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TIMOR-LESTE AND WTO ACCESSION

Harnessing Momentum to Support Development Outcomes

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This work is a product of the staff of The World Bank with external contributions and is partially supported by the Umbrella Facility for Trade trust fund, financed by the governments of the Netherlands, Norway, Sweden, Switzerland and the United Kingdom. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent.

Cover design: Arsianti
The report was designed and typset by Arsianti

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ACKNOWLEDGMENT

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Financial support for this work was generously provided by the governments of the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom through the Umbrella Facility for Trade Trust Fund.

ABBREVIATIONS

ADB	Asian Development Bank
AfT	Aid for Trade
ASEAN	Association of Southeast Asian Nations
ASYCUDA	Automated System for Customs Data
CEM	Country Economic Memorandum
CTIF	Canadian Trade and Investment Facility for Development
DTIS	Diagnostic Trade Integration Study
EDI	Electronic Data Interchange
EIF	Enhanced Integrated Framework
EPA	EU-Pacific Economic Partnership Agreement
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GPS	Global Positioning System
GSP	Generalized System of Preferences
HHI	Herfindahl-Hirschman Concentration Index
ICT	Information and Communication Technology
IP	Intellectual Property
IPPC	International Plant Protection Convention
ISPs	Internet Service Providers
ITA	Information Technology Agreement
ITC	International Trade Center
JSI	Joint Statement Initiative
LDCs	Least Developed Countries
LED	Light-Emitting Diode
LPI	Logistics Performance Index
MC	Ministerial Conference
MCAE	Coordinating Ministry of Economic Affairs
MFN	Most Favored Nation
MNCs	Multinational Companies
MSMEs	Micro, Small, and Medium Sized Enterprises
NQCI	National Quality Control Institute
NQI	National Quality Infrastructure
NSW	National Single Window
NTBs	Non-Tariff Barriers
OECD	Organization for Economic Co-operation and Development
PCs	Personal Computers
PTAs	Preferential Trade Agreements
SDT	Special and Differential Treatment
SEZ	Special Economic Zone
SPS	Sanitary and Phytosanitary Measures
STDF	Standards and Trade Development Facility
TBT	Technical Barriers to Trade
TFA	Trade Facilitation Agreement
TRTA	Trade-Related Technical Assistance
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WOAH	World Organization for Animal Health
WTO	World Trade Organization

EXECUTIVE SUMMARY

WTO accession is a challenging process typically commanding a heavy price in terms of resources and time expended while also calling for the expense of non-trivial political capital by an acceding country's policymakers. Nevertheless, gaining membership of the world trade body represents a once in a generation opportunity for acceding countries to embark upon and sustain a set of deep structural reforms seldom possible in the absence of binding policy commitments. As such, WTO accession affords candidate countries a unique opportunity to align domestic policy, legislative and regulatory norms and procedures with international best practices, with the payoff being a permanent seat – and voice - at the table of international trade rulemaking alongside the explicit guarantee of non-discriminatory, stable and predictable market access that the WTO provides to all its members.

Timor-Leste is a young nation facing a set of unique challenges as it nears the completion of its WTO accession process[1]. Such challenges include a small domestic market, still comparatively behind in terms of purchasing power, and the high trade costs that its firms and consumers are forced to contend with. Timor-Leste further exhibits weak export diversification and is a post-conflict society still susceptible to social and political tensions while also being exposed to natural disasters. Additionally, Timor-Leste suffers from poor connectivity both regionally and globally, though important improvements have recently made or are soon set to materialize in regard to transport (both maritime and air) and telecommunications links to the rest of the world.

While WTO and subsequently ASEAN accession can help Timor-Leste address and overcome many of the above challenges, neither of these outcomes can – nor should be expected to - produce miracles by themselves. Both, however, can help guide and anchor a wide range of reforms that the country would be well-served to implement if either of these processes is to succeed in helping Timor-Leste and its people secure greater and cheaper access to the inputs and foreign direct investment (FDI) needed to address prevailing supply-side and connectivity weaknesses. In turn, Timor-Leste could reap the benefits of closer integration into the global trading system and heightened participation in regional value chains.

This report considers the case for Timor-Leste to bring its quest for WTO accession to a successful conclusion. It advances a set of arguments designed to help the country's policymakers in their dialogue with domestic stakeholders and

[1] On January 11, 2024, members endorsed Timor-Leste's WTO membership, concluding a more than seven-year process initiated in 2016. The formal decision is scheduled to take place at the WTO's 13th Ministerial Conference (MC13) in Abu Dhabi in February 2024. For more information on the accession process see https://www.wto.org/english/thewto_e/acc_e/a1_timor_leste_e.htm.

constituents of the benefits that the Timorese economy and its citizens stand to derive from placing the country's trade ties to the world market on a stable and predictable global footing. This is so because, as the experience of many recently acceded countries has shown, the many reforms associated with WTO accession, when supported by the necessary political will, are conducive to the long-term, sustainable, strengthening of Timorese economic governance.

This report is divided into three parts. Part 1 offers a brief overview of Timor-Leste's recent trade performance and the overall macro-economic context within which the country's quest for WTO accession takes place. Part 2 provides an overview of the WTO accession process and its legal and institutional implications for Timor-Leste. This part first examines the legal foundations and procedural aspects of the accession process and the long-term impacts it can be expected to exert on trade policy making in Timor-Leste. It then takes up the implications of the market access negotiations in goods and services that form an integral part of WTO accession negotiations. Part 2 concludes with a discussion of the legislative and regulatory reforms that form part of the accession process and offers some explanations on harnessing the process to maximize its benefits for the country.

Part 3 of the report focuses on WTO accession and how it can be leveraged to achieve long-run economic growth. This part discusses some of the identified linkages between WTO accession and growth, as well as some of the potential gains on offer for Timor-Leste, specifically. It also outlines how the process of WTO accession can boost the contribution of services and digital trade to Timorese growth and structural transformation.

The report concludes with a call for Timor-Leste to maintain the strong existing momentum of its accession journey while also managing expectations of the short-term impacts of WTO accession. The benefits of accession will take time to materialize as the Timorese economy adapts to more competitive market conditions while also pursuing the deep domestic reforms needed to diversify and boost the competitiveness of country's export basket and strengthen its trade infrastructure. Managing expectations requires a careful balancing act for Timorese policymakers. On the one hand, they will need to realize the promised benefits of WTO accession, while on the other hand, refrain from offering WTO membership as the solution to the many structural constraints currently besetting the Timorese economy.

This report articulates the potential benefits of WTO membership while also reflecting on the challenges involved in a least developed country (LDC) setting such as that of Timor-Leste. Several key messages emerge from this report's analysis:

- Timor-Leste is a small open economy that relies heavily on international trade for its prosperity. The country's limited progress to date in tackling domestic supply-side constraints has meant that Timor-Leste's long-held commitment to an outward-looking economic strategy has yet to produce sustained growth and development dividends.
- Supportive trade policies, including the twin processes of WTO and ASEAN accession, need to be coupled with reforms that eliminate supply-side constraints to private sector development and broader economic diversification.
- WTO accession is a long process with established procedures and mechanisms that can guide countries and offer insights into the commitments they will be expected to make. Each country's accession is different, with scope for negotiators to craft a set of outcomes and solutions specifically tailored to the circumstances of a given applicant. Timor-Leste can leverage WTO Guidelines for the Accession of Least Developed Countries (LDCs) to secure additional policy space where needed.
- Market access negotiations can also be used to extract needed policy space, for instance in setting tariff bindings above currently applied levels (in the case of goods) where necessary, but also to schedule services commitments that will support regulatory reforms to strengthen the ease of doing business, more generally.
- More than just being the trade-off for WTO membership, the domestic reforms induced by WTO accession represent a once-in-a-generation opportunity for policymakers to bring Timor-Leste's legislative and regulatory frameworks in line with international best practice and expose key public and private sector stakeholders to high standards of global economic governance.

- With a small domestic market, the only way for Timorese firms to achieve competitiveness-enhancing economies of scale is by exporting to regional and global markets, something that accession to the WTO and later ASEAN can be instrumental in supporting.
- A large body of empirical research points to important causal linkages between WTO accession, productivity, growth and improved national competitiveness. However, it is important to understand the direction of the causal linkages, i.e., that it is pro-competitive domestic reforms that drive export competitiveness.
- Given the many constraints faced by Timor-Leste, including a relatively narrow export base, the promise of services-led development appears particularly promising.
- Conventional wisdom has long suggested that manufacturing-led growth represents the main path to economic development. Recent research shows that services-led growth can be highly effective in helping countries accumulate human capital and move up the development ladder.
- Harnessing the development promise of services trade will require Timor-Leste to focus on improving the country's business and regulatory climate,s while also scaling up investments in education and skilling to raise the quality of domestic human capital.
- Timor-Leste's services offer recognizes the importance of open and competitive services markets. So does its commitment to join both the Reference Paper on Basic Telecommunications and the Joint Statement Initiative (JSI) on Domestic Services Regulation.
- Timor-Leste should consider pre-committing to the recently agreed JSI on Investment Facilitation to Development. Doing so would send a strongly positive signal to potential foreign investors.
- Timorese policymakers can harness the WTO accession process to position the country's firms to participate more fully in the digital economy.
- Preparing to connect with digital value chains requires its own set of comprehensive regulatory reforms, many of which have important synergies with those being undertaken as part of the WTO accession process.
- Because of the elevated incidence of non-tariff barriers (NTBs) in international trade today, the importance of national quality infrastructure (NQI) has likewise taken on an elevated position in the interface between domestic regulation and trade policy.
- WTO accession offers a chance to tap into trade-related technical assistance in order to improve and strengthen the institutions at the center of Timor-Leste's quality infrastructure, in particular the National Quality Control Institute (NQCI).
- In an era of regional and global value chains, the critical importance of lowering trade costs justifies the policy focus on border management issues. Technical assistance provisions embedded in the WTO Trade Facilitation Agreement offer Timor-Leste an important opportunity to improve and streamline customs practices to benefit its own exporters as well as current and future foreign investors.
- Experience shows that the domestic reforms associated to WTO accession, in both the regulation of cross-border trade in goods, and the domestic regulation of services, help to produce a better business environment and a more welcoming investment climate.
- Because the international community recognizes that accession-related reforms can be challenging, particularly for LDCs, WTO accession offers a chance to secure hitherto untapped levels of trade-related technical assistance from a broad array of donors. This is something that Timor-Leste has already experienced. Here again, experience suggests that Aid for Trade support will expand once Timor-Leste becomes a WTO member. Such support can facilitate the implementation of accession commitments and the design and enactment of further domestic reforms.
- The domestic consultative mechanisms established as part of the accession process to allow different parts of the government to collaborate should be maintained after the WTO accession process is completed, both to support implementation of accession commitments but also the negotiation of future trade agreements. The maintenance of such an institutional architecture will also lend support to - and help expedite – Timor-Leste's accession to ASEAN.

PART I

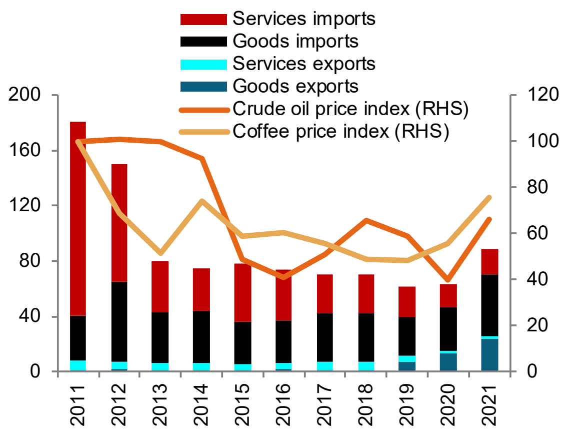
Situating Timor-Leste's Recent Trade Performance

Timor-Leste is a small open economy that relies heavily on international trade for its prosperity. In 2021, the share of trade in GDP reached 89 percent, with exports of goods and services contributing 26 percent of aggregate output while imports accounted for 63 percent of GDP (Figure 1). The export intensity of Timor-Leste's GDP stood at only 8.3 percent in 2011, its subsequent rise owing chiefly to the recording of oil and gas exports starting in 2019 . Despite such advances, the country's export competitiveness has been lagging and remains significantly below potential.

Between 2011 and 2018, Timorese goods and services exports averaged US$19 million and US$78 million respectively, representing only 1.3 percent (goods) and 5.5 percent (services) of GDP. By contrast, imports of goods and services averaged US$522 million and US$697 million, respectively, over the period.

Evidence of the Timorese economy's fragility can be seen in the ratios of goods and services imports to exports. These stood at 16.2 (for goods) and 8.4 (for services) respectively at the onset of the COVID19 pandemic, among the highest compared to peers. Such trends reveal not only the country's considerable reliance on imports but also the narrowness of its export basket.

Figure 1: Trade as share of GDP (percent)



Source: World Bank 2023 based on Timor-Leste customs transactions trade data

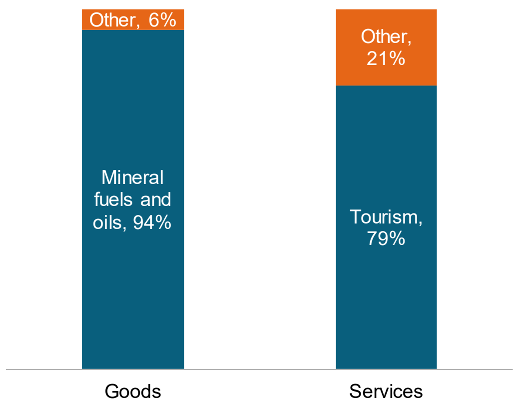
[2] Since the signature of the Maritime Border Treaty with Australia in 2018, previously disputed exports of oil and gas have been officially recorded in Timor-Leste's trade data.

The high degree of concentration of Timor-Leste's export basket exposes the country to significant vulnerabilities. In 2021, exports of oil and gas accounted for more than 94 percent of Timorese goods exports, while tourism generated 79 percent of services exports. Apart from hydrocarbons, coffee has been the second most important export commodity, contributing a further 5 percent of total merchandise exports in 2021. Such trends highlight the critical importance of trade diversification efforts, which rank among the main motivations behind Timor-Leste's quest to join the WTO and ASEAN and to deepen its bilateral trade ties with leading partners. Boosting the country's export potential will require a sustained strengthening of the country's private sector alongside continued efforts to build greater institutional capacity to address high and persistent structural economic vulnerabilities (Figure 4).

Among the most notable structural constraints faced by Timor-Leste are its small domestic market, the country's remoteness from global markets, the instability of its agricultural production, with attendant food security implications, and its vulnerability to environmental and natural disaster risks (World Bank 2023). Such constraints constitute potentially significant impediments to trade-led growth and translate into high trade and transportation costs. Further, high domestic production costs and export instability, combined with the volatility of the country's commodity exports, expose Timor-Leste to substantial terms of trade shocks and to the uncertainty of its export revenue base. Although security in the country has steadily improved, an overwhelming majority of businesses in Timor-Leste named political instability to be a major obstacle to their operations (World Bank 2023).

Timorese exports are heavily concentrated both in terms of products and destinations. In 2021, Timor-Leste exported a total of 51 products (measured at the 8-digit level) to 24 export destinations. Exports are dominated by oil, gas, and coffee, which together accounted for more than 99 percent of the total in 2021. Among non-energy exports, coffee remains the most important source of export revenue. Other export products are mostly agricultural and include roots and tubers, nuts, vanilla, copra, locust beans and vegetable oils and fats. Following a decline between 2017 and 2020, the Herfindahl-Hirschman (HHI) index of export product concentration has been on the rise, reflecting high energy and commodity prices following the COVID-19 pandemic as well as the rising share of oil and gas in total exports (Figure 2). Timor-Leste's key export destinations are China, Singapore, and Japan, which absorbed more than three-quarters of Timorese goods exports in 2021. Such a level of concentration exposes Timor-Leste to adverse internal and external supply and demand shocks, as evidenced by recent events, including the 2021 floods, the COVID-19 pandemic, and the war in Ukraine.

Figure 2: Export concentration (percent of total)



Source: World Bank 2023 based on Timor-Leste customs transactions trade data

Timorese coffee exports more than doubled in value during the last decade, increasing from US$ 12 million in 2011 to US$ 27.6 million in 2021. Although Timor-Leste does not rank among the world's major coffee producers, it aims to specialize in the production of specialty and niche coffee varieties for export markets such as the United States, Germany, and Canada. Despite its recent growth, Timor-Leste's coffee sector operates below its long-term potential, with production constrained by low yields, volatile supply, and inadequate national quality standards, including a limited capacity to meet certification requirements in key export markets.

Beyond coffee, Timor-Leste shows potential export competitiveness in vegetables oils and fats, ground nut oils, seaweeds, fruit stones as well as in copra,

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vanilla, candlenut, roots and tubers, vegetable extracts and nuts. By way of contrast, the country shows declining export competitiveness for live fish, vegetables oils, and honey.

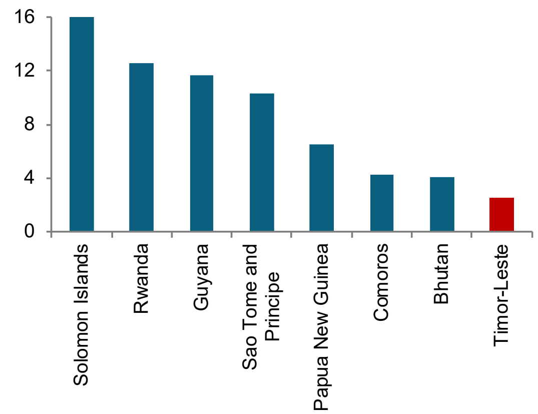
Demand for imported goods has also grown fast, at a yearly rate of 9 percent over the past decade, resulting in a close to threefold increase in Timor-Leste's merchandise trade deficit, from US$335 million in 2011 to US$852 million in 2021. Imports of oil and gas, together with machinery, iron and steel articles, vehicles, and cereals amounted to more than half of the total. Recent years have witnessed an increase in demand for imported capital goods, including tubes, pipes, and small equipment, as well as consumer items such as poultry meat, beer, cigarettes, telephones, and pasta products. Timor-Leste's key suppliers are Indonesia, Singapore, China, and Australia, but the country's imports are much less geographically concentrated than are its exports, originating from a total of 61 source countries.

Timor-Leste's weak export performance in agriculture and food production owes in large measure to the fact that production remains predominantly of a subsistence nature, with low value addition generating limited exportable surpluses. Accordingly, Timor-Leste records sustained and persistent agricultural and food trade deficits driven by high imports of cereals (rice), beverages, meat, and tobacco products. Among these, policy measures directed to expand rice production have had limited success, with no surplus available for exports.

Exports of Timorese commercial services showed steady expansion until 2019 but were hit hard by the COVID-19 pandemic. Total services exports, which grew from US$73 million in 2011 to US$92 million in 2019, subsequently registered a precipitous pandemic-induced decline, standing at US$17 million by end-2021. Within services, tourism exports have been the most dynamic, expanding sharply from US$18 million and accounting for 24 percent of total services exports in 2011 to US$70 million and 76 percent of total services exports prior to the pandemic. As with merchandise trade, Timor-Leste's high dependence on tourism receipts in total services trade remains a source of significant vulnerability. Demand for imported services such as construction, transport, and insurance and pension services significantly outweigh exports, resulting in a trade deficit in commercial services that reached $US212 million in 2021.

The absence of a conducive business environment has limited the dynamism of exporting firms. Although Timorese exporters are more numerous and larger in size than those in countries at comparable levels of development, they are also more concentrated and have lower entry, exit and survival rates (World Bank 2023). Such findings suggest that the business environment is hindered by high entry and exit costs which discourage firms from participating in exporting activities. However, once firms manage to enter export markets, they are competitive and have higher success rates.

Figure 3: Applied tariffs (percent, 2021)



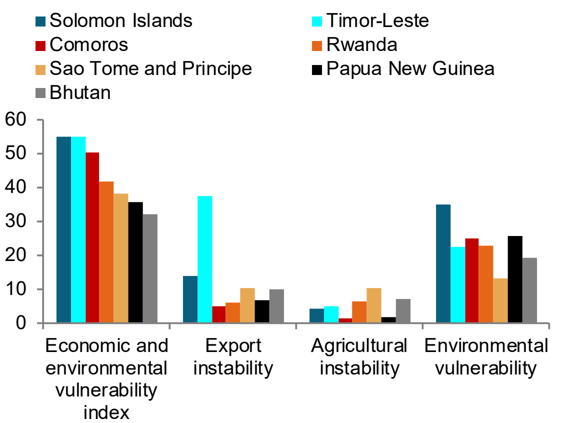
Source: World Bank 2023 based on Timor-Leste customs transactions trade data

Timor-Leste stands out for its long-standing commitment to trade openness. Its uniform import tariff policy of 2.5 percent applied across all products remains the lowest among comparators (Figure 3). The country's use of non-tariff barriers has also been limited. Timor-Leste furthermore maintains an open services regime and a liberal stance towards FDI in goods and service sectors alike. As an LDC, Timor-Leste benefits from preferential market access terms under the Generalized System of Preferences (GSP) of a number of key trading partners. Utilization rates of GSP preferences has been high, as on average close to 98 percent of Timor-Leste's exports benefit from duty-free access to key export markets.

Despite low barriers to trade and investment, private sector competitiveness continues to be hampered by a range of supply side constraints and struggles to attract much needed FDI. Both challenges represent significant impediments to diversifying away from exports of oil and gas.

Further, despite recent improvements in trade facilitation, some 75 percent of those actively involved in the trade sector (traders and freight-forwarders) voiced continued concerns over long clearance times of at least 10 days for goods imports. This compares to around five days in Cambodia and 3 in Lao PDR, the two LDC-economies in ASEAN (World Bank 2023). In addition, Timor-Leste scored poorly on a range of indicators measuring the degree to which trade flows smoothly across borders, including transparency, formalities, institutional arrangements and cooperation, paperless commerce, and cross-border paperless trade. Timor-Leste scores poorly across all the above indicators and significantly below that of its peers (World Bank 2023).

Figure 4: Economic vulnerabilities compared to structural peers



Source: World Bank 2023 based on Timor-Leste customs transactions trade data

The 2023 edition of the World Bank's Logistics Performance Index (LPI) also shows that Timor-Leste performs poorly across the various logistics dimensions that the LPI uses to compare and rank countries (using a score of 1 to indicate a low performance and a score of 5 for high performance). In the category of "quality of trade and transport-related infrastructure" Timor-Leste was attributed a score of 1.67, whereas for "ease of arranging competitively priced shipments", Timor-Leste's score came in at 1.5. These indicators are important because they provide insights on the high trade costs that both importers and exporters in Timor-Leste must contend with and the degree to which economic actors struggle to compete in regional and global markets in which their competitors face significantly lower trade costs and can thus operate more efficiently (World Bank, 2023). Such deficiencies stand to be improved thanks to the operation of the country's new seaport, connection to submarine sea cables and the renovation of the country's international airport in Dili.

Timor-Leste's limited progress in tackling domestic supply-side constraints has meant that its outward-looking economic strategy has yet to produce sustained growth and development dividends. Supportive trade policies would need to be coupled with reforms that eliminate supply-side constraints to private sector development and broader economic diversification. Among these, political instability, access to finance and electricity have been reported as the most binding. The development of Timor-Leste's private sector continues to face several challenges, including the weak domestic demand associated with low incomes and high levels of poverty, limited domestic input-output and upstream-downstream linkages, weak insertion in regional production networks, low productive capacities, insufficient investment (domestic and foreign) as well as inadequate financial and institutional resources and capacity. The government could consider developing export-oriented special economic zone (SEZ) to bridge some of the current viability gaps (World Bank 2023).

Timor-Leste's trade integration efforts proceed amidst a complex external and domestic trade policy environment. Despite the country's continued commitment to an open trade policy stance, its 2020 Economic Recovery Plan laid emphasis on the need for import substitution and the protection of local infant industries. Reflecting the prevailing external and internal policy environments, the January 2023 doubling of uniform import duties, from 2.5 to 5 percent (and subsequently rescinded by the 2023 Budget Rectification), sought to boost low revenue collection, reduce imports, and

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improve prospects for diversification.[3] To achieve these objectives, however, Timor-Leste will need to enhance domestic productive capacities and implement policies to alleviate the supply-side constraints weighing on the country's trade performance.

Building on continued reform efforts and the opportunities expected from its accession to the WTO and ASEAN and the deepening of its two-way trade ties with key partners such as the EU, Timor-Leste has the potential to foster existing as well as emerging sources of comparative advantages to boost the contribution of trade and investment to inclusive growth and development. Agricultural products offering high diversification potential include cocoa beans, coconut oil, raw sugar, fish products, processed fruits and nuts, and tapioca. Exports of higher value-added products such as preparations of cereals, flour, starches, edible animal by-products, preparations of vegetables, fruits and nuts, and beverages also show potential. Within manufacturing, products close to existing production capabilities include cotton, wood and articles of wood, apparel, and clothing accessories, while more distant capabilities offer promise for products such as carpets, textile rags, footwear, wood pulp and other fibrous cellulosic materials. All in all, Timor-Leste has great potential to develop niche and specialized industries and services sectors such as for example gourmet coffee or marine, soft adventure, and cultural tourism (World Bank, 2023).

[3] With the rapid drawdown of the Petroleum Fund, accumulating petroleum proceeds over the years, Timor-Leste is facing a fiscal cliff by 2035. Fiscal consolidation supported by revenue mobilization, expenditure rationalization and efforts to improve the quality of spending will be key in addition to reforms to reduce reliance on oil and gas revenues (World Bank 2023).

PART II

An Overview of the WTO Accession Process

I. Legal Foundations and Institutional Processes

Although some countries may be tempted to boast about how quickly they were able to complete WTO accession negotiations, it is certainly not to be equated with a race. A slower, more deliberate, approach has its advantages. The biggest of these is arguably that a more measured approach to accession negotiations allows officials and political leaders in the applicant country to become more familiar with the rules and institutional dynamics that underlie the accession process and (later) WTO membership and participation, both of which are complex. This section first discusses the legal underpinnings of the WTO accession process before briefly discussing how existing rules apply to LDCs. It concludes with a discussion of the importance of harnessing the institutional arrangements that would need to be adopted in order to effectively negotiate WTO accession for long-term domestic inter-agency dialogue and regulatory cooperation, as well as their usefulness for establishing and maintaining processes and procedures that allow for broad-based and meaningful stakeholder engagement.

Key Messages and Takeaways from this Section

- WTO accession is a lengthy process with established procedures and mechanisms that can guide countries and offer insights into the commitments they will be expected to make. However, each accession is different, with scope for negotiators to craft a set of outcomes and solutions specifically tailored to the circumstances of a given applicant.
- A set of Guidelines for the Accession of LDCs exists and can be used to afford an applicant like Timor-Leste with additional policy space where needed.
- The domestic consultative mechanisms established as part of the accession process to allow different parts of the government to collaborate should be maintained after WTO accession is secured, both to support implementation of accession commitments but also to support the negotiation of future trade agreements.

1. Legal Underpinnings of the Accession Process

The process of WTO accession is based upon Article XII (Accession) of the Marrakesh Agreement establishing the WTO, a sparsely worded three-paragraph article that in reality offer few insights to applicant governments on the arduous, lengthy, and politically challenging negotiation process that awaits them.

Arguably much more important as a legal basis for accession is Article XVI (Miscellaneous Provisions), where paragraph 1 reaffirms the centrality of the "decisions, procedures and customary practices" that were established and followed under the 1947 General Agreement on Tariffs and Trade (GATT). It was under GATT 1947 that integral elements of the accession process emerged and became established, notwithstanding the important differences that characterized the processes of accession to the GATT vis-à-vis joining the WTO today (Parenti 2000, Lanoszka 2001). Indeed, it is the precedential value of these practices and procedures, particularly how they have been applied in recent accessions, that can be highly instructive for an applicant country seeking to better anticipate what requests are likely to come their way from working party members, as well as what the possible range of responses to these requests are likely to be.

Today, in application of Articles XII and XVI of the Marrakesh Agreement, the accession process of the WTO, similar to that which gradually evolved under the GATT 1947, is characterized by a set of formal legal mechanisms and procedures, including the establishment of an accession working party, the submission of and subsequent revisions to the applicant's memorandum of the foreign trade regime (which gradually evolves into the report of the working party), the bilateral market access negotiations between the applicant and the members of its working party (recorded in schedules), as well as the emergence of the uniquely structured accession protocol as the instrument by means of which a new member joins the organization under international law (Basra 2012, Kennedy 2013). As a number of WTO panels and the Appellate Body rulings have highlighted, WTO accession protocols become part of the WTO agreements and are binding on both WTO members and the accession country in question.[4]

2. WTO Accession and Least Developed Countries

In the case of Timor-Leste, another important legal basis for the country's accession to the WTO is the General Council Decision of 10 December 2002 setting out Guidelines for the Accession of LDCs.[5] This document provides that the accession of LDCs to the WTO should be facilitated and accelerated by way of simplified and streamlined accession procedures with a view to alleviating the accession burden of LDCs and allowing them to conclude entry negotiations more expeditiously. The 2002 LDC Guidelines call on existing WTO members to exercise restraint in market access negotiations (discussed in more detail below) and afford applicant countries the right to claim any transition periods or other policy space they deem appropriate in application of the many special and differential treatment (SDT) provisions found in WTO agreements.

[4] See for example, *China - Auto Parts*, Report of the Appellate Body (WT/DS339/AB/R, WT/DS340/AB/R, WT/DS342/AB/R) at para. 214..
[5] WT/L/508 of 20 January 2003.

Some degree of skepticism has been voiced regarding the relevance of the 2002 LDC Guidelines in facilitating the accession process for the handful of LDCs that have acceded to the WTO since they were adopted (Adhikari and Dahal, 2007). WTO members have taken steps to ensure that the burden of accession for the most resource constrained countries remain manageable. LDCs have some options when faced with requests they find overly onerous. For one, they can put forward a credible and evidence-based set of arguments for not adopting - or sequencing the implementation of - requested commitments. Secondly, they can condition the acceptance of such commitments on the supply of technical assistance. By exercising such options, and doing so by recalling the 2002 Guidelines, LDCs have been able to manage what might otherwise prove onerous requests to their own negotiating advantage. Further, SDT provisions could help acceding countries seek concessions otherwise not generally offered by trading partners.

3. Domestic Institutional Arrangements and their Long-Term Importance

One of the first steps any country takes in the earliest stages of its accession, normally after the establishment of a dedicated working party by the WTO General Council, is the formation of an inter-ministerial or inter-government committee, tasked with working under the leadership of the line ministry that manages diplomatic representation to the WTO. This committee is invariably joined by different government ministries and agencies that exercise legal and regulatory authority over one or more substantive aspects of the upcoming negotiations. This has also been the case in Timor-Leste, where a WTO Accession Inter-ministerial Commission and Technical Working Group were established by Prime-Ministerial decree, appointing a total of 14 different government ministries and agencies to one or both of these bodies, under the overall leadership of the Vice Prime Minister for Economic Affairs (under the arrangements of the new 9th Constitutional Government).[6]

The work of the inter-ministerial committee is important at several levels. For one, it brings together technical expertise on the many areas of government policy, laws and regulations, and the extent to which they are effectively being implemented on the ground. This knowledge is particularly relevant during the process of negotiating the many commitments as part of its accession package. Equally importantly, the expertise and knowledge that collectively forms the inter-ministerial committee is well placed to perform the legislative and regulatory analysis that underpins any diagnostic exercise designed to help the applicant government fill any identified gaps via trade-related technical assistance.

The inter-ministerial committee also serves as the long-term repository of expertise on the WTO accession process and the inner workings of the WTO, passing this knowledge on through both formal and informal transmission mechanisms to future Timorese trade diplomats and government officials who will represent the country's interests as a WTO member and implement the wide-ranging set of obligations the country will be required to assume as part of its accession package.

For this reason, it is advisable that upon conclusion of Timor-Leste's accession to the WTO, the inter-ministerial committee continues to serve as the main engine of implementation of WTO commitments, but also assume a lead coordinating role with respect to ASEAN accession as well as the negotiation of any preferential trade and investment agreements the country want to conclude. Accordingly, appointments to the inter-ministerial committee should be made on an ex-officio basis - thereby reducing the importance of individual personalities and in order to institutionalize the body's existence, constitution and functioning. By the same token, a future prime-ministerial decree should empower the inter-ministerial committee with a longer-term role, placing it on a permanent footing.

[6] See *Journal da República* from 25 June 2021, available at: http://www.mj.gov.tl/jornal/public/docs/2021/serie_2/SERIE_II_NO_25.pdf

II. Market Access Negotiations

Key Messages and Takeaways from this Section

- Market access negotiations on goods and services rank among the most challenging dimensions of the accession process, highlighting the asymmetries that lie at the heart of WTO accession. However, such commitments could be understood as the trade-off for entry to the world trade body overseeing the multilateral trading system.
- Market access negotiations offer Timor-Leste space to set tariff bindings above currently applied levels (in the case of goods) where necessary and, in the case of services, to schedule commitments that lend support to regulatory reforms to strengthen the ease of doing business, more generally.

1. WTO Accession Negotiations as a Two-Way Street

Market access negotiations are often some of the most arduous of the entire negotiation process, with members of the applicant's accession working party advocating for the lowest possible tariffs for products of their export interest. These would also cover a range of other concessions, including geographical indications on certain agricultural products, foodstuffs, wines or spirits they manufacture and export, or conferring an initial negotiating right on a specific agricultural export product of interest. Market access negotiations on services can likewise be characterized by demands for the applicant to commit to minimum restrictions in services sectors and modes of supply that are of systemic importance and sensitivity, such as telecommunications and financial services.

WTO accession negotiations on market access can also be viewed as an opportunity for the applicant, since it is being asked to concede some policy space in exchange for the non-discriminatory market access and good governance attributes associated with WTO membership. Although some have criticized the asymmetric nature of the WTO accession process (Lennon 2005), acceding countries can use the negotiating process to extract some degree of policy space to raise tariffs above current applied levels, in addition to not having to renounce the WTO-compliant use of tools such as import licensing procedures, procurement preferences, or sanitary and phytosanitary (SPS) measures.

With trade in intermediate goods and services accounting for an estimated 70 percent of world trade (Shepherd 2022), both firms and consumers stand to benefit from lower overall tariffs, particularly on the traded inputs and components (Irwin 1996, Topalova 2004, Yu 2014). Such a benefit is of considerable importance in the case of a small economy like Timor-Leste, where firms face high trade and transport costs for imports (Freedman 2020). Indeed, it is precisely the reduction of these costs that will be important for Timor-Leste if it is to connect with the regional value chains that ASEAN membership could significantly facilitate.

A similar dynamic prevails in the case of services trade, with negotiators facing expectations of significant market opening requests from working party members on the one hand, while aiming to retain some degree of policy space in systemically important sectors on the other. Here again, recent research is unequivocal in pointing to the importance of the services sector as an engine of productivity growth, particularly in terms of technology transfers and skills development (Nayyar et al 2021, World Bank and WTO, 2023). The openness of the latest WTO services offer underscores the priority of this issue for Timorese policymakers.

2. WTO Accession and Development Imperatives for Timor-Leste

For Timor-Leste, the primary policy objective related to tariffs is their revenue-generating function, which is the main reason provided for the recent doubling of applied tariff rates to a flat import duty rate of 5 percent on all imported goods. Although the prevailing policy consensus is geared towards countries reducing their reliance on customs duties as a source of government revenue in favor of other forms of taxation, the reality in many developing countries and LDCs is that, due to structural reasons and a persistently large informal sector, customs duties still represent the most reliable and expedient source of revenue collection. This explains the reluctance of a number of acceding countries to reduce tariffs below what they deem to be the minimum required to guarantee the continued funding of central government operations (Grynberg and Joy 2000). Even after WTO accession, Timor-Leste should refrain from allowing tariffs to increase already high trade costs borne by firms and consumers that rely heavily on imported goods.

III. Legislative and Regulatory Reforms

Key Messages and Takeaways from this Section

- The broad and extensive regulatory reforms that WTO accession requires across a range of sectors should also be regarded as the means by which the many treaty commitments flowing from WTO agreements are effectively implemented.
- However, accession-induced reforms represent a once-in-a-generation opportunity to bring Timor-Leste's legislative and regulatory frameworks in line with international best practice and expose public and private sector stakeholders to high standards of global economic governance.
- WTO accession also offers prospects to secure expanded levels of trade-related technical assistance from a broad array of donors and development partners. While this is something that Timor-Leste has already benefitted from, experience shows that it can expect Aid for Trade levels to expand once the country becomes a WTO member.

1. Reforms and the Trade-offs of Membership

Similar to joining any organization with a large and established body of rules, the process of WTO accession involves a broad set of legal reforms and the upgrading of domestic regulatory frameworks. Whereas accession to the GATT was largely a process of bilateral negotiations with working party members centered on tariff concessions to be granted by the applicant as the trade-off of membership, WTO accession today involves the applicant demonstrating that it is willing and able to comply with a considerably broader body of rules spanning a range of behind the border measures either upon or soon after entry.

Negotiating success involves both affording increased access to the home market - primarily by lowering tariffs and opening services markets - for those products of greatest export interest to working party members, while simultaneously implementing significant legislative and regulatory reforms that underpin the acceding country's market access commitments in goods and services.

2. WTO Accession as a Once in a Generation Opportunity

Despite the burden it places on acceding countries given their often-limited size and weak resources (particularly in LDCs such as Timor-Leste), WTO accession can be seen as an opportunity to bring a country's legislative and regulatory frameworks in line with international best practice and expose key public and private sector stakeholders to high standards of global economic governance. As Lanoszka (2001) put it (p. 577):

[…] by forcing higher regulatory standards, transparent policy making, and by encouraging national treatment for the commercially present foreign suppliers of services, WTO legal rules can help build market-supporting mechanisms such as a professional judiciary to enforce contracts, secure property rights and ensure due process, administrative transparency in government agencies, and regulatory to domestic policy making.

A Legislative Action Plan dated February 2023 indicates ongoing or planned revisions and amendments to no less than forty laws, acts, regulations, and decrees, covering a diverse range of activities and sectors from insolvency to intellectual property. The timeframes agreed to implement many of these legislative reforms are remarkably short, with full compliance being set by the end of 2024 in most instances. Such an undertaking will doubtless pose important challenges to Timorese policy makers.

3. Tapping into the Resources of the International Donor Community

A large number of donors and development partners have been supporting Timor-Leste's accession bid, including the WTO Secretariat, the Canadian Trade and Investment Facility for Development (CTIF), the Geneva-based International Trade Center (ITC), the World Bank, the Enhanced Integrated Framework (EIF), UNCTAD, UNIDO and WIPO as well as the governments of Australia, Canada, China, Indonesia, Japan, New Zealand, Portugal, South Korea, Thailand, Singapore and the United States.

Nevertheless, given the scale of the work to be done, and the limited extent of currently available Timorese trade policy expertise, a high degree of strategic prioritization will be required, whereby officials from Timor-Leste will have to earmark those areas of legislative and regulatory reform most likely to yield the highest payoffs in helping the country achieve its economic development goals.

Part 3 of the report provides further guidance on just what such strategic prioritization might involve, both in terms of adopting legislative changes but also implementing the WTO accession package as a whole.

PART III

The WTO Accession Process and Economic Growth

I. Market Access, Competitiveness and Export Growth

Key Messages and Takeaways from this Section

- With a small domestic market, an important means for Timorese firms to achieve competitiveness-inducing economies of scale is by exporting to regional and global markets, something that accession to the WTO and later ASEAN can be instrumental in supporting.
- A growing body of empirical research points to important linkages between WTO accession, productivity, growth, and improved national competitiveness (see Box 1).
- However, it is important to understand the direction of the causal linkages: it is pro-competitive domestic reforms that drive export competitiveness, which WTO accession can then help to secure and leverage, particularly for firms that have already learned to successfully contest regional and global markets.
- While the export gains from Timor-Leste's accession to the WTO may take time to materialize given the county's limited export basket and supply side constraints, experience has shown that the improvements in domestic governance and doing business conditions have typically translated into sustained improvements in trade performance and FDI attraction post accession.

1. Linkages between WTO Accession and Economic Growth

The stable and predictable market access conditions that WTO membership provides ranks among the main reasons why countries aspire to join the organization. Moreover, with a small domestic market, Timorese firms can achieve needed economies of scale by exporting to regional and global markets. Accession to the WTO, ASEAN, and the EU-Pacific Economic Partnership Agreement (EPA) can potentially contribute such an outcome if the structural and supply-side constraints facing the domestic private sector are successfully addressed.

A growing body of empirical research has documented the strong linkages between WTO membership and trade growth (Subramanian and Wei 2007; Tomz et. al. 2007; Larch et al. 2019). In addition to these important findings, empirical research comparing benefits for countries that joined the GATT without making extensive commitments (mostly former colonies that were waived into the GATT under Article XXVI 5 [c]), with countries that joined the WTO under the Marrakesh Agreement's Article XII accession procedures (and thus subject to far-reaching commitments and extensive domestic economic reforms), shows that the latter group of countries experienced significantly faster growth in aggregate output and trade performance (see Box 1).

More recent research confirms the strong links between international trade and productivity growth both for firms and industries in countries that reduce or remove tariffs on intermediate goods (inputs), as well as for firms that export, since doing so gives them access to a bigger market while also exposing them to new sources of knowledge (the so-called "learning by exporting effect").[7] Such findings and their corresponding policy implications lend strong support for Timor-Leste to join the WTO under terms and conditions that have the potential to both boost the country's two-way trade and enhance its attractiveness to foreign investors.

Box 1: The impact of WTO accession on trade performance and growth

Since the WTO's establishment in 1995, 36 states or customs territories have acceded to the WTO. These accessions have been negotiated under Article XII of the Marrakesh Agreement, which requires the terms of accession to be agreed between the acceding country and the WTO, and that the accession apply to all WTO agreements (the so-called single undertaking). This process has often been associated with significant domestic reforms. Acceding governments have pointed to economic reforms and transition to a market economy among the reasons for seeking WTO membership. Almost all LDCs cite poverty reduction and economic diversification as key motivations, reflecting their desire to use WTO specifically as an instrument for economic development.

The WTO currently has 164 members, with 24 other countries negotiating (or having signalled a willingness to negotiate) their accession. Joining the WTO requires important changes in the domestic and trade policies of acceding members. Besides binding and reducing tariffs, WTO membership involves commitments related to non-tariff barriers and transparency. The benefits that such commitments generate are all the more important because – even with the explosion of preferential trade agreements (PTAs) witnessed in recent decades – three-fourths of world merchandise trade still occurs on a non-discriminatory, i.e., most-favoured nation (MFN) treatment basis.

WTO membership and trade performance

The creation of the GATT/WTO has generated significant trade gains for its members but also for non-members. A comparison of trade volumes before and after joining the GATT or WTO shows that almost all countries experienced a steady increase in trade following membership. Although such gains tend to be country- and time-specific, they are found to be large, positive, and statistically significant across all settings.

[7] This research and its corresponding policy implications is summarized in National Board of Trade Sweden (2023).

A causal empirical analysis by the UK government confirms a positive WTO effect on international trade (Department for International Trade, 2022). From 2000 to 2016, the overwhelming majority (79 percent) of WTO members experienced a significant decrease in trade (export and import) costs as a result of WTO membership, with many of the largest positive impacts observed in developing countries. The minority (21 percent) who did not experience a marked decrease in trade costs largely consisted of former centrally planned economies and very small nations confronted with punitively high trade costs.

When converting the decline in trade costs into tariff equivalent measures (AVE), the study found that the average WTO member saw a 15 percent decrease in AVEs as a result of WTO membership. The greatest fall in AVEs was for developing countries (a 21 percent drop), followed by fuel exporting countries (17 percent), and developed countries (7 percent). Assessing the post-accession trajectory of a sample of 43 WTO members, all saw increases in both relative (compared to the rest of the world) aggregate exports and aggregate welfare resulting from WTO membership.

The estimated impact of WTO membership was found to be highly variable across sectors. Across all countries, the highest increase in exports due to WTO membership were found in the agricultural sector (28.5 percent), followed by manufacturing (28.4 percent), services (27.4 percent), and mining (18.3 percent).

More recent findings by a team of WTO economists show that, on average, WTO membership has increased trade between members by 171 percent and trade between member and non-member countries by about 88 percent (Larch, Monteiro, Piermartini and Yotov, 2019). Part of the positive effect of WTO membership on trade between members as well as between members and non-members was found to stem from the non-preferential nature of the commitments that WTO members undertake. Commitments to notify trade policy changes, to avoid unnecessarily restrictive technical regulations, and removal of export subsidies in agriculture are some examples of WTO rules that increase transparency and reduce the uncertainty of trade policy to the benefit of members and non-members alike.

WTO membership and economic growth

Several economic arguments support the view that entry to the WTO fosters economic growth. One is that accession to WTO is designed to reduce barriers to trade and increase international trade. WTO membership has been shown to boost trade and significant evidence exists showing how trade boosts growth. Another argument is that WTO membership can foster growth because it promotes improved governance. Countries often undertake extensive domestic economic reforms as part of their accession negotiations and make legally binding commitments in a wide range of policy areas. They may use WTO commitments to lock in reforms that are beneficial to the business environment, and to signal to other nations their commitment to reform, demonstrating a desire for global cooperation. Furthermore, WTO membership can boost growth by promoting a more predictable trading environment. Uncertainty is detrimental to investment as it may slow down capital accumulation and hence growth, particularly in counties saddled with higher risk premia and weaker business environments.

To the extent that trade agreements contribute to enhancing the rule of law, for example, by enforcing market-access commitments, and by deterring new protectionist barriers and fostering transparency and policy convergence among member states, WTO membership can decrease the volatility of trade flows. In one important study, Tang and Wei (2009) found that GATT/WTO membership promoted growth, but only for those members that undertook new commitments. While Tang and Wei found that the growth dividend induced by WTO membership was typically sustained only during the first five years after accession, their work showed that the economy of a country joining the GATT/WTO was on average permanently larger by 20 percent if it undertook commitments as part of the accession process. WTO accession has been associated with an increase international trade of member countries by 72 percent relative to their domestic sales (Larch et al. 2019). Countries joining the WTO gained in terms of welfare by 4.37 percent (Felbemayr et al. 2019; World Bank 2022).

Of potential relevance to Timor-Leste, the above effects were found to be stronger for countries that started off with lower levels of institutional indicators, and when the number of commitments was higher.

Following the Tang and Wei methodology, a recent WTO paper featuring an expanded sample of 17 accessions pursued under Article XII up to end-2020 finds that more recent Article XII accessions have performed better: five years after accession, member countries are found to be 30 percent larger on average, and the impact of WTO entry on growth is seen to persist beyond the first five years (Brotto, Jakubik and Piermartini 2021). Such results are consistent with the hypothesis that taking up more commitments during the process of accession has a positive impact on growth, trade performance and improved governance.

2. Complementary and Sustained Commitment to Reforms

Despite the growing body of research documenting robust linkages between international trade and economic growth, it is important to underscore that WTO membership by itself does not lead to productivity or export growth. Indeed, those countries that experienced the strongest post-accession export performance, such as China and Vietnam, were already growing their exports to the rest of the world and thus becoming increasingly competitive prior to joining the WTO thanks to sweeping economic reforms adopted and implemented in the decades that preceded their entry into the multilateral trading system (Thanh & Duong 2011; Studwell 2013). In the case of these two countries in particular, WTO accession was motivated by a desire to ensure that their already competitive export sectors would continue to enjoy secure market access conditions in the face of mounting protectionist pressures from import competing interests in their leading export markets (Davis 2006), but was not itself a causal factor in establishing their export competitiveness in the first place.

3. Potential Economic Gains for Timor-Leste

Timor-Leste's non-energy-related exports currently consist almost exclusively of coffee, with the United States, Germany, and Japan accounting for the bulk of this trade. Within ASEAN, Singapore and Indonesia are the country's primary export destinations. Various studies, assessments and planning documents have identified a number of products offering future export growth potential for Timor-Leste. For example, the World Bank's latest Country Economic Memorandum (CEM) identified vanilla, cocoa beans, coconut oil, raw sugar, fish products, processed fruits and nuts, tapioca, preparations of cereals, flour, starches, edible animal by-products, preparations of vegetables, fruits and nuts and beverages as products that could contribute to both the diversification of Timor-Leste's export base and productivity growth (World Bank 2023).

By the same token, a 2019 draft Trade and Investment Policy Statement noted that from the agriculture and fisheries sector, the priority subsectors for development include rice and grains, high-value horticulture products, fisheries, livestock, forestry, and industrial crops (Government of Timor-Leste 2019). The document further argued that by developing the capacity to compete in the production and export of these products, Timor-Leste could lay the groundwork for greater economic complexity, allowing it to move into light manufacturing, particularly food-processing and furniture-making. Moving in this direction would, in turn, generate a demand for the supply of more sophisticated business services.

However, all of the above products face various trade barriers in virtually all potential export markets, ranging from high tariffs to tariff-rate quotas, labelling and packaging requirements, and – perhaps most importantly for agri-food exports – sanitary and phytosanitary measures. For as long as Timor-Leste remains classified as an LDC, its exports can enjoy duty and quota-free access to many markets (as it currently does under various GSP schemes to 12 major economies), but Timorese firms will still need to overcome many if not all of the various other trade barriers its exports face if the country is to both diversify its export base and increase the market share enjoyed by such exports.

For Timor-Leste to achieve export competitiveness in products offering the greatest growth potential, it will need to make significant investments in production, quality control, and traceability, while at the same time significantly reducing per-unit production costs alongside lowered transport and trade costs. Doing so will require targeted policy interventions to catalyze such initial investments alongside sustained efforts to strengthen business and regulatory ecosystems allowing them to flourish and become self-sustaining.

Timorese policy makers would need to focus on the full set of benefits that membership of the WTO can afford countries such as Timor-Leste in addition to the ways in which both the accession process itself and WTO membership can lend support to the domestic reforms needed to address the supply-side constraints holding back the development of a competitive and successfully exporting private sector. Those championing Timor-Leste's accession to the WTO should likewise convey the important message that, while the export gains from joining the multilateral trading system will take time to materialize (given the county's limited export basket and various supply side constraints), experience has nevertheless shown that the improvements in domestic governance and doing business conditions have typically translated into sustained improvements in trade performance and FDI attraction post accession.

To give just one example, if Timor-Leste wishes to boost its coffee sector (which has repeatedly been identified as a policy priority), it will need to transition from exporting mostly green beans, coffee husks and skins to more value-adding products such as roast coffee. To do so, it can leverage the accession process to lower import duties on packaging materials and roasting equipment, while using fiscal and other incentives to attract the necessary technical know-how and skills, imposing conditionalities on training and upskilling the local workforce in the production of more high-end coffee products. If FDI in the roasting and marketing of niche and high-end coffee products is secured from firms that are themselves headquartered in sizeable markets for these products, then experience suggests that this FDI likewise comes with a promise of expanded access to both the investor's home market but also to third-country markets with similar levels of TBT and SPS measures (Laurujisawat 2011; Chen 2020). By the same token, Timor-Leste can use the momentum of the WTO accession process and the accompanying trade-related technical assistance to build domestic institutional capacity and human capital in the area of quality infrastructure, a process that has in fact already begun (Section IV of Part 3).

II. The Services Dimension

Key Messages and Takeaways from this Section

- Although conventional wisdom suggests that manufacturing-led growth is the primary path to economic development, recent research and evidence points to services-led growth to be just as effective in helping countries accumulate human capital and move up the development ladder.
- Given the many constraints faced by Timor-Leste, including a relatively narrow export base, the promise of services-led development appears particularly promising, but will require redoubled efforts targeting improvements in the business climate to attract FDI, but also to invest in education and skills to raise domestic human capital relevant to services trade uptake.
- Timor-Leste's policymakers fully recognize the importance of open and competitive services markets, and the willingness they have signaled to join both the Reference Paper on Basic Telecommunications and the Joint Statement Initiative (JSI) on Domestic Services Regulation illustrate such a policy stance.
- Timor-Leste could also consider pre-committing to acceding to the JSI on Investment Facilitation to Development, as doing so would send a strong positive signal to potential foreign investors.

1. Services-Led Growth

Although the conventional wisdom in the development literature has for several decades stressed the quasi-linear nature of economic development - from agriculture to manufacturing to services, more recent research has shown that services-led development is not only possible but has been happening over the last three decades, aided in particular by technological change and digitally enhanced services (Gaurav et al, 2021).

The inherent scalability of manufactured goods that could be mass-produced, stored, shipped to other markets, and then stored again in the export market, was a characteristic that allowed them to play such an important role in export-led growth. However, digitization has also made services both more storable and tradable at scale, and digital products – unlike manufactures – can be duplicated instantly at zero marginal cost (Brynjolfsson and McAfee 2014).

Another aspect of manufacturing-led growth that made it a powerful agent of economic transformation was the ability to combine large amounts of relatively unskilled labor with capital, thereby achieving rapid productivity improvements through the resulting human capital accumulation. However, this has also been true for some time now in services, notably in transportation and telecommunications, and is even more prevalent for services that allow for novel combinations of new technologies and semi-skilled labor to interact (e.g., business process outsourcing or call-centers).

A third characteristic of manufacturing that made it an attractive engine of economic growth relates to so-called spillover effects, with growth in manufacturing output translating into economy-wide productivity gains through knowledge spillovers, strong input-output linkages, and positive feedback loops. The fact that services are increasingly recognized as integral to all economic activity, including manufacturing and agriculture, points to their inherent ability to produce positive spillover effects for the rest of the economy. The dramatic fall in transport and communication costs witnessed in recent decades has ushered in entirely new industries. Meanwhile, the transformative effects of digital technologies have opened up a vast array of new business models and avenues for value creation (Baldwin 2019).

2. Leveraging Trade in Services to Grow the Timorese Economy

The various constraints faced by Timor-Leste in developing its agricultural and light-manufacturing sector suggest that services-led development and digital transformation will have to be at the very heart of policy makers' priorities for economic recovery, poverty alleviation, human-capital accumulation, and sustainable long-term economic growth. This, in turn, implies that policies designed to optimize outcomes in services and digital trade need to be carefully considered.

The growth and employment potential of trade in services has already been recognized by Timorese policy makers and political leaders. The 2020 Economic Recovery Plan affirmed the critical role that services need to play in raising the country's human capital (particularly health and education services), as well as in addressing a number of structural weaknesses and bottlenecks, particularly in transportation, logistics, quality infrastructure, communication services as well as services related skills.

Recognition of the important role that services is expected to play in securing Timor-Leste's development ambitions is underscored by its ambitious latest offer, in which the country has scheduled commitments in 11 sectors and 86 subsectors covered by the General Agreement on Trade in Services (GATS), more than double the number found in its initial services offer. Timor-Leste has further committed to assuming the obligations agreed to by participants in the Joint Statement Initiative on Services Domestic Regulation upon its accession. Its decision would make it the first LDC to do so, affirming Timorese policy makers' belief that the country's growth prospects are best served by complying with high standards of regulatory conduct in services markets.

Services are yet another area that has been identified as a source of potential export growth (World Bank 2023). However, as discussed in the previous section on goods trade, WTO accession cannot be expected to generate an immediate and strong export response. The impact of WTO accession in stimulating services export growth will be limited until and unless the Government addresses the many supply-side and structural constraints weighing on the development of a globally competitive services economy. When it comes to tourism for example, this is a sector that is highly competitive regionally, such that its growth in Timor-Leste will require significant investments in scaling up tourism related infrastructure alongside efforts at promoting the country's tourism value proposition. While Timor-Leste is already open to FDI, including in the tourism sector, it has struggled to attract FDI inflows. A further constraint to the sector's growth is the lack of air transportation links to the county, with flights to Dili currently originating from only three source countries.

Nevertheless, both the WTO and ASEAN accession processes as well as the economic reforms and institutional strengthening that these processes involve, can be harnessed to help better position Timor-Leste to address many of the constraints holding back the development of a more diverse and competitive domestic services economy. For instance, in its recent Country Economic Memorandum (CEM), the World Bank noted that (p. 87):

Cross-country evidence suggests that for commodity exporters such as Timor-Leste, the most important capacities for boosting trade diversification are human capital accumulation, followed by improving education outcomes at the secondary level, improving the quality of institutions and developing the financial sector.

3. Timor-Leste's Services Offer

Timor-Leste's accession to the WTO and ASEAN both provide opportunities to lock in the widely open and non-discriminatory conditions of access currently governing its domestic market across a number of sectors that can prove critical to the country's future development. This includes sectors such as telecommunications, financial services, construction as well as education services. To boost the country's supply side capacity, Timor-Leste can undertake commitments contingent upon foreign service suppliers ensuring the transfer of skills and knowledge to support the Government's human capital accumulation objectives.

A number of the steps proposed by the 2020 Economic Recovery Plan to boost the tourism sector could be facilitated by Timor-Leste's WTO (and ASEAN) services offer. These include plans to boost the availability and quality of tourism-focused vocational education and training, with a number of the members of Timor-Leste's working party themselves home to world-class providers of these services (e.g., Australia, Thailand, Singapore). The Government's plan to strengthen the education sector with a view to supplying a more skilled workforce can also be supported by the WTO accession process. Timor-Leste could leverage momentum around the new possibilities generated by its accession to both the WTO and ASEAN to incentivize foreign service suppliers and investors to begin providing and then scaling the provision of key services in order to meet local and external demand.

Further, Timor-Leste could signal its intention to join the recently concluded JSI on Investment Facilitation for Development. The primary aim of the Agreement is to promote the adoption of measures that enable investment, encompassing transparency, administrative simplification, international collaboration, and other regulatory streamlining aimed at lowering the costs and risks associated with inbound FDI (Jose 2023). By acceding to and implementing this Agreement, Timor-Leste would not only bring its FDI regulatory ecosystem into closer alignment with international best practices but would also send a strong and positive signal to potential foreign investors about the country's willingness to welcome higher volumes of sustainable FDI.

III. Leveraging Digital Transformation for Trade

Harnessing technological developments, particularly the possibilities offered by online connectivity and digitization, will be essential if Timor-Leste is to catch up with its partners in the ASEAN region – some of the most tech-savvy and digitally connected markets in the world.

Key Messages and Takeaways from this Section

- Preparing to connect with digital value chains requires its own set of comprehensive regulatory reforms, many of which have important synergies with those being undertaken as part of the WTO accession process.
- Policymakers could leverage the WTO accession process to make a set of market liberalizing commitments in goods, service, and trade-related intellectual property rights that are of central importance to positioning the country's firms to participate in the digital economy.
- Trade-related technical assistance is available not only for the many regulatory and institutional reforms that WTO accession requires, but also for addressing the bottlenecks developing countries and LDCs face in their respective digital transformations.

1. Harnessing the Accession Process for Digital Transformation

There are various ways in which the WTO accession process can be harnessed to support Timor-Leste's ambitions in using digital transformation to achieve inclusive and sustainable economic growth. One is by binding the tariffs of relevant Information and Communication Technology (ICT) goods at low levels, while also providing a commitment to adhere to the Information Technology Agreements upon accession, which Timor-Leste has signaled a readiness to do. Another is by scheduling services commitments that are conducive to the further growth of e-commerce in Timor-Leste. Yet another important step is for Timor-Leste to adopt the pro-competitive provisions found in the GATS Telecoms Reference Paper and the disciplines contained in the Services Domestic Regulation Reference Paper by incorporating them into its GATS Schedule of Specific Commitments as "Additional Commitments". Both are actions that Timor-Leste has signaled a readiness to undertake.[8] Yet another way in which the accession process can be harnessed to support Timor-Leste's future integration into digital value chains is through reform of the country's intellectual property regime, something that is already contemplated under country's accession-related legislative action plan but which could also be inspired by some of the WTO+ provisions found in many preferential trade agreements that have been negotiated with the specific IP needs of the digital economy in mind.[9]

In terms of tariff-free commitments on ICT-related goods that Timor-Leste could consider are the products included in both the original 1997 ITA (ITA 1) and the 2015 Update or expanded ITA (ITA 2). By way of example, under ITA 1 this would include products such as computers (mainframe computers, PCs, laptops and servers); telecommunication equipment (telephone sets, mobile phones, and related components); semiconductors (integrated circuits), microprocessors, memory chips, as well as machinery and components essential to the manufacture of semiconductors; software (pre-packaged software, operating systems, database management systems, as long as such software is stored and transported on some kind of physical carrier medium); electronic components (electronic connectors, diodes, transistors, sensors, switches among many others); telecommunication satellites; digital cameras; and flat panel displays (monitors).

Under ITA 2, this would include items such as advanced semiconductors (including multi-component semiconductors, multi-chip integrated circuits, graphical processing units and hybrid integrated circuits); medical devices and equipment (such as magnetic resonance imaging machines, computed tomography scanners, ultrasound machines, and certain types of medical x-ray equipment; Global Positioning System (GPS) navigation devices used for mapping, navigation,

[8] The regulatory implications of these commitments and how they can support the economic growth ambitions of the Timorese Government are discussed in more detail in Section IV (Regulatory Reform, Institutional Strengthening and Trade Facilitation) below.
[9] There are various examples of these kinds of provisions to be found in different PTAs. Some of the more common commitments include those on digital rights management (DRM), or those on intermediate liability for internet service providers (ISPs).

and positioning services; smart cards (these are integrated circuit cards, commonly used for various applications such as identification, authentication, and payment systems); semiconductor manufacturing equipment (ITA-2 expanded the Agreement's coverage to include advanced machinery and equipment used in the manufacturing of semiconductors, such as lithography equipment, wafer-processing equipment, and testing and assembly equipment); light-emitting diode (LED) lighting products (including LED lamps and LED display modules).

However, in addition to those covered in the ITA and expanded ITA, there are many other productivity enhancing goods that will prove essential if Timor-Leste's leaders are to achieve their aspirations of building a more modern and productive digitized economy. These include all products essential to building and operating modern telecommunications networks, such as base stations, network routers and switches, multiplexers, optical transceivers and amplifiers and many other similar products not explicitly covered by ITA 1 or 2.

By agreeing to bind tariffs at zero for all of the above products, committing to facilitating the import of these items by refraining from imposing restrictive requirements in the areas of conformity assessment, certification and marking and product registration, and by allowing their importation free from any import licensing procedures, Timorese authorities would make these products and their productivity-enhancing attributes more readily accessible to the country's firms, consumers and foreign investors. Although such a policy stance appears wholly logical, many economies make the importation of these and similar products subject to multiple levels of complex bureaucratic red tape, mostly for industrial policy or customs revenue reasons. Such policies amount to a tax on productivity and innovation and should not be followed by a government with the stated aim of unleashing the potential of its budding entrepreneurial class, especially the younger generation of born-digital natives that Timor-Leste is starting to produce.

With regard to harnessing the accession process for digital transformation, there are likewise a number of commitments Timorese officials can make in the area of services. Today, it is recognized that e-commerce and the internet have not only had a dramatic impact on boosting growth, improving efficiency and turbo-charging productivity, but that the underlying technological developments that gave rise to these phenomena (online connectivity and digitalization) have both vastly increased the number of existing services that are tradable across borders, as well as giving rise to a new generation of heretofore non-existent services (McIntosh & Wunsch-Vincent 2005; Baldwin 2019). Timor-Leste's approach to services liberalization as part of its WTO accession need to reflect this reality, both in terms of the underlying regulatory regime that results from accession-related regulatory reforms (i.e., how it fulfills its general obligations under the GATS), as well as in terms of how it schedules its specific commitments.

As outlined in Box 2, the seven pillars of digital transformation comprising of (1) e-commerce readiness and strategy formulation, (2) ICT infrastructure and services, (3) trade facilitation and logistics, (4) legal and regulatory frameworks, (5) payment solutions, (6) skills development, and (7) access to financing supported by the transformation of the domestic economy will be key to prepare Timor-Leste for realizing the potential of digital transformation for the domestic economy.

The next section of this report (IV Regulatory Reform, Institutional Strengthening and Trade Facilitation) discusses the changes that can be made to improve economic governance and the Timorese business environment. In terms of the kinds of specific commitments Timor-Leste could consider, these involve numerous issues. The first is to schedule open market access and national treatment commitments under Modes 1 (cross-border supply) and 2 (consumption abroad) for a range of strategically important service sectors capable of enabling and facilitating Timor-Leste's rapid integration into global e-commerce and digital value chains. These sectors would include basic and value-added telecommunication services as well as a number of complementary services sectors such as distribution, express delivery, computer services, advertising, as well as certain financial services, but also payment and money transmission services, trading for own account or for the account of customers, accountancy services, computer and related services, logistics and related services, and education services.

Timor-Leste's GATS offer also affords scope for securing open market access and national treatment conditions for foreign service suppliers in sectors of crucial importance in terms of enabling and facilitating e-commerce and digital transformation. However, some important gaps remain. For example, Mode 1 remains unbound for both market access and national treatment across a number of the most traded sectors in the digital economy. This includes accounting, auditing and bookkeeping services, taxation services, and architectural services. In a number of the most important enabling service sectors, both Modes 1 and 2 remain unbound for voice telephone, packet-switched and circuit-switched data transmission services, as well as most banking and financial services, in addition to important ancillary financial services, such as the provision and transfer of financial information, and financial data processing and related software by providers of other financial services. However, in other important sectors, both Modes 1 and 2 remain free of restrictions – i.e., scheduled with "none" – thereby providing a degree of legal certainty for foreign service suppliers. This is the case for online information and/or data processing services, mobile data services, distribution and education services, as well as air and road transport services.

It bears recalling that specific commitments scheduled under trade agreements are just one part of how services markets are managed and regulated, and often only represent a set of minimally secure baselines. WTO members are free to provide better access and conditions to foreign service suppliers for discrete sectors if they wish, as long as they abide by the general obligations set out in the GATS and observe the principle of most favored nation treatment (where no MFN exception has been explicitly scheduled).

What constitutes best practice in terms of regulating services markets to promote digital trade is generally well understood by now and has been articulated in a number of policy documents by organizations such as the OECD and the World Bank. For example, one study that looked at some of the challenges facing micro, small, and medium sized enterprises (MSMEs) in ASEAN set out a number of recommendations, including: (1) keeping the price of access to broadband to an affordable level; (2) embracing digital technologies in the area of trade facilitation such as Electronic Data Interchange (EDI), National Single Windows (NSWs), and to implement automated risk management; (3) keeping de minimis levels on tariffs at an appropriately low level to foster cross-border e-commerce ; (4) the prudent and limited use of data-localization measures, and; (5) striking the right balance between internet openness and the online and data security of users (González 2018). By the same token, in the context of providing policy advice to enhance resilience and preparedness following the COVID-19 pandemic, the OECD (2021) recommended a number of overarching strategic imperatives to lower costs and increase access to digital trade, including (1) easing restrictions on goods and services that underpin access to digital networks; (2) reducing barriers to digitally enabled services; (3) promoting policies that tackle the digital divide; (4) reducing barriers that impede the delivery of digitally-ordered parcels; and (5) employing digital technologies to make border processes faster and more efficient.

Finally, a number of policies in the area of intellectual property protection are likewise essential for laying the groundwork for digital transformation. Many of these form part of the commitments that any applicant needs to adopt and implement as part of their WTO accession and are generally undertaken in the spirit of fostering economic development, stimulating foreign investment, enabling the transfer of technology and promoting an accession country's integration into the world trading system.[10]

However, even beyond the above goals, and in addition to the "standard" set of legislative reforms countries are asked to undertake in the area of intellectual property protection, such as drafting and implementing laws on patents, utility models and industrial designs, copyright and related rights, geographical indications, layout design of integrated circuits, protection of undisclosed information and trade secrets, and plant variety protection, there are other steps countries can take to promote e-commerce and digital trade specifically. These include enshrining limitations on the liability of internet service providers (ISPs) into national law in ways that align with two so-called internet treaties from 1996, namely the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty (Meier-Ewert and Guttierez, 2022).

[10] This was for example the rationale provided in the case of Cambodia's accession to the WTO. See, Report of the Working Party (WT/ACC/KHM/21), para. 167, at p. 36.

Other ways to make the domestic regulatory regime supportive of increased digital trade include establishing an electronic trademark system as well as providing a mechanism to deal with disputes and afford transparency with regard to internet domain names. Countries can also provide a legislative framework conducive to promoting the digital economy by establishing civil and criminal procedures that allow rights holders to prosecute those who circumvent technological protection measures or who remove or alter any rights management information embedded in digital media, or who aid and abet decoding an encrypted program-carrying satellite signal without the authorization of the lawful distributor. Finally, by adopting policies on open public data, governments can likewise support the flourishing of a local ecosystem well placed to harness this data and build new and innovative tools and applications around it.

Box 2: Preparing to Connect with Digital Value Chains

Harnessing technological developments, particularly the possibilities offered by online connectivity and digitization, will be essential if Timor-Leste is to keep up with its partners in the ASEAN region - some of the most tech-savvy and digitally connected markets in the world.

In the context of supporting developing countries in their efforts to connect with digital value chains, the United Nations Conference on Trade and Development (UNCTAD) has taken the lead on articulating a set of benchmarks for assessing readiness to engage in global e-commerce, namely the eTrade Readiness Assessment tool. This analytical framework addresses seven so-called pillars of digital transformation, comprising: (1) e-commerce readiness and strategy formulation, (2) ICT infrastructure and services, (3) trade facilitation and logistics, (4) legal and regulatory frameworks, (5) payment solutions, (6) skills development, and finally (7) access to financing.

E-commerce readiness and strategy formulation refers to efforts by the government to address the opportunities and challenges posed by e-commerce. This pillar also includes efforts to establish institutional structures and processes - including with actors outside of government – for the formulation and implementation of a national e-commerce strategy. Also relevant are the questions of whether e-government services have been introduced and the extent to which systems have been implemented to measure public data and statistics important to tracking the development of e-commerce and the digital economy. A National Strategic Plan for Digital and ICT Development, entitled Timor Digital 2032, responds to these challenges, setting out a vision of a digitally empowered government and society to be achieved over a ten-year period. Timor Digital 2032 prioritizes a number of “strategic digital pillars”, including governance, inclusive economy, health, education, and agriculture, with an additional horizontal pillar called “Additional Focused Strategies”.

ICT infrastructure and services addresses a number of factors governing the availability and affordability of both the hard elements of connectivity infrastructure and the functionality it provides access to. Also important is to measure the degree to which users avail themselves of digital services as well as any disparities in use based on gender and urban/rural divides. Recent data seem to suggest that approximately half of Timor-Leste’s population have access to the internet, a level the International Telecommunication Union’s (ITU) World Telecommunication/ICT Indicators Database places closer to 40 percent, with mobile broadband providing the main avenue through which a majority of Timorese access the internet. However, punitively high costs remain a constraining factor for expanding access to mobile broadband, with a 2023 Asia Foundation report noting that “Timorese pay more for their mobile data than any other country in Southeast Asia” (Arbuckle 2023). Data collected and published by cable.co.uk, indicates that the average cost of a monthly data subscription package in Timor-Leste is equivalent to US$ 107.33, a considerable sum for most Timorese citizens, representing about 65 percent of an average monthly salary. Such costs can be expected to be reduced significantly once Timor-Leste is connected to Australia through submarine cables.

Trade facilitation and logistics covers a range of indicators focused on both last-mile logistics (given its intrinsic importance to e-commerce), and how quickly and easily goods can cross borders, thanks to single window procedures, paperless trade and the establishment and maintenance of trade portals etc. Also important is the existence of physical addressing systems and how advanced national postal operators are in adopting digital processes and solutions. A 2019 Readiness Assessment for Cross-Border Paperless Trade: Timor-Leste by UNESCAP found that although some positive steps had been taken, "Timor-Leste has made limited progress in implementing trade facilitation measures in the past two years" (UNESCAP 2019). However, in March 2023, UNCTAD announced that Timor-Leste had adopted its Automated System for Customs Data (ASYCUDA) solution, succeeding in connecting eight government agencies involved with import and export procedures to the country's National Single Window (UNCTAD, 2023). Various elements of Timor-Leste's legislative action plan and institutional reform program (discussed in the next section) focus on adopting a large number of the trade facilitating measures that WTO accession encompasses (transparency, predictability, rule of law), such that continued progress on the cross-border elements of this aspect of e-trade readiness can be expected.

Legal and regulatory framework refers to the body of laws and regulations that a country has adopted specifically to facilitate e-commerce and online/digital transactions and to build confidence on the part of consumers and businesses in what is a relatively new form of business that obviates the need for buyers and sellers to physically meet. This generally requires countries to enact laws and implementing regulations on such matters as electronic transactions (including online payments), consumer protection (including online fraud and scams), data protection (including privacy), and cybercrime (including identity theft and hacking). It also involves achieving legislative equivalency in terms of the legally binding nature of paper (i.e., off-line) and electronic or online contracts.

A February 2023 update to Timor-Leste's legislative action plan, in the context of its WTO accession negotiations (WT/ACC/TLS/6/Rev.6), shows that a planned Decree Law on E-Commerce was to be submitted to the Council of Ministers in the second quarter of 2023, with implementation scheduled for later the same year. Otherwise, in February 2020, a new initiative was launched, with funding from the Asian Development Bank among others, to establish a unique identifier system (Unique ID) of Timorese citizens. In the context of a 2021 public consultation, such a scheme was identified as integral to ongoing administrative reform efforts, essential to reduce identify and financial fraud, but also as "the basis of e-government and 'online' transactions" (Government of Timor-Leste 2021). In addition, in January 2021, a draft Cybercrime Bill was tabled as a tool to help protect Timor-Leste citizens from online crime and scams that have arisen with increased internet penetration. Apart from the above efforts, and changes to the Customs Law in the context of implementing paperless trade, large gaps remain in the legal and regulatory frameworks of Timor-Leste that need to be filled for both e-commerce to take off, but also for the country's ambitions in terms of digital transformation. This situation offers Timor-Leste an opportunity to harness its post-accession participation in the WTO Joint Statement on E-Commerce and any resulting trade-related technical assistance that can be secured for developing countries and LDCs under this future plurilateral agreement.

Payment solutions is an area that is essential to the development of e-commerce and an online economy. As successful national e-payments schemes have demonstrated in both developed and especially developing countries, the main constraints here don't necessarily need to be financial or technological, since even Kenya's now-famous M-PESA scheme was a 2G technology that came to play a significant role in the country in a pre-smartphone era (Kyule et al. 2018). This is essentially a matter for policymakers, who can enact the appropriate legislation and issue the required licenses to e-payment providers. This can also be a key prong in efforts to bring an increasing share of economic activity into the formal economy, moving the vast majority of day-to-day transactions away from cash-based exchanges. This is an area where Timor-Leste lags its peers, but many countries, investors and companies stand ready to support such efforts, provided this comes with market access for foreign e-payment companies.

Skills development encompasses both the skills that entrepreneurs and businesses require in order to scale up digital products and solutions online, but also digital literacy in the general population that allows the powerful network effects underlying digital technologies to take full effect. The development and rollout of digital literacy initiatives in Timor-Leste, particularly targeting the younger generation, has been a prominent feature of the government's response to the Covid-19 pandemic. The "Eskola Ba Uma" or "School Goes Home" program was launched by the Ministry of Education, Youth and Sport, in collaboration with the United Nations Children's Fund (UNICEF), when schools were closed in late March 2020 as part of a series of lockdown measures. Since then, various other initiatives have been launched under the mantra of Digital Skills Development and Technology Accessibility (United Nations Timor-Leste, 2022). This is clearly something that is top of the policy agenda for the Timorese authorities, given their stated commitment to upgrading the island nation's human capital and the dangers, economically, of allowing the country to fall further behind.

Access to financing covers how easily digital entrepreneurs and start-ups enjoy access to finance and credit, something that is repeatedly identified as problematic, particularly from the banking sector, which relies on collateralized business models which digital startups often fail to comply with. Private sector led initiatives can help fill the gap, but so too can appropriate government policies such as innovative lending guarantees, tax incentives, supportive business laws, or the establishment of business parks offering preferential leasing rates for digital entrepreneurs. Incubators or accelerators that also combine financial support are yet another way in which some developing countries have helped bridge financing gaps (UNCTAD 2020). This is an area where tentative steps appear to have been taken in Timor-Leste, notably through the establishment of the United Nations Development Program's (UNDP) Accelerator Lab.

2. Aid for Trade and Trade-Related Technical Assistance for Digital Transformation

The Aid for Trade (AfT) initiative was launched at the end of 2005 at the WTO's sixth Ministerial Conference (MC6) in Hong Kong, China, and quickly emerged as the central platform for both identifying the various constraints besetting developing countries and LDCs in their efforts to better connect with international trade flows, as well as formulating and coordinating responses by the donor community to the constraints thus identified. Over time, a series of biennial reviews of global AfT activities and outcomes emerged and – starting in 2013 – were grouped around different thematic issues. In the 2017 Global Aid for Trade Review, the main organizing theme was "Promoting Trade, Inclusiveness and Connectivity for Sustainable Development" (WTO/OECD, 2017). This arguably marked the moment at which the issue of digital transformation and the need to support developing countries and LDCs in their efforts to connect with digital trade flows made it on the WTO radar screen (Lacey 2021).

It is thus no coincidence that the same year (2017) saw the launch of a Joint Statement Initiative on Electronic Commerce at the WTO's 11th Ministerial Conference in Buenos Aires, Argentina. The initiative was launched by a group of seventy-one developed and developing country members with a view to exploring and subsequently launching plurilateral negotiations on a WTO e-commerce agreement that reaffirmed "the importance of global electronic commerce and the opportunities it creates for inclusive trade and development".[11] These negotiations were subsequently launched in early 2019 and have to date been driven by a confluence of both developed and developing country members. And it is these negotiations that offer some of the most promising potential outcomes for developing countries and LDCs to secure commitments from developed countries and the international donor community to help them both bridge the digital divide and connect with the global digital economy in commercially meaningful ways.

One way that has been proposed to do this would be to make developing country acceptance of the e-commerce JSI provisions contingent on their receiving the trade-related technical assistance needed to implement associated regulatory reforms and build the necessary digital domestic capacity (Lacey 2023). Such an approach would replicate the path already taken with notable success under the WTO Trade Facilitation Agreement (TFA) (Hallaert 2015).

By joining JSI negotiations, Timor-Leste can position itself to influence any negotiated outcomes, including those on Trade-Related Technical Assistance (TRTA) and capacity building as well as – more importantly – receive TRTA and capacity building in areas of vital importance to bridging the digital divide and positioning its firms to better connect with regional and global digital value chains. For example, some of the TRTA and capacity building outcomes liable to result from the WTO e-commerce negotiations may include commitments by developed-country members to provide co-financing or credit-support facilities for developing countries and LDCs to put in place the

[11] See Ministerial Conference Eleventh Session Buenos Aires, 10-13 December 2017, Joint Statement on Electronic Commerce (WT/MIN(17)/60) dated 13 December 2017.

necessary connectivity infrastructure such as fiber-optical cables, internet exchange points, land-based networks and data centers. It might also include technical assistance to implement needed legislative and regulatory reforms that support the adoption and recognition of e-signatures, the implementation of paperless trading, and the uptake of digital payment platforms, or to finance and support the establishment of e-government services or digital literacy programs, all of which constitute the myriad of elements essential for the digital economy to take root and a vibrant domestic e-commerce ecosystem to emerge.

IV. Regulatory Reform, Institutional Strengthening and Trade Facilitation

The Diagnostic Trade Integration Study (DTIS) that was prepared for Timor-Leste in 2010 identified several constraints to export growth, few of which have been comprehensively addressed since the study was completed. These include the legal uncertainty surrounding land ownership and the resulting lack of access to land, low levels of workforce skills, an underperforming business climate in addition to inadequate essential trade-related infrastructure such as roads, ports, customs clearance facilities, etc. The process of WTO accession and WTO membership can be leveraged to address, either directly or indirectly, a number of the identified constraints holding back the development of a more competitive, diversified and inclusive Timorese economy.

Key Messages and Takeaways from this Section:

- Because of the elevated incidence of non-tariff barriers (NTBs) in international trade today, the importance of national quality infrastructure (NQI) has likewise become an important consideration at the interface between domestic regulation and trade policy.
- WTO accession offers a chance to tap TRTA in order to improve and strengthen the institutions at the center of Timor-Leste's NQI, in particular the National Quality Control Institute (NQCI).
- In an era of regional and global value chains, the importance of lowering trade costs has gained widespread currency in trade policy circles. Here again, the TRTA commitments embedded in the WTO Trade Facilitation Agreement offer Timor-Leste an important opportunity to improve and streamline the management, processes and infrastructure of its borders to the benefit of domestic firms, as well as current and future foreign investors.
- The many reforms that WTO accession entails, in both the regulation of cross-border trade in goods and the domestic regulation of services, are highly conducive to producing a better business environment and a more welcoming investment climate. Commitments that form part of a country's WTO accession package can also have powerful reform signaling effects, e.g., a pre-commitment to adhere to the WTO Joint Statement Initiatives on Services Domestic Regulation and Investment Facilitation for Development.

1. Leveraging WTO Accession and Membership to Improve Quality Infrastructure

One critically important example of where this can be done relates to quality infrastructure and the National Quality Control Institute (NQCI) of Timor-Leste (*Instituto para a Qualidade de Timor-Leste*), which was established in 2018 by Decree Law 10/2018 and serves as the national regulatory body for qualification, standardization and metrology and whose development benefited from support from the United Nations Industrial Development Organization (UNIDO). However, even the government of Timor-Leste itself recognizes the acute capacity constraints the NQCI faces in achieving its mandate, particularly in regards to elaborating and implementing standards on such basic legislative prerequisites as food safety or having the physical infrastructure and technical expertise to run a laboratory for testing imported food products (Martins 2021). This in turn represents a major constraint for implementing the WTO TBT and SPS agreements. The Aid for Trade initiative and donor funded TRTA programs have been successfully remedying such capacity constraints in several developing countries and LDCs since the initiative was launched in 2005.

The Standards and Trade Development Facility (STDF), which brings together experts from the WTO, the Food and Agriculture Organization (FAO), World Bank, World Health Organization (WHO), the World Organization for Animal Health (WOAH), the Codex Alimentarius Commission (Codex) Secretariat and the International Plant Protection Convention (IPPC) Secretariat has a strong track record of supporting governments and other stakeholders in developing countries to meet international food safety, animal and plant health standards and other trade requirements, opening the way for firms in these countries to connect with global and regional markets. What is more, the STDF regularly funds projects that it deems will help it achieve these goals. For example, the STDF awards up to US$ 50,000 for project preparation grants that "involve the application of SPS-related capacity evaluation tools, preparation of feasibility studies and/or formulation of project proposals to address specific SPS capacity building needs linked to trade" (STDF 2023). It also provides up to US$ 1 million grants for projects "that improve food safety, animal and plant health capacity to comply with international sanitary and phytosanitary (SPS) requirements".

Upgrading both the physical infrastructure and technical capabilities of the NQCI and related institutions in Timor-Leste will bring benefits not only to Timorese consumers but also firms, who will be able to demonstrate conformity with international food safety and other technical standards and thereby better position themselves to tap into and scale new export opportunities on regional and global markets.

2. Reducing Trade Costs through Trade Facilitation Improvements

Full implementation of the WTO Trade Facilitation Agreement (TFA) can bring much-needed policy and legislative guidance but also material assistance to Timor-Leste, representing a tangible benefit for the country as it prepares to join the global trade body. The TFA is structured such that many of the commitments requiring major reforms of domestic customs agencies and procedures can be made conditional on the receipt of corresponding TRTA. What's more, structured mechanisms exist to ensure that the demands of developing countries and LDCs for such assistance are addressed. For example, the Trade Facilitation Agreement Facility and its Trade Facilitation Agreement Database offer resources and data on implementation gaps and how to address them. The Global Alliance for Trade Facilitation, a public-private partnership that brings together key players in international trade logistics, is another source of funding and expertise to support Timor-Leste as it makes needed improvements to its hard and soft logistics infrastructure with a view to reducing trade costs.

The fact that Timor-Leste faces considerable challenges in this area has not gone unnoticed by Timorese officials themselves and WTO Working Party members. An April 2023 update to the country's Matrix for Development Partner Coordination lists the implementation of the WTO Accession Agreement as a medium to long-term development assistance priority, with USAID and the World Bank as partners. A number of other priorities in the area of customs clearance and reducing trade costs are identified, such as support in developing Timor-Leste's National Single Window, a long-term development priority with funding and assistance earmarked from USAID and UNCTAD.

Progress in expediting customs clearance and implementing related reforms that lower trade costs entail various economic benefits. They can be a catalyst for expanding both export and import volumes. By the same token, the successful implementation of these reforms can boost competitiveness, as they allow local businesses to respond with more agility and greater cost efficiency to changing market demands. They also boost economic growth by paving the way for local businesses to access a wider range of inputs and intermediate goods, which in turn enables them to produce more efficiently and at lower cost, thereby driving economic expansion, increasing productivity, and creating employment opportunities across the board. Trade facilitation reforms can also help to attract FDI, since smoother customs processes encourage foreign companies, particularly those whose business model or value proposition involves moving goods across borders, to establish operations or expand their presence in the country, creating new economic opportunities for Timor-Leste. In addition, simplifying and harmonizing trade-related procedures results in a range of additional transaction cost reductions and related efficiency gains, such as a reduction in paperwork, greater transparency and accountability, enhanced cooperation among relevant stakeholders from both the public and private sectors. All of these ancillary benefits not only lower trade costs but also improve the overall business environment. Finally, trade facilitation measures have been found to improve revenue collection, even in an environment where tariffs are being reduced, since efficient customs clearance procedures, by expediting trade transactions, can help prevent fraud, smuggling, and other illicit activities that ultimately reduce official customs revenues.

3. Legislative and Regulatory Reforms to Improve the Business Climate and Attract FDI

The many regulatory reforms associated to the WTO and ASEAN accession processes bring with them an important set of ancillary benefits in terms of improving the business climate and attracting FDI. This section first discusses the major reforms that underpin tangible and measurable improvements to the business climate as well as the main drivers of inbound FDI. It then concludes by connecting the dots between these and various aspects of the policy, legislative and regulatory reform process set in motion when a country opts to accede to the WTO.

Improving the business environment involves a range of cross-cutting and often mutually reinforcing reforms but also can be complex due to the sheer number of different bureaucratic actors and potentially competing interests involved (Xu et al. 2021). For this reason, it needs to be championed at the highest level of political leadership. One important aspect of this work involves streamlining and simplifying business regulations, licensing procedures, and administrative processes, which can all contribute to lowering compliance costs, and improve the ease of doing business. Yet another aspect of reforms directed at improving the business climate involves strengthening the rule of law, bolstering governance frameworks and institutions, promoting transparency, combatting corruption, and ensuring the predictable and fair application of the rule of law, including by protecting property rights and enforcing contracts (Dam 2006). Further, such reforms cover border management practices such as improvements to customs procedures, reducing clearance times and other trade facilitation measures. One final set of regulatory reforms that are important in this context are those that promote competition, pro-competition regulatory reforms and market liberalization, because these can, among other positive spillover effects, stimulate innovation, productivity, and investment (Nicoletti and Scarpetta 2003).

In the context of drivers of inbound FDI, it is worth recalling what the key motivations are for the largest FDI providers, namely multinational corporations (MNCs), since an understanding of these factors can guide policymakers seeking to attract more FDI. For example, market-seeking FDI is often focused on accessing new customers, expanding market share, or increasing sales. This kind of FDI is attracted to larger markets that are either highly populated or affluent (or both), which is not currently the case of Timor-Leste but is the case of the region in which Timor-Leste is situated, which strengthens the case for ASEAN accession. Another motivation that drives MNCs to invest in foreign markets is the presence of important natural resources, raw materials, or other key inputs that are scarce or unavailable in either their home country or elsewhere (so-called resource-seeking FDI). This has been the most important driver of inbound FDI in Timor-Leste since the country's independence, with a great deal of international interest in offshore petroleum and natural gas reserves in the Timor Sea. But Timor-Leste is endowed with many other resources which could, if exploited sustainably, offer new sources of prosperity generating inbound FDI. This is notably the case of sectors such as minerals, forestry, fisheries, and water resources, with the latter having the potential to form the basis of future hydropower investments.

Efficiency-seeking FDI involves investments made to achieve cost efficiencies, improve productivity, or reduce production costs, and are typically sought in locations with lower labor costs, favorable tax environments, better infrastructure, or more efficient supply chains to enhance their competitiveness. This is an area that could hold potential for Timor-Leste if improvements were made to its human capital and trade infrastructure.

The policy, legislative and regulatory reforms associated to WTO accession (and subsequently membership of ASEAN) can support efforts to both improve the business climate and attract FDI in a number of direct and indirect ways. For example, many of the obligations contained in a range of WTO agreements, such as the GATT, the Import Licensing Agreement, the Agreement on Technical Barriers to Trade and the Agreement on Sanitary and Phytosanitary Measures, as well as the Trade Facilitation Agreement contain substantive, institutional and procedural provisions that enhance transparency, predictability, and can have a significant impact on reducing regulatory burdens, transaction costs and streamlining bureaucratic red tape. Similarly, the GATS and related commitments such as the two references papers on telecoms and services domestic regulation, both of which Timor-Leste has pledged to incorporate into its schedule of specific commitments, have the potential – if properly implemented – to generate impactful improvements in domestic economic governance and the business climate.

The regulatory reforms that countries undertake as part of their WTO accession commitments should also provide positive spillover effects for their trade and investment promotion efforts in the form of upgrading both institutional frameworks and needed human capital. This is another area where a number of donors have a particularly strong track record in providing TRTA, such as the World Bank or a number of East Asian bilateral and multilateral donors (Japan, Korea, ADB). A pre-commitment to accede to the JSIs on Investment Facilitation for Development and Services Domestic Regulation can provide strong and positive signaling to the WTO membership as a whole.

WTO accession also provides an important signaling function to investors about a government's commitment to maintaining a predictable economic policy environment and be bound by the many disciplines imposed by WTO rules, including those on the protection of intellectual property rights that are increasingly relevant today in the modern knowledge-based and technology-driven global economy. Further, the rule-based WTO system is not only relevant at the domestic but also at international level, as small countries such as Timor-Leste depend on the application of international law to defend their trade interests and to make their voices to be heard in an increasingly unstable and volatile international setting. Timorese experts could leverage the dispute settlement system of the WTO agreements, even for non-litigious cases.

CONCLUSION

Harnessing Momentum and Managing Expectations

Timor-Leste is approaching the finish line of its WTO accession negotiations. The much more challenging task facing Timor-Leste's leaders now is converting the promise of WTO membership into tangible improvements in the country's growth trajectory and thus in the lives of its citizens, through more economic opportunities for its workers and firms, as well as a steady climb up the development ladder.

The accession process is one that is inevitably characterized by a flurry of reforms, both to regulatory institutions and legislation. Too often, the momentum that this generates can show signs of abating once accession negotiations are completed, leaving many reforms inadequately implemented. This is a risk to avoid lest WTO accession fails to translate into tangible improvements in economic governance. Timor-Leste's policymakers could embrace not only the letter but also the spirit of the many new laws and regulations that have and will continue to require adoption in order to give effect to the country's accession commitments.

In the context of Timor-Leste in particular, facing as it does the imperative of diversifying its economy, the process and outcome of WTO accession can be viewed as important milestones in supporting efforts to decarbonize the economy and encourage investments into and raise competitiveness in sectors of the economy outside of the hydrocarbons sector.

WTO accession will also lay the foundation and pave the way for the next major trade and investment policy choices that will drive and support Timor-Leste's broader and deeper integration into other important regional architectures, particularly ASEAN and any future bilateral, regional or mega-regional PTAs Timor-Leste may decide to join.

This further reiterates an important point about WTO accession that policymakers need to both understand themselves and convey to the Timorese public more broadly: that it is best understood as a new beginning rather than the culmination of a demanding yet potentially rewarding process of domestic reform. As such, WTO accession is best framed as an important milestone and thus the beginning of a new and challenging phase of the country's history as a WTO member.

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