structural and difficult to address (Rosser 2006b).

Most research emphasizes that avoiding the political resource curse depends on institutions. Two main arguments have been posited. The first contends that the quality of pre-existing institutions strongly influences the probability of avoiding the curse (Boutillier 2017; Luong and Weinthal 2010; Mehlum et al. 2006; Robinson et al. 2006; Tornell and Lane 1999). Famously, in Norway, “good” or “strong” institutions were consolidated before oil was discovered. As a result, it did not become more authoritarian.

Scholars have defined “good” institutions in various ways. Some studies largely equate “good” or “strong” with “democratic” and have found that *ex ante* democratic countries are less likely to experience the political resource curse (Amundsen 2014; Arezki and Gylfason 2013; Karl 1997; Masi and Ricciuti 2019; Prichard et al. 2018; Wright and Czelusta 2007). Operationalizing strong pre-existing institutions as “democracy” is therefore conceptually clear and empirical evidence supports democracy’s ability to “immunize” countries from the curse. However, several other definitions of strong institutions exist: institutional quality, secure property rights, the rule of law, levels of corruption, bureaucratic effectiveness, good governance, budgetary transparency, the political system, political inclusiveness, or the legal and regulatory climate have all been put forward to explain why some countries are more or less affected (Adams et al. 2019; Barma 2014; El Anshasy et al. 2013; Onditi 2019; Papyrakis 2017).

A second major institutionalist theory on avoiding the political resource curse holds that some countries set up effective, well-designed natural resource governance institutions once, or while, resource extraction has begun. Such institutions seek to politically insulate the management of resource rents (Hertog 2010; Goes 2022) to prevent the easy capture of resource rents, patronage, illicit enrichment, and unaccountable government spending that has been pinpointed as a key mechanism of the political resource curse (Greene 2010). Compared to arguments about “pre-existing institutions,” the literature is generally more precise and micro-level

focused in its conceptualization and operationalization. However, empirical findings have been much less conclusive.

For example, the Extractives Industries Transparency Initiative (EITI), designed to ensure that governments are less able to exploit opacity within the extractives sector to allocate natural resource revenue arbitrarily, has not led to better political or economic outcomes (Sovacool et al. 2016). Sovereign wealth funds have also been proposed as a means to make natural resource wealth spending more transparent, sustainable, and strategic, and therefore achieve better governance outcomes (Tsani 2015). But research suggests these funds are no panacea and that they “may work only when they are not needed,” because their success is, again, said to be largely driven by the quality of pre-existing institutions (Davis et al. 2001, 59).

Other scholars argue that reducing the potential misuse of oil wealth requires private ownership of the oil industry to incentivize the building of strong fiscal and regulatory institutions that benefit a country’s economic and political development (Luong and Weinthal 2006). Lall (2017) suggests that the political resource curse has existed only since petroleum industries were nationalized in the 1970s, with more problematic data, however, than that used by Prichard et al. (2018). It seems intuitive that discretionary spending of oil wealth by political elites would be higher with a nationalized oil industry. But depending on the size of the oil industry, taxation revenues, and overall budget transparency, politicians and other state officials can also control large resource rents in a private ownership system.

In sum, existing literature emphasizes that countries have the best chances of escaping the political curse if (a) they were already democratic or had a capable, effective, and honest state apparatus before oil was discovered, and/or if (b) if they have established effective, accountable, transparent, and technocratic natural resource governance institutions.

Despite their undeniable contributions, two main problems exist with these currently dominant theories. First, emphasizing the role of pre-existing or resource management institutions often provides excessively structuralist answers that usually do not explain why, and under what conditions, politicians choose, set up, create, modify, or replace these institutions in the first place (Rosser 2006b).

And second, the literature tends to overlook contexts, like Timor-Leste, where there are no real “pre-existing” institutions in a strict sense, because the states were created after the discovery of natural resource wealth. Scholars have not yet explained why some countries successfully escape the political resource curse when institutions are designed, built, and shaped with full knowledge of significant oil wealth. If we assume that actors act rationally and self-interestedly, it becomes even more puzzling why leaders would sometimes support democracy and good governance when they could pursue authoritarian-kleptocratic rule instead (Rosser 2006b).

Despite extensive scholarship, important questions therefore remain. When past political and present resource management institutions cannot adequately explain the avoidance of the political resource curse, what does? And, to the extent that some institutions do matter, why, and under which political and historical circumstances, do politicians choose to set up the “right” institutions?

## Research Design, Hypotheses, and Methods

### Research Design

To answer these questions, we carried out a study of a most-likely crucial case, namely Timor-Leste from independence in 2002 through to the parliamentary elections in May 2023. Most-/least-likely cases have been identified as key ways to design case study research (Eckstein 1975; Gerring and Cojocaru 2016; Levy 2008). Here, we follow the logic of most-likely “crucial cases” that are extremely useful for theory testing (Eckstein 1975; Gerring 2007; Levy 2008). The logic underlying most-likely cases is that in instances where a theory strongly predicts a certain outcome (based on one or more variables), finding evidence disconfirming the theory creates problems for its (general) validity. In other words, when a “hypothesized relationship between X and Y does not hold even though background factors (Z) predict that it should,” it suggests that the theory is flawed, or at the very least not applicable to this particular case (Gerring and Cojocaru 2016, 405). Conversely, a least-likely case is a case where the hypothesized relationship holds even though background factors predict that it should not.

The case of Timor-Leste actually contributes to both “theory testing” and “theory development” (George and Bennett 2005, 109–24). We first test three prominent theories for political curse avoidance. Their inability to explain the Timorese case then led us to engage in theory building of how states can avoid or mitigate the resource curse. These findings are tentative and draw on a single case, but nonetheless suggest important new avenues for understanding how states can escape the political resource curse.

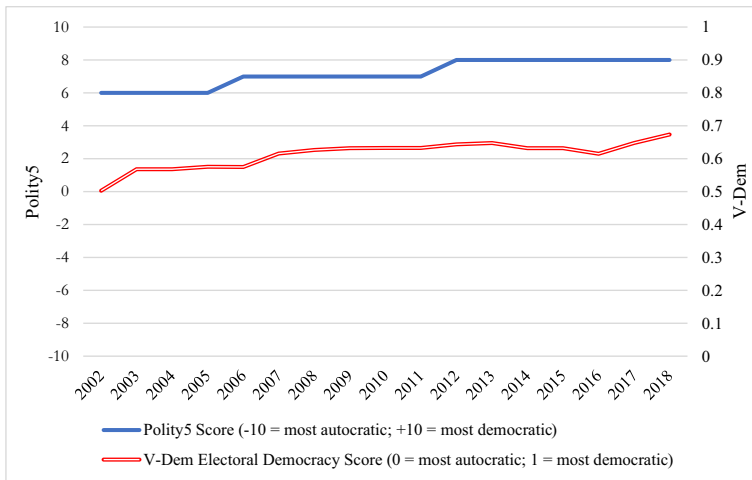
Why does Timor-Leste constitute a particularly most-likely case for the political resource curse? First and foremost, since its independence, the country has been one of the most oil-dependent states on Earth. Since 2001, oil revenue accounted for 40% of the annual gross domestic product (GDP) on average (UNU-WIDER 2022). Between 2008 and 2022, withdrawals from the country’s petroleum fund amounted to an average of 85% of state expenditures.<sup>5</sup> Second, Timor-Leste displays many traits associated with the *economic* resource curse. Its economy lacks diversification and the share of the manufacturing and services sectors in the GDP has fallen since independence (John et al. 2020). Non-oil sector growth rates have been high, but this almost entirely reflects increased government spending. Growth approached zero in years when state spending growth stopped (Scheiner 2015). Third, Timor-Leste did not possess an environment favorable to the advent or maintenance of democracy and experienced significant post-independence violence. In sum, if oil should inhibit democratization somewhere, we should expect it to be here.

And yet, Timor-Leste is a vibrant, liberal democracy where free, fair, and competitive parliamentary and presidential elections have been the norm.<sup>6</sup> As Fig. 1 shows, the country’s Polity5 score was 6 at independence (2002–2005) before

<sup>5</sup> Ministry of Finance of Timor-Leste’s Budget Transparency Portal (<http://www.budgettransparency.gov.tl/public/index?&lang=en>)

<sup>6</sup> Parliamentary elections have occurred in 2001, 2007, 2012, 2017, 2018, and 2023. Presidential elections have been held every 5 years since 2002.





**Fig. 1** Levels of democracy in Timor-Leste (2002–2018). Source: Polity5 (Marshall and Gurr 2020) and V-Dem (Coppedge et al. 2022)

quickly increasing to 7 in 2006 and then 8 in 2012. Since 2005, Freedom House has consistently given Timor-Leste 11 out of 12 points for its “electoral process” measure (Teorell et al. 2022). Their latest report also highlighted that in Timor-Leste the freedoms of the press, of speech, assembly, and association are generally respected (Freedom House 2023b). Its V-Dem electoral democracy score is somewhat lower but has been steadily increasing to reach almost 0.7 in 2021. In addition to its good performance in democracy indices, Timor-Leste also passes Samuel Huntington’s famous “two-turnover test” of democratic consolidation with peaceful transfers of power having occurred between rival political parties after elections in 2007, 2017, 2018, and 2023 (Huntington 1991).<sup>7</sup>

## Theory and Hypotheses

Why did Timor-Leste escape the political resource curse, more specifically the anti-democratic effect, of oil wealth? Based on the scholarship discussed above, we can formulate hypotheses attributing the absence of anti-democratic effects to the quality of pre-oil discovery political institutions and to contemporary natural resource governance institutions respectively:

- Hypothesis H1: *Timor-Leste had “good” pre-existing political institutions.*
- Hypothesis H2: *Timor-Leste has effective natural resource governance institutions.*

<sup>7</sup> There was another transfer of power between the two major parties in 2020. This, however, happened without an election. After the CNRT-led coalition that won the 2018 election collapsed it was immediately replaced by a new coalition government between Fretilin and the CNRT’s former allies.

Alternatively, it could be argued that Timor-Leste possessed an environment favorable to establishing a stable democracy. In the rich literature on democracy and democratization, such a favorable environment has been linked to several structural factors, including high levels of economic development, robust economic growth, a high capacity state, a strong bourgeoisie or a strong working class, high rates of education and literacy, absence of violent conflict, high levels of urbanization, low inequality, a history of democracy and a democratic regional “neighborhood,” ethnic homogeneity, British colonial heritage, or the absence of Catholic or Muslim population majorities (Geddes 2011; Masoud and Mainwaring 2022). A third hypothesis we would, therefore, like to test is:

- Hypothesis H3: *Timor-Leste had a favorable environment for democracy.*

After critically analyzing these three hypotheses, we find they do not explain the existence and perseverance of democracy in Timor-Leste. Thus, we engage in theory building and propose four key reasons why Timor-Leste escaped the political resource curse.

We believe scholarship on the political resource curse has not sufficiently taken into account more agency-based theories of democratization (Grugel and Bishop 2013). Existing explanations are largely structuralist, focused on pre-existing institutions or resource management arrangements, and tend to neglect the role of ideas and of the agency of various key actors at critical historical junctures. Such junctures include independence, when new political institutions are being created, or major political crises when opportunities for political reconfigurations emerge. In the specific context of Timor-Leste, we identify three critical junctures: independence in 2002, the 2006 crisis, and the 2017 parliamentary elections.

The extent to which leaders are ideologically committed to democracy, in particular at key historical junctures like the birth of a country, plays an important role in building and consolidating democratic government (Tudor 2013). Many post-colonial countries rapidly descended into autocracy (Lyons 2016a). In several cases, such as in Nasser’s Egypt, leading politicians did not actually believe in liberal democracy in the first place, and favored more authoritarian political systems (Harris 2016). In the oil-rich Gulf region, there has historically also been a very low ideological commitment among political elites to the idea of liberal democracy. Therefore, we argue that a key factor for avoiding the political resource curse is an ideological commitment by major political leaders to democracy:

- Hypothesis H4: *Timor-Leste’s major political parties were ideologically committed to democracy.*

Of course, belief in democracy alone does not mean that parties and politicians will be able to set up and consolidate a democratic political system. For this to happen, it is also crucial that these actors enjoy broad legitimacy among the population. Indeed, the legitimacy of the state “understood in its simplest form as citizens’ acceptance of the state’s right to rule” has been widely viewed as essential for successful democratic state-building both in general and after conflict (McLoughlin

2015, 341). More specifically, with regards to the resource curse, legitimacy means that rulers do not need to distribute extensive rents or establish oppressive security regimes to secure acquiescence to the regime among societal elites and the broader population (Snyder and Bhavnani 2005). Thus, we propose that:

- Hypothesis H5: *Timor-Leste's major political parties enjoyed broad legitimacy*

In addition to the characteristics of key political actors, the incentives they face, in particular at critical historical junctures, naturally also matter. We believe that the incentives to establish authoritarian rule will be higher if a single political actor or movement is hegemonic (Lyons 2016a). On the other hand, if multiple popular and legitimate parties exist, and no single one of them is capable of dominating the others and dictating the rules of the game, it is more likely that political actors will choose to set up institutions that foster greater inclusivity and make it harder to consolidate authoritarianism.

A parliamentary system with proportional representation is generally seen as a prime example of such an institution, as it avoids the potential divisiveness and exclusionary aspects of winner-take-all politics common to presidential regimes and majoritarian electoral systems (Reilly 2001; Linz 1990). Empirical evidence bears this out. Joshi, for example, shows that in post-conflict contexts such as Timor-Leste, the “survival of a post-civil war transition is likely to increase with the adoption of the parliamentary system of government by almost 76%” (2013, 761). We, therefore, hypothesize:

- Hypothesis H6: *In combination with H4 and H5, the lack of a hegemonic political actor in Timor-Leste incentivized parties to establish governance institutions particularly conducive to successful democratic consolidation.*

Lastly, although internal dynamics are usually more important, the influence of external actors on the establishment of new political systems is significant, especially in post-conflict situations with international troops and administrators. We argue that this influence can be negative when external actors are not strongly committed to democracy and the rule of law due to other overarching or competing interests (Paris and Sisk 2009). Foreign assistance, too, can have a positive or negative impact, but the former is more likely when donor commitment to promoting democracy is not compromised by other interests (Girod 2015). Our final hypothesis, therefore, is:

- Hypothesis H7: *International actors helped support democracy.*

## Methodology

To test existing hypotheses and engage in theory-building, we systematically examine Timor-Leste in light of the stipulated hypotheses as a case study from independence in 2002 through to May 2023, using primary and secondary evidence to

establish the plausibility of each hypothesis. We also assess the relevant pre-existing institutions during the pre-independence period when examining H1. In addition to extensive peer-reviewed literature, we draw on primary sources from Timor-Leste, including relevant law, regulations, reports, budget spending, and election results. Semi-structured interviews conducted by one of the authors in Timor-Leste in 2010–2012, 2014, 2017, and 2019 also provided context. Interviewees included Timorese government officials, international and domestic experts, non-governmental organization (NGO) staff, and United Nations (UN) officials.

## Historical Overview

East Timor was a Portuguese colony from the early sixteenth century.<sup>8</sup> In 1974, the end of authoritarian rule in Portugal triggered a swift and rather ad hoc decolonization process. East Timor declared independence on November 28, 1975. Shortly thereafter, Indonesia, under the authoritarian Suharto regime (1967–1998), invaded and brutally occupied the territory. Nevertheless, a strong independence movement emerged that drew on both domestic opposition and international advocacy for sovereignty rooted in democratic governance. When the 1997 Asian Financial Crisis destabilized the regime, the new leadership in Indonesia agreed to an independence referendum for East Timor. Despite intimidation from Indonesian-backed militias, in August 1999 over 98% of eligible voters participated, and of those over 78% backed independence. Once the outcome was announced, these militias began a campaign of systematic violence that brought international condemnation and, ultimately, international peacekeepers to restore order. East Timor was placed under UN trusteeship in October 1999 and achieved full independence in May 2002.

In 1974, hydrocarbon exploration led to the discovery of the Greater Sunrise gas field in the Timor Sea between East Timor and Australia. Since then, oil and gas resources in the so-called Timor Gap area have generated decades of disputes between Australia, Indonesia, Portugal, East Timorese independence leaders, and various fossil fuel companies. Throughout the 1980s and 1990s, substantial oil and gas reserves were proven, and the exploitation proceeds from various fields were shared between Indonesia and Australia. The latter had de facto recognized Indonesian sovereignty over East Timor in exchange for a favorable revenue split, an arrangement heavily criticized both by advocates for East Timorese independence and Portugal. Another large oil and gas field, named Bayu-Undan, was discovered in 1995. Under UN trusteeship, development of the Bayu-Undan field was approved. Negotiations between petroleum companies, Australia, and East Timorese leaders, who argued that previous arrangements between Australia and Indonesia were illegitimate, led to the more favorable revenue split of the so-called Joint Petroleum Development Area. Exploitation began in the early 2000s and reached full commercial scale in 2004.

Bayu-Undan has since provided the bulk of Timor-Leste's hydrocarbon revenue but production, which has steadily decreased since 2008, is expected to cease

<sup>8</sup> East Timor is used to refer to the territory prior to independence. Timor-Leste is used after independence in 2002.

between 2023 and 2025. The Greater Sunrise field, however, has never been fully developed. It remains the subject of disputes between Timorese and Australian stakeholders over transport and processing, revenue split, technical feasibility, and commercial viability, although Timorese President Jose Ramos-Horta has recently reiterated his country's determination to bring it online by 2030.

## Analysis: Part I—Testing Existing Explanations

### Hypothesis H1: Timor-Leste Had “Good” Pre-existing Political Institutions

Very little in Timor-Leste's history suggests it would be well-situated to avoid the political resource curse. Before independence, East Timor never operated under the good or strong political or legal institutions commonly viewed as preventing the resource curse (i.e., democracy, the rule of law, an effective bureaucratic apparatus). Centuries of Portuguese rule did little to develop effective institutions. What few state institutions did exist were fundamentally extractive (Acemoglu and Robinson 2012). Investment in human resources and physical infrastructure was minimal. Portuguese “colonial authorities had built only 12.5 miles of paved road, opened only about 50 schools and left behind a population that was still 80% illiterate” (Robinson 2009, 25). Nor did the harsh Indonesian occupation (1975–1999) provide fertile institutional ground. Indonesian colonial institutions were also extractive, but they were also far more brutal. Out of a population of less than a million roughly 200,000 died under Indonesian rule (Nevins 2005, 26). Indonesia further ensured a professional class did not emerge in East Timor that could challenge its power. Indonesians held most senior administrative positions. No domestic universities existed. Nor was there a legacy of democracy or good governance. In 1999, its last year occupying East Timor, Indonesia ranked 97th of 99 countries in Transparency International's Corruption Index (Transparency International 1999).<sup>9</sup> For that same year, East Timor received a V-Dem Electoral Democracy score of 0.09, where 0 indicates the most autocratic and 1 the most democratic form of government (Coppedge et al. 2022).

When Indonesian rule ended, existing state institutions no longer functioned and often ceased to exist. Indonesian administrators simply left. There was no pre-existing domestic expertise in petroleum resource management (Drysdale 2008). The broader legal and bureaucratic apparatus necessary for effective resource management was sorely lacking (Annan 1999, para. 33). When East Timor achieved independence on May 20, 2002, many institutions still did not exist.

In sum, prior to the discovery and the progressive exploitation of oil and gas reserves between the 1970s and 1990s, East Timor therefore did not have “good” institutions—however defined—conducive to avoiding the political resource curse.

<sup>9</sup> After the fall of Suharto, the 1998–1999 Freedom House report classified Indonesia as “partially free” due to some liberalizing reforms. Nevertheless, the regime was still classified as a “dominant party (military influenced)” regime (Freedom House 1999, 228). Moreover, the large-scale state-backed militia intimidation, killings, and destruction surrounding the independence referendum in East Timor occurred after this political liberalization occurred in Indonesia.

Rather, it suffered under decidedly bad ones for centuries. And when independence arrived even those had evaporated.

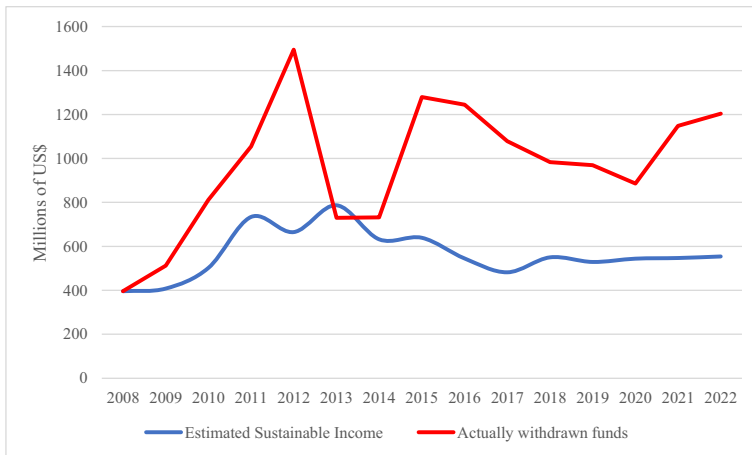
## **Hypothesis H2: Timor-Leste Has Established Effective Natural Resource Governance Institutions**

Timor-Leste has signed production-sharing agreements outsourcing oil exploration, development, and extraction to foreign oil companies. These companies receive a share of the oil produced, while the state still retains overall control and ownership of the oil resources. Based on Luong and Weinthal's typology, Timor's ownership structure constitutes "state ownership without control" (2006, 245). This is said to produce "hybrid" fiscal and regulatory institutions (in between the "strong" and "weak" institutions created by full state ownership and domestic private ownership, respectively) and result in limited institution-building outside of the mineral sector. This is certainly the case in Timor-Leste, where fiscal and regulatory institutions remain very weak. In addition, the authors argue that eventually, such ownership arrangements will push states "to develop institutions specifically (and exclusively) for the mineral sector that become increasingly unstable and, over time, serve to undermine transparency and accountability," a relatively accurate prediction as we shall show further below (Luong and Weinthal 2006, 250). Timor-Leste's oil sector therefore does not have an ownership structure particularly conducive to escaping the political resource curse.

State officials initially behaved in a manner consistent with scholarly recommendations for how to create and successfully manage a petroleum fund. In 2005, the Fretilin government established a petroleum fund designed to ensure resources are "used in a fair and equitable manner in accordance with national interests" for the benefit of current and future citizens (Democratic Republic of Timor-Leste 2005). The fund, however, has not meaningfully constrained political elites' ability to access and distribute oil rents via patronage since the 2007 parliamentary election.

The law envisioned sustainability by limiting annual government spending to an estimated sustainable income (ESI) of 3% of the fund's balance, reflecting international accounting best practices and subject to independent auditor certification (Democratic Republic of Timor-Leste 2007). The model was widely praised. For instance, a 2007 review ranked Timor-Leste third (lagging behind only Norway and New Zealand) out of 32 sovereign wealth funds based on fund governance, structure, accountability, transparency, and behavior (Truman 2007). But this "good" resource governance only lasted for about two years, during which no money was withdrawn. Ironically, it is during this time of "good resource governance" that Timor-Leste was classified as a flawed democracy and faced its most profound, violent political upheaval, the 2006 Crisis (see discussion of H3). Fretilin's resource fund management also came under serious criticism by rival parties for being excessively cautious and failing to develop a broader economy (Verkhovets and Sahin 2022).

After the 2006 Crisis, the Fretilin government collapsed. In 2007, parliamentary elections resulted in a new coalition government led by Xanana Gusmão of the National Congress for Timorese Reconstruction (CNRT) taking power. The new



**Fig. 2** Official withdrawal limits and actual withdrawals from Timor-Leste's Petroleum Fund (2008–2022). Source: Ministry of Finance of Timor-Leste (Ministry of Finance of Timor-Leste's Budget Transparency Portal (<http://www.budgettransparency.gov.tl/public/index?&lang=en>) and Annual Budget Reports)

government had promised a radically different approach to petroleum fund policy that rejected ESI spending limitations (Shoosmith 2011). State expenditures soon increased dramatically and unsustainably on the premise of stabilizing society and sparking long-term development.

In 2007, state officials started accessing the fund, and have since consistently weakened and circumvented petroleum fund controls, as well as reducing spending transparency. To be sure, the law authorized spending beyond the ESI with an explicit request by the government subject to parliamentary approval. This was originally envisioned as a safety valve for extraordinary situations. But as official data in Fig. 2 above shows, with the exception of 2013, excess spending has occurred every year since 2009.<sup>10</sup> Since its establishment, petroleum fund withdrawals, on average, paid for 85% of all state spending.<sup>11</sup>

As rentier theory would predict, natural resource wealth led to a massive expansion of public spending, with expenditures increasing 260% between 2008 and 2022.<sup>12</sup> Though Timor-Leste has not seen large-scale increases in security sector spending,<sup>13</sup> employment in the public administration and state-owned enterprises has expanded massively (Kammen 2019, 58). Spending has been focused on

<sup>10</sup> Ironically, the 2013 withdrawal from the Petroleum Fund was only within the ESI limits because the 2012 withdrawal was so large that all those funds could not be spent in one year.

<sup>11</sup> Ministry of Finance of Timor-Leste's Budget Transparency Portal (<http://www.budgettransparency.gov.tl/public/index?&lang=en>)

<sup>12</sup> Ministry of Finance of Timor-Leste's Budget Transparency Portal (<http://www.budgettransparency.gov.tl/public/index?&lang=en>)

<sup>13</sup> According to World Bank data, military spending as a share of GDP has oscillated between 0.4 and 1.2% between 2005 and 2021 (<https://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS?locations=TL>). Police and military spending as a share of all public expenditures has consistently hovered around 5–6%, based on General State Budgets analyzed by La'o Hamutuk (<https://www.laohamutuk.org/index.html>).

patronage and “short-term consumption” rather than long-term investment (John et al. 2020, 146; Neves 2018). According to data from the Ministry of Finance, since at least 2010, cash transfers to veterans of the liberation struggle, a powerful political constituency, have exceeded all health spending and have on average amounted to roughly 80% of government spending on education.<sup>14</sup> In May 2022, parliament approved supplemental spending of \$1.24 billion, amounting to an extra 63% of budgeted expenditures for 2022, to fund a one billion dollar heavy “Veterans Fund” and a number of cash grants.<sup>15</sup> More broadly, political parties, particularly those with access to state resources, have used state funds in attempts to secure support from powerful local leaders, “many of whom have transformed themselves into construction contractors and entrepreneurs and thus control access to local level development projects” (Aspinall et al. 2018, 163).

The leaders of Timor-Leste have also established numerous special investment vehicles and agencies that circumvent regulations (La’o Hamutuk 2010; Scambary 2015, 300). Many significant petroleum fund-supported projects and initiatives were awarded without a tender process, or an irregular one, or by non-competitive means (Barma 2014). Other contracts were awarded through highly opaque decision-making favoring government insiders or very dubious white elephant projects (Doraisami 2018; Yoder 2015). Even the State Secretary for Public Works admitted that roughly 60% of infrastructure projects were of poor quality (Scambary 2015, 298). Corruption and misallocation have likewise increased (Kingsbury 2018).

Thus, Timor-Leste’s “good” natural resource governance institutions have not prevented rulers from using the country’s oil wealth for patronage and personal enrichment, which means that the theoretical mechanisms of rentier state theory linking oil wealth to authoritarianism exist in the Timorese case. We therefore argue that resource management institutions cannot explain why Timor-Leste has avoided the political resource curse.

### Hypothesis H3: Timor-Leste Had a Favorable Environment for Democracy

Timor-Leste presents extremely difficult terrain for democracy (Bermeo 2022; Mainwaring 2022). East Timor experienced repeated conflict, which is detrimental to successful democratization and a strong predictor of future conflict (Collier et al. 2008). After the 1999 referendum, the “main cities as well as remote towns and villages were laid to waste, and 70% of the physical infrastructure was gutted” (Chopra 2000, 27). In early 2006, after the departure of UN peacekeepers, tensions between soldiers from western and eastern Timor-Leste spiraled and ultimately led to widespread rioting and violence. Thirty-six people died, 150,000 people were internally displaced, and over 1600 homes were destroyed (UN Independent Special Commission of Inquiry for Timor-Leste 2006, 42).

<sup>14</sup> Based on La’o Hamutuk charts analyzing the general state budget (<https://www.laohamutuk.org/econ/OGE16/15OGE16.htm> and <https://www.laohamutuk.org/econ/OGE21/20OGE21.htm>)

<sup>15</sup> See La’o Hamutuk (2022) General State Budget analysis (<https://www.laohamutuk.org/econ/OGE22/21OGE22.htm>)



When independence arrived, Timor-Leste faced daunting development challenges that raised serious challenges for democratic governance (Hill 2001). It remains a poor country with overall low levels of development. Higher GDP per capita facilitates democratic consolidation, which has been found to be virtually irreversible above a certain threshold (Przeworski and Limongi 1997). But Timor-Leste's level of economic development is nowhere near that threshold. Indeed, Timor-Leste "ranks among the poorest countries in the world by several measures" (Bermeo 2022, 179–80). In 2014, 42% of the population lived below the World Bank-calculated poverty line and many more people hovered just above it (World Bank 2016). Oil and oil-related spending are the only significant sector of economic growth (Scheiner 2015). Literacy and urbanization, often seen as a prerequisite for an educated, politically active middle class, are lower than in countries at comparable levels of development (Kingsbury 2018). While relative ethnic and linguistic homogeneity is viewed as beneficial for democracy, Timor-Leste boasts significant linguistic and ethnic diversity alongside a salient regional divide between East and West (Palmer and McWilliam 2018; Taylor-Leech 2013). The country also does not have either a strong domestic bourgeoisie or a robust working class, elements that are often viewed as conducive to democracy (UNDP 2018). More culturalist theories also fail: Timor-Leste is overwhelmingly Catholic and it has no British colonial heritage, two factors that scholars claim also do not bode well for democracy (Nixon 2012, 104–5). Lastly, the country is not located in a particularly democratic neighborhood (Masoud and Mainwaring 2022, 19). In the 2021 Freedom House rankings, Timor-Leste is the *only* country rated "free" in Southeast Asia despite the presence of other regimes generally considered to be democratic (Freedom House 2023b).<sup>16</sup> Australia has long been democratic, but historically it played a decidedly anti-democratic role by supporting Indonesia's invasion and subsequent occupation of East Timor (Ishizuka 2004).

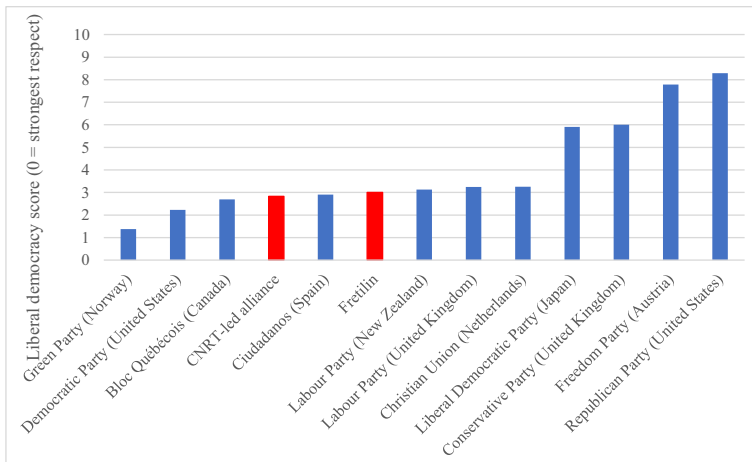
## Analysis: Part II—Why Did Timor-Leste Avoid the Political Resource Curse?

We have shown that the dominant explanations for the avoidance of the political resource curse cannot adequately explain the case of Timor-Leste. Why, then, did the country establish and consolidate democracy? We argue that this happened for four main reasons.

### Hypothesis H4: Timor-Leste's Major Political Parties Share an Ideological Commitment to Democracy

A key condition for successfully establishing a democratic political system and avoiding the political resource curse is for politicians and parties to be

<sup>16</sup> Notably, Timor-Leste performs much better than Indonesia, its former colonizer, despite both being electoral democracies and Timor-Leste being much more dependent on oil than Indonesia. Timor-Leste scored a 72, while Indonesia scored a 58 and was classified as "partly free" (Freedom House 2023a).



**Fig. 3** Respect for liberal democratic principles, norms, and practices among Timorese and selected international parties. Source: Global Party Survey 2019 (Norris 2020)

ideologically committed to democracy (Diamond 1989). Quantitative data on the ideological orientation of parties confirms that Timor-Leste’s major parties have long been highly committed to democracy. On the V-Party dataset’s political pluralism variable, which measures the extent to which the leadership of a party was “clearly committed to free and fair elections with multiple parties, freedom of speech, media, assembly and association” (where 4 indicates the highest, and 0 the lowest level of commitment), Fretilin scored 3.23 for the 2001 and 2007 elections (Lindberg et al. 2022). The CNRT, first founded to compete in the 2007 election, also received 3.23 that year. To compare, in 2018 (the latest year with data available), the US Republican and Democratic parties scored 2.92 and 3.27, respectively.

The 2019 Global Parties Survey’s “liberal democracy” variable measures whether parties respect or undermine “liberal democratic principles, norms and practices” (where 0 indicates strongest and 10 lowest respect) (Norris 2020). Notably, Fretilin and the CNRT do well and perform better than some major political parties from established democracies (see Fig. 3).

A strong and steadfast ideological commitment to democracy is particularly vital at “critical junctures,” brief periods of time when agents are more likely to influence the outcome relative to other periods (Capoccia and Kelemen 2007). With regards to democratization, these include when the political system is first established, but also times of serious crisis when it is fragile and challenged. At such junctures, Timorese political parties demonstrated their commitment to democracy. Indeed, on several occasions, political elites could have attempted to undermine democracy but chose not to.

After the collapse of armed resistance in the mid-1980s, the National Council of Maubere Resistance, an umbrella organization under Gusmão’s leadership, determined that independence could not be achieved through violence. Instead, the resistance movement concluded that securing an independent state would depend on generating large-scale international pressure on Indonesia by making a powerful claim

for popular sovereignty in East Timor. This claim was rooted in a commitment to non-violence and democratic choice. Gusmão, and other key leaders, consistently stressed the resistance was “committ[ed] to building a free and democratic nation, based on respect for the freedoms of thought, association, and expression” (Gusmão cited in Webster 2003, 14).

All major branches of the independence movement were committed to, and actually articulated, a clear vision of a democratic polity bound by the rule of law that was explicitly designed to provide a sharp contrast with the authoritarian rule in Suharto’s Indonesia (Robinson 2009, 66–91). Indeed, all resistance members pledged an independent Timor-Leste “will uphold a democratic, multi-party, law-abiding State” (East Timorese National Convention in the Diaspora 1998). In 1987, in a clear show of support for political pluralism, Fretilin renounced its claim to be the sole legitimate representative of the Timorese people. A decade later, in 1998, it promulgated “a constitutional model for an independent Timor-Leste” that explicitly endorsed “a pluralist, multiparty system” which proved highly influential in the design of the country’s 2002 constitution (Shoesmith 2013, 124). As Gusmão, its former leader, explained, the National Council of Timorese Resistance was designed to “encompass all social and political participants in the National Resistance” (Gusmão 2000, 214). In 2001, Gusmão agreed to disband this organization as its mission had been accomplished, a decision which “pave[d] the way for political party competition” (Ingram 2018, 369). After serving as the country’s first president as an independent, Gusmão formed a new political party in 2007 with the expressed intent of competing in multiparty parliamentary elections.

After formal independence in 2002, major Timorese parties all remained ideologically committed to the democratic norms and practices they had held since the struggle for national sovereignty (Weldemichael 2013). This was a crucial juncture, as in other countries many political parties that once espoused democratic rhetoric during their independence struggles quickly abandoned democratic ideals once in power (Lyons 2016b). In Timor-Leste, the commitment to democracy became foundational to the state itself. As Arthur notes, “with independence came the establishment of a democratic system of governance and consequently, freedom and democracy are now seen as invariably connected” (Arthur 2019, 156). Consistent with Przeworski’s definition of democracy as “a system in which parties lose elections” (Przeworski 1991, 10), parties have consistently abided by election defeats and there have been repeated changes in government. Parties have likewise shown a willingness to compromise, another core democratic value. In fact, coalition governments of some form have governed the country for all but six years.

This longstanding commitment to democracy held even after the 2006 crisis, another critical juncture for democratization (Strating 2015). While the return of international peacekeepers provided security initially, domestic constitutional means ultimately settled the political impasse. The free and fair elections in 2007 resolved elite competition without violence. This outcome was by no means guaranteed. Many observers feared Timor-Leste was on the brink of state failure (Cotton 2007). Instead, these polls marked Timor-Leste’s first democratic transfer of power with the former Fretilin government becoming a strong parliamentary opposition party. In 2008, Timor-Leste handled the political upheaval related to the dual assassination

attempts on the president and prime minister in accordance with the constitution and without significant violence (Tansey 2009, 106). The 2006 crisis strained the Timorese state but also created a strong and enduring distaste among political elites for open, potentially violent confrontation that could easily metastasize and undermine, or even destroy, democratic institutions. After the crisis, political elites still competed fiercely. Competition, however, was consistently structured and constrained by free and fair democratic elections and broader democratic norms of non-violence (Reilly 2020).

Timor-Leste has avoided not just the threat that one party or person monopolizes power and uses oil rents to undermine the opposition. The opposite risk is that the major political parties or leaders will collude to effectively become a hegemonic actor and use resources' rents to entrench and isolate themselves from democratic accountability. The dynamic can pose a grave threat to democracy because absent viable alternatives "voters cannot credibly threaten to sanction poorly performing politicians come election time" (Gottlieb 2015, 1). Timor-Leste faced just such a critical juncture with the formation of a grand coalition that included both Fretilin and the CNRT in 2015. The potential long-term collusion of the two major political parties would have effectively undermined democratic accountability. This new arrangement provided both parties with immense access to potential rents. After incumbent Prime Minister Gusmão voluntarily resigned in February 2015, Rui Maria de Araújo of Fretilin became prime minister. Former Fretilin Prime Minister Alkatiri oversaw a "fantastical development scheme for the geographically and politically peripheral enclave" of Oecusse, at an estimated cost of US\$4.11 billion within an area of little over 1 km<sup>2</sup> (Yoder 2015, 300). Gusmão became the Minister for Planning and Strategic Investment, a newly created post, which gave him vast influence over state resources and the national budget. Cooperation continued in the realm of presidential politics. In 2017, Fretilin's candidate Francisco Guterres (commonly known as Lú-Olo) won the presidency with support from the other coalition parties. This realignment ameliorated the partisan divisions that threatened to engulf the country in violence and undercut democratic rule in 2006. At the same time, partnership now threatened to eliminate the credible political competition essential for democracy. The two major parties could have colluded to retain power indefinitely and guarantee access to resource rents. Yet, this did not happen.

Consensus proved to be an aberration. The 2017 parliamentary elections saw a return to more traditional partisan politics even though possible exclusion from government would dramatically reduce potential access to rents. Fretilin earned the most votes and seats but lacked a parliamentary majority. After a Fretilin minority government proved untenable, new elections were called in 2018. Fretilin secured the same number of seats, but a new Gusmão-led coalition of three parties won enough seats to form a majority. Normal democratic politics quickly reasserted themselves as Fretilin went into opposition. Since then, robust, competitive democratic practices continued with a change in the governing coalition in 2020, a successful presidential elections in 2022, and parliamentary elections in May 2023, which once again produced a change in leadership.

## **Hypothesis H5: Timor-Leste's Major Political Parties Enjoy Widespread Legitimacy**

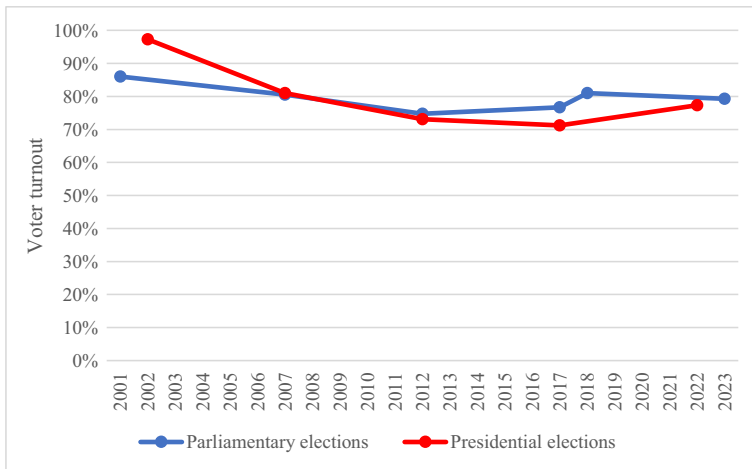
Regimes, democratic or otherwise, need legitimacy to endure over the long run (Beetham 2013). Escaping the political resource curse therefore necessitates not only democratically-minded political actors, but also legitimate ones. At independence, Timor-Leste had low state capacity but the major political parties and leaders all enjoyed deep legitimacy from the successful pro-democratic independence struggle (Call 2008, 1496).

In Timor-Leste, as Bermeo and Yashar highlight, “it was the movement for independence itself that gave rise to the party institutions and the charismatic leaders that proved essential to democracy’s endurance” (Bermeo and Yashar 2016, 192). Since the Constituent Assembly elections in 2001, Fretilin has capitalized on its role in the independence struggle and the formation of a distinct East Timorese national identity (Hohe 2002). Timor-Leste’s national flag explicitly draws on the Fretilin flag and Fretilin’s symbols and historical figures remain prominent in state discourse and institutions (Leach 2006). When Gusmão formed a new political party, he “drew heavily on images of independence and modernity with Xanana himself the prominent public face of all CNRT campaigning” (McWilliam and Bexley 2008, 69). The party name, National Congress for Timorese Reconstruction, reminded voters of Gusmão’s crucial role leading the National Council of Timorese Resistance. Both Gusmão’s organizations share a common Portuguese acronym, CNRT, to help associate the party with aspirations of unity and success in the independence struggle. Many smaller parties also enjoy legitimacy, have earned parliamentary representation, and some have participated in governing coalitions (Shoesmith 2013; Sindre 2023).

The legitimacy of political parties, and the broad political elite, have made the state’s ability to govern much easier. Consequently, state leaders did not need to buy legitimacy by undemocratically empowering certain social groups or use force to suppress popular discontent. It also proved vital for governance, asserting civilian control over the military, an organization that can pose an acute threat to democracy, particularly during political transitions.

The legitimacy of political parties is also reflected in consistently high voter turnout for both parliamentary and presidential elections (see Fig. 4). According to data from the Voter Turnout Database, the average turnout at all of Timor-Leste’s presidential and parliamentary elections since independence stands at just under 80%, without voting being compulsory. Outside of dictatorships with dubious turnout figures and countries with compulsory voting, Timor-Leste ranks among the top countries in the world for voter turnout, higher than Norway or Germany and just below Denmark or Sweden.

This legitimacy had a dramatic effect on securing acceptance of society at large. This includes gaining support for the new democratic political order from powerful non-state justice authorities that have long maintained order locally, (Swenson 2018). Ultimately, the ability of political parties to establish a compelling, broad-based vision of the past and future created a robust sense of national identity which collectively mobilized Timorese society around the idea of a democratic society



**Fig. 4** Election turnout in Timor-Leste (2002–2023). Source: Voter Turnout Database (International IDEA 2023)

during the resistance struggle which carried over into the post-independence landscape (Anderson 2001; Arthur 2019).

### **Hypothesis H6: In Combination with H4 and H5, the Lack of a Hegemonic Political Actor in Timor-Leste Incentivized Parties to Establish Governance Institutions Particularly Conducive to Successful Democratic Consolidation**

At the critical juncture of independence, Timor-Leste's political leaders drafted a constitution that reflected a good-faith effort to create a modern democratic state that respects the rule of law. But why did victorious politicians that enjoyed broad-based legitimacy from their independence struggle not try to capitalize on their popularity and set up political institutions they could dominate? Or, alternatively, attempt to subvert democratic institutions in practice? Previously, we showed that a genuine ideological commitment to democracy is one part of the explanation. In addition, we argue that the lack of hegemony of a single political actor incentivized the groups to devise political institutions that have proven sensible, durable, and conducive to democratic consolidation.

The independence movement brought together a diverse group of political actors and interests (Feijó 2016). At independence, none of the major political movements that struggled for national liberation was hegemonic (Kingsbury 2009). Even the journey to independence was the subject of vibrant political debate within the former resistance movement (Smith and Dee 2003). While Fretilin emerged as the largest party from the foundational 2001 legislative elections, it lacked the votes to unilaterally draft the constitution (Chesterman 2004, 231). Thus, the final document not only reflected meaningful compromise and consensus among the key political parties, it also incentivized the

choice of institutions that would prevent a monopolization of political power after a first election.

The 2002 constitution combines a directly elected, but relatively weak, president with a prime minister who is elected and supported by the National Parliament (Democratic Republic of Timor-Leste 2002). Parliament is a unicameral body elected from a closed party list system with a 3% vote threshold to receive seats, ensuring meaningful multi-party representation while avoiding excessive fragmentation (Democratic Republic of Timor-Leste 2006). Most political power rests with parliament and the prime minister but the president nevertheless provides some checks and balances, an institutional design generally thought to have a positive effect on democratization (Elgie 2005).

Timor-Leste's political institutions, namely parliamentarism and proportional representation, have been conducive to democratic consolidation. As Tsebelis notes, despite some lingering questions about how parliamentary and presidential systems influence behavior, "there is one result in the literature that is collaborated in all analyses: democracy survives better under parliamentarism than under presidentialism" (Tsebelis 2002, 75; see also Joshi 2013; Sedelius and Linde 2018). More specifically, in Timor-Leste, these political structures have entrenched party-based democratic government over time (Ingram 2018). As a recent survey of governance in Timor-Leste highlights, elections have focused on the major challenges facing the country including corruption, economic development, use of the petroleum fund, and poverty reduction (Sindre 2023, 48). With viable new political parties emerging, entering parliament, and even joining governing coalitions, Timorese political institutions have also facilitated "the institutionalization of a party system that is not limited to resistance era parties and personalization of the resistance era ruling elite" (Sindre 2023, 48–49). Elections, and the political parties that participate in them, offer meaningful democratic choice to voters (Shoesmith 2013). Once established, incentives from political institutions have directly shaped not only party behavior but also how parties align strategically both in relation to voters and within parliamentary coalitions. These ideals and institutions have also facilitated support for and engagement in democracy by powerful non-state political elites and the public more generally (Swenson 2022). Vibrant multiparty political competition at the critical juncture of independence has therefore been fortuitous, in that it incentivized the creation of institutions and subsequent behaviors that would prove to be crucial for maintaining, and eventually consolidating, democratic governance.

Evidence from Freedom House likewise attests to the success of these political arrangements in fostering political pluralism. Timor-Leste has consistently scored top marks since 2018 (4/4) on Freedom Houses metrics of "Do the people have the right to organize in different political parties or other competitive political groupings of their choice, and is the system free of undue obstacles to the rise and fall of these competing parties or groupings?" and "Is there a realistic opportunity for the opposition to increase its support or gain power through elections?"<sup>17</sup>

<sup>17</sup> When these metrics were first introduced in 2017, Timor-Leste scored 3 out of 4 on both criteria.



## **Hypothesis H7: International Actors Played a Constructive Role supporting Democracy**

The political fate of young and fragile developing states, including highly resource-dependent ones, can be both positively and negatively influenced by international actors (Acemoglu and Robinson 2012; Fukuyama 2004). These entities can provide funds, technical assistance, and a host of other support (Lancaster 2007). In post-conflict or conflict-prone settings, they may have even greater influence and potentially deploy peacekeeping troops or may even play a trusteeship role (Caplan 2005; Ciorciari 2021).

In Timor-Leste, international actors played a less decisive but overall constructive role. International peacekeeping forces provided domestic security after the post-referendum violence (Aloyo and Swenson 2023). The initial period of UN trusteeship before independence, while not without its challenges and controversies, provided space and opportunity for debate, designing, and ultimately implementing political institutions that reflected broad-based local preferences (Strating 2015; Swenson 2022). Likewise, while their early departure in 2005 was disastrous, international peacekeepers once again provided stability when they returned in 2006 until their departure in 2012 (Caplan 2012). The cost of building new infrastructure and repairing the existing facilities was immense. Foreign assistance to Timor-Leste was essential for rebuilding the country (Howard 2014). Aid generally reinforced positive trends and lacked powerful, competing strategic interests that risked compromising its commitment to promoting democracy and the rule of law (Girod 2015). It also reflected a meaningful collaboration between international and domestic actors. Aid also proved essential after the 2006 crisis. The violence in 2006 generated an internally displaced person (IDP) crisis that risked prolonged instability. However, “international support not only helped to stabilize the situation by provisioning the IDP camps, but also facilitated the design and implementation of a very successful strategy to resolve the IDP crisis” (Fiedler et al. 2020, 67).

Major international actors stressed that their programs were collaborative and consistent with official goals (see, e.g., Government of Australia 2007; UNDP 2008). For their part, Timor-Leste government officials proactively ensured international activities were consistent with its development vision and that after 2008 they made it clear to external actors that oil revenues meant they were no longer aid-dependent (International NGO Manager 2014; Official from the President’s Office 2014; UNDP Official 2014). While imperfect, overall foreign aid subsidized domestic-led efforts to develop and consolidate state institutions consistent with, and committed to, a democratic state bound by the rule of law (Swenson 2022). Equally important, the international community avoided picking winners or providing major institutional advantages to Fretilin or Gusmão. International favoritism in post-conflict states can easily distort political competition and undermine democracy (Paris and Sisk 2009). International actors promoted a political environment in which vibrant multi-party competition could thrive. At first, international actors initially worked most closely with Gusmão but after Fretilin’s success in the 2001 elections shifted their focus to them. Throughout Timor-Leste’s brief history, the international community has worked with whatever state authorities have been duly elected.



## Conclusion

This article aimed to explain why and how, after two decades as one of the most oil-dependent countries on Earth, and therefore, a prime candidate for experiencing the political resource curse, Timor-Leste has nonetheless successfully consolidated democratic government. Our analysis demonstrated that good pre-existing institutions or good, effective natural resource governance institutions did not prevent the curse. In fact, circumstances—before and after oil discovery, as well as before and after independence—were quite conducive to authoritarian rule. We showed that four key factors prevented this: the ideological commitment to democracy of the most influential political actors, the widespread legitimacy they enjoyed, the lack of a hegemonic actor among them, and the constructive role of international actors. Past success does not ensure future performance. Nevertheless, Timor-Leste's success over this time stands in stark contrast to many other rentier and/or post-conflict states that faced renewed, prolonged conflict, authoritarian rule, or both.

Our findings suggest the need for a more nuanced understanding of the political resource curse and why some states may remain unaffected by it. In particular, we note that the role of agency and ideas is generally underappreciated or even ignored. Furthermore, the Timorese case demonstrates the value and importance of testing key theories and mechanisms articulated in the resource curse literature with rich, historically-informed country-specific knowledge. As Smith and Waldner highlight, “if our goal is to disentangle complex causal relationships between oil, political institutions, and coalitions, [...] then we will need to know a great deal more about individual cases and regional specificities to inform our thinking” (2021, 62).

Our research has implications for policy in both extreme rentier states and post-conflict settings. Our findings suggest that “good” natural resource governance is not a necessary condition for preventing or mitigating the resource curse. On the other hand, our findings offer real hope. Neither absent or decidedly suboptimal pre-existing institutions, nor unfavorable conditions for democracy condemn oil-rich countries to a political resource curse. Domestic political actors can establish and maintain democracy no matter how they deal with natural resource wealth. The fact that levels of democracy actually increased when good natural resource governance deteriorated only further suggests the disconnect between the two. Instead, it highlights the importance of both an ideological commitment to democracy by political elites and society more generally and the development of contemporary *political* institutions conducive to democracy. While domestic actors are the most important, this article also highlights the importance of external actors, when they enjoy considerable influence, supporting a genuine democratic process, unlike post-2001 Afghanistan, for instance.

Our research ultimately highlights the need for more research on resource-rich and resource-dependent countries to test the extent to which our findings apply to a broader set of states as well as to more fully explore whether the core tenets of the political resource curse, and how countries avoid it, hold up to detailed, country-level scrutiny.

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