

Assessing the Role of Indonesian Companies in Sectoral Economic Cooperation Between Indonesia and Timor-Leste: Opportunities and Challenges

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Abstrak

Artikel ini berfokus pada kontribusi perusahaan-perusahaan Indonesia dalam hubungan ekonomi antara Indonesia dan Timor-Leste, dengan mempertimbangkan konteks sejarah yang rumit dari kedua negara. Penelitian ini menggunakan pendekatan kualitatif dengan multiple-case study, yang menginvestigasi keterlibatan berbagai perusahaan Indonesia di Timor-Leste, serta mengumpulkan data melalui tinjauan literatur maupun observasi langsung. Hasil penelitian menunjukkan bahwa perusahaan-perusahaan Indonesia telah berperan penting dalam memfasilitasi kerjasama ekonomi antara kedua negara, khususnya di sektor konstruksi, energi, dan telekomunikasi. Perusahaan-perusahaan tersebut telah banyak berinvestasi di berbagai sektor industri di Timor-Leste dan berkontribusi menciptakan peluang kerja, mendorong proses transfer teknologi, dan berkontribusi dalam pengembangan infrastruktur. Namun, penelitian ini juga menyoroti tantangan yang dihadapi oleh perusahaan-perusahaan Indonesia di Timor-Leste, seperti kurangnya tenaga kerja lokal terampil, akses terbatas pada infrastruktur, dan hambatan birokrasi. Oleh karena itu, penelitian ini merekomendasikan agar pemerintah Indonesia dan sektor swasta bekerja sama untuk mengatasi tantangan yang dihadapi oleh perusahaan-perusahaan Indonesia dan mengeksplorasi kesempatan kerjasama baru untuk meningkatkan hubungan ekonomi antara kedua negara, dengan tetap memperhatikan konteks sejarah yang kompleks dan sensitif.

Kata kunci: Indonesia, Timor-Leste, kerjasama ekonomi, sektor swasta

Abstract

This study focuses on the significance of Indonesian companies in strengthening economic ties between Indonesia and Timor-Leste, considering both countries' difficult historical backgrounds. The research employed a qualitative method to evaluate the participation of several Indonesian companies in Timor-Leste and gather data through literature review. The research revealed that Indonesian companies have played a crucial role in encouraging economic cooperation between the two nations, notably in the construction, energy, and agricultural sectors. These companies have made investments in Timor-Leste, created jobs, transferred technology, and contributed to infrastructural development. This article highlights the challenges faced by Indonesian businesses in Timor-Leste, such as lack of skilled labor, lack of capital, and complicated bureaucratic burdens. The analysis unveiled room for growth, even though Indonesian businesses have significantly benefited from economic cooperation between the two nations. This study recommends that while keeping in mind the country's intricate and delicate historical context, the Indonesian government and private sector have collaborated to address the difficulties faced by Indonesian businesses and to investigate new collaboration opportunities to strengthen the two countries' economic ties.

Keywords: Indonesia, Timor-Leste, economic cooperation, private sectors

INTRODUCTION

The relationship between Indonesia and Timor-Leste has a turbulent past plagued with violence and political upheaval. Following Indonesia's invasion of Timor-Leste

in 1975, the country saw a bloody occupation, claiming the lives of many people. Timor-Leste won independence in 1999 after a referendum, despite the not-easy process marked by several incidents of violence and destruction.

Indonesia, as a country that annexed East Timor, was heavily involved, both directly and indirectly, in the violence in that region, further aggravating the already strained relations between the two nations (Moore, 2001).

However, both nations have made attempts to enhance bilateral relations since then. Indonesia played a major role in Timor-Leste's development after independence and has offered financial, technical, and humanitarian aid to the country. Economic cooperation has also been prioritized, with Indonesia contributing aid and investment to Timor-Leste's infrastructure development and encouraging commercial connections (Dolven et al., 2012). While there have been hurdles to the relationship, notably in the areas of border conflicts and migration, both nations have stated a willingness to develop bilateral relations (Raharjo, 2016). In recent years, there has been an emphasis on improving economic cooperation, particularly in the areas of trade, investment, and infrastructure development.

Since Timor-Leste's independence in 2002, Indonesia-Timor-Leste's economic cooperation has evolved via numerous business partnerships and collaborations. The two nations' common historical and cultural origins have facilitated collaboration in sectors such as investment, trade, and infrastructure development. The primary goal of this collaboration has been to stimulate economic growth and development, particularly in Timor-Leste, which remains one of the world's poorest countries (Costa et al., 2013)—for example, the year 2021 witnessed a robust interdependence in trade relations between Indonesia and Timor-Leste, underlining a significant bilateral economic engagement. Indonesia emerged as a major exporter to Timor-Leste, with its exports reaching a substantial value of USD 249 million. These exports encompassed a diversified range of commodities, notably including rolled tobacco (USD 16.6m), cement (USD 16.3m), and palm oil (USD 14.2m), signifying the multifaceted goods contributing to this bilateral trade. Remarkably, Indonesia's exports to Timor-Leste have exhibited an exceptional growth trajectory over 26 years, escalating at an annualized rate of 18.9%, skyrocketing from USD 2.74 million in 1995 to USD 249 million in

from USD 2.74 million in 1995 to USD 249 million in 2021. The Indonesian exports especially comprised crucial commodities such as foodstuffs (USD 72.3m), transportation (USD 29.5m), and machines (USD 23.9m), highlighting Indonesia's pivotal role in supplying essential goods and machinery to Timor-Leste (OEC, 2023).

Conversely, Timor-Leste demonstrated a considerable reliance on Indonesia for specific exports during the same period, with its exports to Indonesia totaling USD 2.21 million. Timor-Leste's major export items to Indonesia included other oily seeds (USD 709k), coffee (USD 557k), and copra (USD 436k), revealing a specialized product range in its export portfolio. Chiefly, Timor-Leste's exports to Indonesia exhibited a growth trend over the past 26 years, registering an annualized rate of 7.99%, ascending from USD 300 hundred in 1995 to USD 2.21 million in 2021. This trade pattern highlights the mutual dependence between the two nations, accentuating the significance of their trade relations in 2021 and emphasizing Indonesia's role as a substantial export market for Timor-Leste (OEC, 2023).

Although the Indonesian government has been instrumental in developing economic cooperation, the private sector has also played a role in encouraging trade and investment. Nevertheless, concerns such as inadequate infrastructure and complicated regulatory systems remain. In the realm of sectoral cooperation between the two nations, a significant issue warrants attention: the potential emergence of an economic cooperation system characterized by neo-colonialism traits. It is evidenced by the looming disparities and substantial exploitation arising from Indonesian corporations seeking profits within Timor-Leste. The concerns revolve around the prospect of economic cooperation leaning toward a neo-colonialist framework, perpetuating inequalities and extensive exploitation by Indonesian entities operating in Timor-Leste. Hence, it becomes imperative to analyze comprehensively how the involved parties can materialize a collaboration that fosters mutual benefits, addressing these underlying concerns.

This article provides an in-depth examination of the Indonesian companies' involvement in economic cooperation in Timor-Leste from 2002 to 2022, following

the country's independence from Indonesia. It aims to shed light on the private sector's distinctive contributions to the country's economic progress, as well as to explore the opportunities for future initiatives. Overall, the article aims to raise awareness of the private sector's role in economic cooperation in Timor-Leste, as well as provide policy and practice recommendations in this area.

THEORETICAL FRAMEWORK

This research was examined using a liberal perspective on international relations. The importance of economic interconnectedness and state collaboration is emphasized in the liberal approach to international affairs. It indicates that economic cooperation may bring about peace and stability, mutual benefit, and conflict resolution. According to this point of view, private companies, particularly state-owned enterprises (SOE), play an essential role in promoting inter-state economic cooperation (He, 2008).

Based on a liberal viewpoint, international economic cooperation should be governed by the ideas of free trade, open markets, and the rule of law (Ikenberry, 2009). It indicates that private companies should operate according to the host country's legal system in a market-based environment without being too influenced by the government. Private Indonesian companies, including state-owned corporations, have been vital in enabling economic integration and increasing economic dependence between the two nations under the framework of Indonesia-Timor-Leste economic cooperation. They have contributed to the development of infrastructure, created jobs, transferred technologies, and invested in Timor-Leste. It has aided in Timor-Leste's economic growth and reduced poverty.

Additionally, the liberal viewpoint argues that economic cooperation should be grounded in the idea of comparative advantage, which urges each nation to concentrate on producing goods and services that they can produce effectively while trading with other nations to acquire those that they are unable to produce effectively (McDonald, 2009). In economic cooperation between Indonesia and Timor-Leste, private Indonesian companies have made investments in industries

including agriculture, energy, and construction, where Indonesia has a competitive edge and has therefore helped Timor-Leste grow these industries.

Nonetheless, the liberal perspective also accepts that barriers to economic cooperation might include protectionism, a lack of access to funding, and red tape in business (Li et al., 2018). Indonesian private companies have run across several challenges while trying to do business in Timor-Leste, including a lack of competent labor, restricted access to capital, and administrative hurdles. Due to these obstacles, private companies have found it challenging to invest in and operate in Timor-Leste, which has hampered the potential for deeper economic integration between the two countries.

According to the liberal viewpoint, improving cooperation between the public and private sectors may be the response to the current problems. It calls for improving the business climate, removing administrative roadblocks, promoting accountability and openness, and enabling financial resources. Indonesia and Timor-Leste could work together to address the problems and advance economic integration as part of their economic partnership. They could also strengthen their alliance through a regional structure like the ASEAN Economic Community since Timor-Leste will soon become a full member.

However, this standpoint is challenged by the point of view of neocolonialism. Economic neocolonialism, unlike what liberal views suggest, points out the ongoing unequal power setups left over from colonial times that keep unfair relationships in the worldwide economy going. This idea looks back at history, recognizing how the ways of doing business during colonial periods still affect how countries relate today. It highlights how stronger countries and big companies keep weaker nations on the sidelines, making them feel less important. This critical way of thinking relies on dependency theory, explaining how economic neocolonialism makes less powerful economies depend on stronger ones. It illustrates how unequal trade works, where poorer nations with lots of resources end up in deals that do not benefit them much, keeping them in a cycle of being taken advantage of (Deji, 2011). Moreover, this approach takes a close look at things like international financial

groups and trade deals. It displays how these things reinforce neocolonial systems by setting conditions for loans, making trade rules that favor richer nations, and spreading their culture. It talks about the effects on society and the environment, pushing for different economic ideas and plans that give more power to countries that have been pushed aside in the past.

From the perspectives of liberalism and neocolonialism in economic investment, the role of Indonesian companies in Timor-Leste necessitates careful consideration of several crucial aspects:

1. Facilitating mutually beneficial outcomes for all involved parties, fostering fair and sustainable cooperation
2. Ensuring the transfer of technology and human resource development as integral components of the investment process, enhancing local capabilities, and fostering sustainable development
3. Encouraging the involvement of diverse stakeholders, both domestic and foreign, in the investment endeavors, creating open opportunities for participation from various resources

Within this theoretical framework, the liberal approach emphasizes the significance of mutually beneficial cooperation in economic investment, focusing on technological exchange and human resource advancement that yield positive impacts for both parties involved. Conversely, the neocolonial perspective cautiously considers the involvement of diverse stakeholders to prevent dominance by any single entity and ensure equitable benefits for all engaged in the investment. The framework advocates for a balanced approach, where investments not only generate profits but also foster technological advancement, human resource capacity building, and inclusive participation, thereby contributing to the overall development and sustainability of Timor-Leste's economy.

RESEARCH METHOD

This research utilized a descriptive qualitative method (Snishchenko & Krot, 2021), seeking to give a complete picture of the private sector's responsibilities in economic cooperation. The data were gathered through a desk

research. The desk research included the review of existing academic and non-academic literature on the issue (Snishchenko and Krot 2021).

The research utilized a time frame from 2002, which marked the independence of Timor-Leste from Indonesia, until 2022, which commemorated the 20th anniversary of Timor-Leste's independence as a nation. This time frame of 20 years was likely selected to capture the developments and changes that have occurred in Timor-Leste since its independence and to provide a comprehensive analysis of the roles played by the private sector in economic cooperation during this period. This article examined various operations of Indonesian companies, including SOE and private companies, that operated in Timor-Leste during that time frame.

RESULT AND ANALYSIS

This section of the discussion delves into specific examples that highlight the significant contributions of Indonesian companies operating in Timor-Leste across various sectors. These sectors encompass crucial components of the economy, including infrastructure, banking, telecommunications, and energy. Indonesian companies have played a pivotal role in advancing these fundamental areas, contributing to the overall development and progress of Timor-Leste. By actively participating in these sectors, these companies have contributed not only to their growth but also to the broader economic landscape of Timor-Leste. Furthermore, the rationale behind favoring Indonesian companies over their counterparts from other nations was explored. The argument centers on the historical ties between Indonesia and Timor-Leste, with the latter having been part of Indonesia in the past. This historical connection has provided Indonesian companies with a distinct advantage rooted in their historical and foundational knowledge, enabling them to navigate and operate effectively in the unique context of Timor-Leste. Accordingly, this advantage has positioned Indonesian companies as key players in Timor-Leste's economic development, bringing not only expertise but also a nuanced understanding of the local dynamics shaped by their shared history.

THE PRESENCE OF INDONESIAN COMPANIES IN TIMOR-LESTE

Indonesian enterprises have played a critical role in Timor-Leste's economy since the country's independence from Indonesia in 2002. It is hardly surprising given that Timor-Leste, as a newly independent country, has yet to fulfill its requirements and relies significantly on cooperation with other countries. Nevertheless, some businesses in Timor-Leste are not new, but they have existed since Timor-Leste was still a part of Indonesia. It is worth noting, however, that these companies did not discontinue operations in Timor-Leste upon the split. On the contrary, these companies might take this opportunity to expand and improve their worldwide connections.

Indonesian Companies in Timor-Leste's Infrastructure Development

Infrastructure development is an essential aspect of a country's development since it includes physical and organizational structures, facilities, and systems that help a society work (The Economist, 2019). Infrastructure development is critical for a country's economic progress and the well-being of its population. The provision of dependable and efficient infrastructure is crucial for facilitating trade, commerce, and industry, as well as providing job possibilities. As a result, investment in infrastructure development can considerably contribute to a country's social and economic prosperity. Since Timor-Leste's independence from Indonesia in 2002, the Indonesian private sector has played a key role in infrastructure development. Indonesian companies have been involved in several infrastructure projects, including the construction of roads, bridges, water supply systems, and public buildings.

The involvement of corporations in infrastructure development is critical to a country's economic growth, and in Timor-Leste, limited liability companies (LLCs) have spearheaded this role. PT Wijaya Karya (Persero) (WIKA) is an Indonesian SOE involved in several significant projects. The company's engagement in Timor-Leste involved the development of the Oecusse International Airport, a major infrastructural facility becoming a vital link between the northern section of the

Oecusse area and Timor-Leste's mainland. The project, which was completed in 2018, featured around 500 employees from Indonesia and Timor-Leste and had a total cost of USD 119 million (Wijaya Karya, 2019). Francisco Guterres, President of Republic Democratic of Timor-Leste (RDTL), has expressed gratitude for WIKA's commitment to infrastructure development and assistance for Timor-Leste. He acknowledged that WIKA, as an Indonesian SOE, has played an essential role in the connection between East Timor and Indonesia, as well as in the growth of Oecusse and Timor-Leste. The President believed that the Oecusse project's success could be repeated in other areas (IDNFinancials, 2019).

The building of the Comoro Bridge in Dili is another example. The bridge acts as a crucial transit route for people and products, connecting the Comoro neighborhood in Dili, the capital city of Timor-Leste, to the surrounding territories. It is a 310-meter main span, two-tower, cable-stayed bridge with a length of around 670 meters overall. In conjunction with a Timorese construction company, WIKA carried out the project.

The bridge's construction, which cost around USD 58 million in total, began in 2017 and was finished in 2019.

The engagement of Indonesian industries, notably WIKA, in the creation of the Comoro Bridge illustrates the two countries' close economic relations. It also highlights the critical importance of public-private partnerships in fostering regional infrastructure development and economic prosperity.

In addition to the Oecusse airport and Comoro bridge, WIKA has also been heavily involved in the construction and maintenance of roads. For example, another WIKA foreign project that would soon prove its quality was the Manatuto Road in Timor-Leste—a 4.2 km road connecting Manatuto to the village of Soibada. The Director of Operations III of WIKA, Destiawan Soewardjono, added that since expanding to Timor-Leste in 2012, the company had secured contracts worth USD 300 million until 2019 (WIKA, 2019).

Indonesian Companies in Timor-Leste's Energy Sector

Indonesian companies have demonstrated a presence in Timor-Leste's energy sector, notably in the power, oil, and gas sectors. It is unsurprising considering that Indonesia is a key participant in the global oil and gas business, and Timor-Leste is located in a natural resource-rich region.

The first company participating was WIKA, the leading Indonesian infrastructure company, which has actively contributed to the development of Timor-Leste's energy infrastructure. WIKA has inaugurated three of seven diesel power plants in Timor-Leste's Hera area. The combined capacity of these diesel power plants was 119.5 megawatts. The project is an essential initiative toward achieving the goal of providing reliable and affordable energy to the people of Timor-Leste, thus driving the socio-economic growth of the nation. The successful completion of the diesel power plant project has served as a testament to WIKA's commitment to sustainable development and social responsibility (Detikfinance, 2019).

PT Pertamina, Indonesia's state-owned oil and gas corporation, was another major Indonesian business that has been active in Timor-Leste's energy industry. Pertamina has been involved in several energy initiatives in Timor-Leste, including the exploration and production of oil and gas resources, as well as the supply of gasoline to the local market. Being Indonesia's state-owned oil and gas business, Pertamina has played a critical role in Timor-Leste's development, notably in the energy sector. Pertamina's participation in Timor-Leste began in the early 2000s following the country's independence from Indonesia. Since then, Pertamina has been aggressively exploring and exploiting the country's oil and gas resources.

Pertamina's key contribution to the development of Timor-Leste has been the provision of fuel for the domestic market. Pertamina has presented in Timor-Leste via its subsidiary, Pertamina International Timor SA (PITSA), which commenced operations on November 1, 2015. PITSA has been carrying on Pertamina's operations in Timor-Leste, which was previously administered by Timor-Leste Marketing

Representative Pertamina (MRTL). Pertamina has set up a storage facility in Dili, Timor-Leste's capital, to supply gasoline to the country's power plants and other facilities, such as airports and seaports. It has aided in ensuring a consistent supply of electricity for Timor-Leste's expanding economy and population. Moreover, PITSA held the responsibility to oversee the ownership and operation of Timor-Leste's fuel-related facilities, such as the Dili Fuel Terminal, which has been in use since 1984, including six vertical storage tanks with a combined capacity to hold up to 5.2 million liters of gasoline. The port featured three filling stations that could fill up to 400 hundred liters of petroleum to tank trucks per day and a jetty with a maximum capacity of 6,000 DWT. The Comoro Airport Fuel Terminal, with three refuelers and a storage tank capacity of 220 KL for Avtur, was likewise run by PITSA. The facilities are essential for Timor-Leste's economy to develop and for providing a steady fuel supply (PITSA, 2023).

Indonesian Company in Timor-Leste's Banking Industry

Timor-Leste's financial activities have been massively assisted by the Indonesian banking sector. The establishment of a solid presence in Timor-Leste by Bank Mandiri and Bank Rakyat Indonesia (BRI) has resulted in substantial progress toward the growth of the nation's financial industry. These banks have played a significant role in the introduction of a wide variety of banking services and products, including deposit accounts, loans, foreign exchange services, and other financial goods, to the Timorese market. Additionally, they have taken a leading role in assisting Timor-Leste's small and medium-sized businesses (SMEs) by giving them access to funding and other financial resources. Overall, the presence of Indonesian banks has played a key role in fostering the growth and development of Timor-Leste's banking industry, and this trend is expected to continue in the future. Nonetheless, the volume of deposits held by various banks in the Indonesian banking system has fluctuated. Bank Mandiri, which formerly held Timor-Leste's second-largest deposit portfolio, saw deposits fall from USD 376.2 million in 2018 to USD

340.88 million in 2019. Nevertheless, BRI's deposits rose from USD 26.79 million in 2018 to USD 33.69 million in 2019 (IPIM, 2020).

However, former President of Timor-Leste José Ramos Horta recently criticized these banks for charging high interest rates of 16% or more, which he claimed impeding economic growth and development, despite the positive contributions Indonesian banks have made to the development of the banking sector in Timor-Leste. These critiques highlight a possible problem with the methods applied by Indonesian banks in Timor-Leste. Although these banks have assisted SMEs in the nation and provided a variety of banking goods and services, high interest rates could deter private companies from taking out loans, which might eventually hinder economic progress (Warta Ekonomi, 2020).

Indonesian Companies in Timor-Leste's Telecommunications Industry

Together with their contributions to the infrastructure, energy, and banking sectors, Indonesian telecommunications companies have established themselves in Timor-Leste. Telkom Indonesia, the biggest supplier of telecommunications services in Indonesia, has operated a branch named Telkomcel in Timor-Leste. Telkomcel has become a significant participant in Timor-Leste's telecommunications sector by offering phone, internet, and SMS services (Radiawati, 2013).

The presence of Indonesian telecommunications companies in Timor-Leste has been beneficial for both countries. Timor-Leste has struggled with underdeveloped telecommunications infrastructure, making access to mobile services a challenge for its citizens. With the entry of Indonesian companies, the Timorese people have had improved access to mobile services. Moreover, the expansion of Indonesian companies into Timor-Leste has opened a new market for telecommunications services, which has bolstered economic ties between both nations.

WHY INDONESIAN COMPANIES AND WHY THESE SECTORS?

The selection of these sectors and the involvement of Indonesian companies in the collaborative efforts between Indonesia and Timor-Leste stemmed from a

confluence of factors: historical ties, pragmatic considerations, developmental expertise, and shared visions articulated through bilateral agreements and policy commitments. These factors collectively contributed to the strategic importance and rationale behind the sectors chosen and Indonesian companies' active participation in fostering Timor-Leste's development.

The strategic focus on sectors such as infrastructure, energy, banking, and communication in the collaboration between Indonesia and Timor-Leste has underscored their critical role in national development. These sectors were pivotal in fostering economic growth and were interconnected, thereby stimulating a spillover effect and uplifting other segments of the economy. Infrastructure, for instance, has played a fundamental role in bolstering trade activities, notably in the motor vehicle trade, a significant aspect of bilateral commerce between the two nations. This pivotal sector has served as a cornerstone supporting Timor-Leste's burgeoning economy, offering various advantages such as job creation, cost reduction through enhanced transport networks, increased production capacity, better market connections, and improved access to essential facilities.

The historical association between Indonesia and Timor-Leste further reinforced the rationale behind Indonesian companies' involvement in these sectors. Indonesia's past involvement and expertise in fundamental facility development, especially in rural areas, served as a crucial foundation for initiating and guiding Timor-Leste's developmental journey. Hence, leveraging Indonesia's experience in infrastructure development became pragmatic for Timor-Leste as it facilitated essential elements like tourist access and key trade routes, further justifying the partnership with Indonesian companies (Asian Development Bank, 2011).

Moreover, the commitment of Indonesian companies across multiple sectors in Timor-Leste has reflected a strategic shift. Timor-Leste's prior dependence on Australian and Portuguese companies during 2002-2009 for basic sector development lacked competitiveness in pricing and services (Winda, 2017). Consequently, turning toward Indonesia as a strategic partner became imperative. Specifically, in telecommunications and banking,

Timor-Leste's inclination toward Indonesian companies like Telkomsel through PT Telkom Internasional, Bank Mandiri, and BRI countered the dominance of Australian and Portuguese counterparts. This shift signifies Timor-Leste's strategic decision to enhance competitiveness and diversify partnerships.

Additionally, the Memoranda of Understanding (MoU) between the governments of Indonesia and Timor-Leste has implied a tangible manifestation of their foreign policy visions in development. The MoU, dating back to 2002 and continued with several other more specific MoU after 2011, has served as a testament to the intensification of bilateral relations, especially during the administrations of Susilo Bambang Yudhoyono and continued pragmatically under Joko Widodo's leadership. These agreements have underscored Indonesia's keen interest in maximizing investments and solidifying partnerships, positioning Timor-Leste as one of the most promising allies.

THE INFLUENCES OF INDONESIAN COMPANY INVOLVEMENT IN TIMOR-LESTE

The presence of the Indonesian private sector in Timor-Leste has significantly contributed to the development of trade relations between the two nations, the creation of new business possibilities, and Timor-Leste's economic development. Both Indonesia and Timor-Leste have benefited greatly from the creation of Indonesian businesses.

To begin with, the establishment of trade ties between the two countries has been greatly aided by the presence of Indonesian businesses in Timor-Leste. It is because international trade and investment usually foster interdependence and solidify ties between various political and economic systems. The presence of Indonesian businesses in Timor-Leste has opened new opportunities for trade and commerce and helped to lower obstacles to economic integration between the two countries. An MoU on Human Resource Development and Knowledge Exchange, an MoU on Cooperation in Industrial Engineering, and an MoU on Cooperation in Economic Zones in Border Areas were all signed on February 13, 2023, as evidence of this cooperation (Indonesian Cabinet Secretariat, 2023).

Second, the expansion of Indonesian businesses into Timor-Leste has given these businesses the opportunity to diversify their business models and reduce their dependency on the domestic market. Businesses in Indonesia have benefited from diversification by becoming more resilient to economic shocks and by being able to grow their commercial activities outside of their home market. With millions of dollars invested, the Timor-Leste market has proven to be profitable for Indonesian businesses. Indonesian SOEs and other businesses must continue to contribute to Timor-Leste's economic development, particularly in the infrastructure sector. A bilateral investment treaty between the two countries must be finalized as quickly as possible for investors to have more assurance and predictability.

Additionally, Indonesian companies' investment in Timor-Leste has considerably contributed to the country's economic progress. The Indonesian investment in Timor-Leste was presently USD 818 million, with the banking, energy, and telecommunications industries accounting for a sizable share of that investment. Overall, Indonesian company expansion into Timor-Leste has offered new opportunities for both nations and could boost regional economic growth and development (Indonesian Foreign Ministry, 2022). Economic activity and investment in the country have increased as a result of the creation of job opportunities and the support of local economic growth. These companies' formation has also permitted the transfer of technology, knowledge, and skills to the local workers, contributing to the development of a skilled labor force. Furthermore, the existence of these companies has enhanced access to goods and services such as telephones, electricity, and agricultural products, raising competition and lowering consumer costs. As a result, the two nations' relationship has been enhanced, and continuing private-sector engagement has been projected to be mutually advantageous in the future.

THE OPPORTUNITIES OF INDONESIAN COMPANIES IN TIMOR-LESTE'S ECONOMY

Indonesian companies could capitalize on considerable prospects for infrastructure and natural resource development in Timor-Leste, with private sector

participation benefiting both nations. Opportunities for infrastructure development in Timor-Leste included transportation, telecommunications, and energy (Kusago, 2005). Nonetheless, the country's infrastructure was somewhat poor, particularly in rural locations, requiring roads, bridges, and airports to be built or upgraded to allow transit and trade inside the country and with neighboring countries. Furthermore, because only a tiny fraction of the population has access to the internet, there existed a high need for communication infrastructure expansion, particularly for mobile networks. Successive administrations have prioritized the repair of Timor-Leste's connective infrastructure (World Bank Group, 2018). The development of infrastructure projects in Timor-Leste might benefit from the knowledge that Indonesian businesses have in these fields. Infrastructure improvement in Timor-Leste has the potential to boost connections both inside and between nations, spur economic expansion, and generate job opportunities. Moreover, it could support regional commerce and integration, enhancing attractiveness to investors.

The second opportunity was in the energy sector. Timor-Leste has significant natural resources development opportunities, including oil and gas reserves, minerals, and agriculture. The Timor Sea has abundant oil and gas resources, and the government has announced plans to develop these resources to boost economic growth (Asian Development Bank, 2011). The government, through its autonomous agency, the National Petroleum and Minerals Authority, has contracted with foreign companies to explore and develop offshore oil and gas deposits (US Department of State, 2018). The country also has the potential for the development of minerals such as gold, copper, and manganese.

The subsequent opportunity was in the agriculture sector, a crucial sector in Timor-Leste, with most of the population engaged in farming. However, the country encountered challenges in this sector, including undernutrition and limited knowledge and experience in agroforestry (Paudel et al., 2022). To solve these difficulties, Timor-Leste must invest in and expand its agricultural industry. Indonesian companies might utilize their agricultural experience to establish sustainable and

effective farming techniques in Timor-Leste. It would not only increase food production but also create jobs and encourage economic growth in the country. Furthermore, investing in agroforestry has the potential to save the ecosystem and alleviate the effects of climate change.

Timor-Leste also had a significant demand for telecommunications infrastructure development, especially for mobile networks, as only a small percentage of the population had access to the internet. According to Kepios analysis, there were 691.2 thousand internet users in Timor-Leste in January 2022, representing a 51 percent internet penetration rate of the total population. It indicates an increase of 97 thousand (+16.4 percent) internet users between 2021 and 2022. However, for perspective, these user figures revealed that 665.4 thousand people in Timor-Leste did not use the internet at the beginning of 2022, meaning that 49 percent of the population remained offline at the time (Kemp, 2022). These factors are critical for Indonesian companies looking to enter Timor-Leste's telecommunications market. Indonesian companies could contribute to Timor-Leste's economic growth and development by investing in telecommunications infrastructure development.

The private sector's engagement in infrastructure and natural resource development could benefit both Timor-Leste and Indonesia. For starters, it has the potential to enhance economic growth and development in Timor-Leste, resulting in poverty reduction, higher living standards, and better social welfare. Second, it has the potential to increase employment and entrepreneurship in the country, generating greater economic diversification and stability. In the end, the engagement is expected to foster regional integration and collaboration, therefore contributing to the region's overall economic development (Asian Development Bank, 2011).

The most recent opportunity for the development of private sector engagement was the inclusion of Timor-Leste as an official member of ASEAN. This development has presented several new opportunities for cooperation between ASEAN member states. ASEAN provides a framework for economic collaboration, such as the ASEAN Free Trade Area and the ASEAN

Economic Community, facilitating increased trade between countries in various sectors, particularly involving the private sector. The ASEAN Single Aviation Market signifies such a framework (Laplace et al., 2019), enhancing air connectivity between Timor-Leste and the ASEAN region, where previously, transportation to Timor-Leste was challenging and limited in terms of pricing and options available for customers. With Timor-Leste joining ASEAN, opportunities emerge for Indonesian private sector businesses in the aviation industry to expand and penetrate the Timor-Leste market, thus enhancing connectivity between the nations.

To obtain these advantages, Indonesian businesses must work with Timorese stakeholders and communities, respect local traditions and practices, and follow globally accepted corporate social responsibility norms. By doing so, Indonesian companies could ensure that their participation in infrastructure and natural resource development projects in Timor-Leste would be long-term and equitable. This relationship has the potential to open doors for Timorese companies and employees, therefore contributing to the country's economic growth and development (Asian Development Bank, 2011).

THE CHALLENGES OF INDONESIAN COMPANIES IN TIMOR-LESTE

Before making any commercial decisions, Indonesian companies wanting to invest and operate in Timor-Leste might face a variety of challenges. Undeveloped infrastructure, a small local workforce for the targeted business, historical and current political instability, a complex regulatory environment, and a small market size could all be obstacles. In-depth discussions of each of these issues and suggestions on how Indonesian companies could get around them are provided in this section.

One of the biggest problems for Indonesian companies in Timor-Leste was a lack of supporting infrastructure for the development of the business. Infrastructure in Timor-Leste was still subpar, particularly in remote and rural areas. It might make it challenging for Indonesian companies looking to grow in these regions to have access to necessities like power, water, and telephones. Moreover, the lack of proper transportation

infrastructure might make it challenging for companies to deliver goods and supplies (Asian Development Bank, 2011). Indonesian companies might need to make investment in creating their infrastructure or work with regional companies that already have the infrastructure in place to get over these barriers. They have to look into alternative transportation options, such as using boats or aircraft to convey goods to far-off places.

Lack of local labor was another issue Indonesian businesses in Timor-Leste had to deal with. There were few skilled employees and a tiny population in Timor-Leste (ILO, 2016). Indonesian companies wanting to cooperate with or recruit locals might find it challenging as a result. Also, it could be difficult to collaborate and communicate effectively with local stakeholders due to linguistic and cultural difficulties. Indonesian companies might need to help local employees receive the training necessary for their operations to solve these issues. They might also need to work with regional partners who have established relationships and market knowledge.

Political instability was another challenge facing Indonesian companies in Timor-Leste. Since gaining independence in 2002, Timor-Leste has experienced periods of political instability, with occasional outbreaks of violence and protests (Grenfell, 2015). Many prime ministers and administrations have established and fallen throughout the years, frequently characterizing the political scenario in Timor-Leste. Businesses operating in the nation might encounter difficulties due to this volatility, especially those in delicate industries like infrastructure and natural resources. Regulations, rules, and laws might change as a result of the shifting political landscape, which might impact how Indonesian businesses operate (Feijó, 2019). For Indonesian businesses eager to invest in the nation, this might be unsettling, especially if they have concerns about the security of their personnel and property. Before making any commercial choices in Timor-Leste, Indonesian companies might need to do a complete risk assessment to reduce this risk. Moreover, they would need to create backup plans in case of any political or security concerns. Timor-Leste's regulatory climate could likewise provide

substantial challenges for Indonesian businesses.

Several of the criteria governing business and investment operations were unclear as they were still being formulated. Hence, it might be challenging for Indonesian businesses to comply with the legal and regulatory framework, necessitating the use of additional resources. Indonesian companies might need to work with regional peers who have links to the government and a solid understanding of the local regulatory environment to overcome this obstacle. The difficulties included the absence of a clear legal framework for business transactions, a dearth of alternative conflict resolution mechanisms, and insufficient legal remedies for business problems. They might need to hire legal and regulatory experts, both of whom were in limited supply, to obtain compliance support (Dalberg, 2018).

Lastly, a small market size could be a problem for Indonesian businesses operating in Timor-Leste. The country's economy was tiny and undeveloped, limiting the potential market size for Indonesian companies wishing to grow their operations there. Furthermore, Timorese customers' limited purchasing power (Freedman, 2020) could hamper Indonesian companies in attaining economies of scale and profitability. To address this issue, Indonesian businesses should consider diversifying their operations and investigating possibilities in other nations in the area. They could also collaborate with local partners to explore specialized markets and development prospects.

SOLUTIONS ON INDONESIAN COMPANIES' SECTORAL INVOLVEMENT IN TIMOR-LESTE

To further leverage the MoU established between various Indonesian and Timor-Leste ministries, Indonesia proposed a comprehensive strategy for cooperative training and technology transfer. The existing MoU, such as those focused on small and medium enterprises, transportation education, institutional capacity building, and technical cooperation, could serve as a foundation. Implementation of sectoral roles should not only be pragmatic but also include reciprocal schemes such as Corporate Social Responsibility (CSR) initiatives for effective skills transfer and technology sharing.

Moreover, Indonesia aims to extend collaboration beyond sectors by providing governance assistance to fortify democracy and stabilize the political landscape in Timor-Leste. This collaborative effort aims to bolster political development in Timor-Leste. Reciprocal cooperation could involve stronger support for Timor-Leste's membership aspirations within ASEAN, ensuring mutual benefits and stability. In pursuit of broader market share, Indonesia advocated for triangular cooperation frameworks. Collaboration in Timor-Leste should extend beyond bilateral partnerships to include pragmatic involvement from other parties. Triangular cooperation involves partnerships between developing countries supported by developed nations or multilateral organizations. Evidence suggests that the financial and technical expertise of developed partners is often crucial in assisting developing countries. Therefore, involving multiple stakeholders in development cooperation would facilitate a more holistic and advantageous approach to regional development in Timor-Leste.

CONCLUSION

The collaboration between Indonesia and Timor-Leste, notably involving Indonesian businesses in Timor-Leste's economic development, has signified a pivotal step toward fostering economic cooperation and mutual interdependence. This collaboration not only promised prosperity but also strived to establish enduring peace, aligning with the liberal principles of international relations. Timor-Leste's potential for infrastructure and natural resource development has presented Indonesian companies with an opportunity to bolster their economic growth and diminish reliance on foreign aid. However, challenges faced by Indonesian companies in Timor-Leste, including inadequate infrastructure, a scarcity of skilled workforce, political instability, and complex regulations, underscored the necessity for a robust legal framework to facilitate foreign investment and economic cooperation.

Addressing these challenges required a concerted effort toward sustainable regulatory consistency, alongside promoting political stability, robust infrastructure, and investment in human capital development to bridge the

skills gap. Liberal perspectives in international relations stress the importance of fostering collaboration among governments, businesses, and civil society to drive economic growth and development. The selection of specific sectors and the engagement of Indonesian companies in joint efforts between Indonesia and Timor-Leste derived from historical connections, pragmatic considerations, developmental expertise, and shared visions articulated through bilateral agreements and policy commitments. These factors collectively underpinned the strategic significance and rationale behind the selected sectors and Indonesian companies' active participation in advancing Timor-Leste's development.

The strategic focus on crucial sectors like infrastructure, energy, banking, and communication has underscored their pivotal role in national development. These interconnected sectors generated a ripple effect, uplifting various segments of the economy. The historical ties between Indonesia and Timor-Leste reinforced the rationale behind Indonesian companies' involvement in these sectors. Indonesia's past expertise in fundamental infrastructure development, especially in rural areas, has provided a crucial foundation for guiding Timor-Leste's developmental journey. Leveraging Indonesia's experience became pragmatic for Timor-Leste, facilitating elements like tourist access and essential trade routes, further justifying partnerships with Indonesian companies.

The commitment of Indonesian companies across multiple sectors in Timor-Leste has represented a strategic shift. Timor-Leste's past reliance on Australian and Portuguese companies for basic sector development lacked competitiveness in pricing and services. Thus, turning toward Indonesia as a strategic partner became imperative. Additionally, the MoU between the governments of Indonesia and Timor-Leste embodied their foreign policy visions in development. These agreements signified the deepening of bilateral relations, especially during the administrations of Susilo Bambang Yudhoyono and pragmatically under Joko Widodo's leadership. These pacts underlined Indonesia's keen interest in maximizing investment and solidifying partnerships, positioning Timor-Leste as a promising ally.

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