



As special adviser to Prime Minister Xanana Gusmao, Steve Bracks is well placed to know the pitfalls – and opportunities – of doing business in the fledgling nation.

Photo Nic Walker

# Premier opportunity wasted

East Timor may be small, but it's no longer short of money. And Australia is missing out on business deals, says ex-Victorian premier Steve Bracks.

Angus Grigg DILI, EAST TIMOR

When Steve Bracks began working in East Timor he was assigned two security teams.

The former Victorian premier had close-protection officers from the United Nations and the Australian-led International Stabilisation Force to guard his every move. He travelled in a convoy and rarely went out after dark.

It was mid-2007 and the capital, Dili, resembled a tent city as camps of displaced people overwhelmed most public spaces. Sporadic violence was common and political tensions were everywhere.

As special adviser to Prime Minister Xanana Gusmao, Bracks had the seemingly impossible task of helping to build a nation out of what was increasingly looking like a failed state.

It was not your typical low-impact, political afterlife. But four years and 20 trips later, things could not be more different.

Bracks, gin and tonic in hand, is dining at a beachside cafe well after dark and there's not a guard or UN convoy in sight. "The security situation has certainly settled down," he tells the *Weekend Financial Review* on his most recent visit. "Stability and security have brought about economic growth and allowed us to start doing things."

It has made the one-time teacher something of an unpaid Mr Fixit for Gusmao and his fledgling nation, which will celebrate a decade of independence in May next year.

There are few areas in which Bracks is not involved. He has helped establish an anti-corruption commission, an independent civil service commission and a chamber of commerce and is advising the government on setting

up a superannuation scheme for public servants.

Then there's preliminary work on a sewerage and sanitation system for Dili and the establishment of a large-scale procurement authority, which will be the main body for East Timor to begin building the infrastructure it desperately needs.

This is a giant task. For starters, the country wants to build a new port, redevelop the airport, upgrade most of its road network and repair Dili's reticulated water system, which is plagued with leaks.

The contracts on offer will run to many billions of dollars, but Bracks is not confident Australian companies will share in the spoils.

"There are business opportunities going begging up here," he says. "I would say we have taken the country for granted ... because we are geographically close and helped liberate it."

Bracks says one of the major problems is the lack of an Austrade commissioner based in Dili – a point he has made regularly with Australian politicians from the Prime Minister down.

Bracks says most Australian businesses still see East Timor as too unstable to warrant an investment, even though the main danger these days is being hit by a UN four-wheel-drive.

"Australian companies see it as too risky and too small," he says.

Small it might be – just 1.1 million people – but it is not short on money. As the World Bank notes in its country overview, East Timor has gone from "aid dependence to resource abundance" in six years.

At last count, its Petroleum Fund totalled \$US7.7 billion (\$7.2 billion) and is growing by an impressive \$US250 million a month, mainly due to revenue from the Bayu Undan field in the Timor Sea.

The government – which has no debt as it does not have a credit rating, so can't borrow – has begun using some of this cash to develop the country, and is set to increase spending in the coming years.

Bracks says many large infrastructure projects will soon be put out to tender and Australian companies should be on the ground

building relationships and laying the groundwork.

"We are being outgunned by the Chinese and the old colonial power, Portugal," he says.

The Chinese are newcomers but have won all the major contracts. In recent years Chinese companies have built navy patrol boats, a new power station, electricity grid and the country's first shopping mall. "They are all projects that could have easily been done by Australian firms," Bracks says.

The lack of an Australian economic presence in East Timor comes although the Australian government is the largest aid donor at \$100 million a year and the Australian Army is the country's main security partner.

Not that Bracks is under any illusion about the challenges of doing business in East Timor.

The most recent World Bank

**Yes, it's challenging but there are opportunities in agriculture, retail, resources and the rehabilitation of infrastructure.**

survey ranked it 174th out of 183 nations for the ease of conducting business, behind countries such as Iraq, Afghanistan and Haiti.

"Yes, it's challenging but there are opportunities in agriculture, retail, resources and the rehabilitation of infrastructure," he says.

He is heartened that most indicators are moving in the right direction. The poverty rate remains at a pervasively high 41 per cent, but is down from 49 per cent in 2007. Life expectancy has improved from 56 years in 2000 to 61 in 2008, and the economy is estimated to have grown at about 10 per cent last year, mainly thanks to government

building programs. For Bracks, the connection with East Timor began early in his eight-year stint as Victorian premier, when Gusmao and the country's current President, Jose Ramos Horta, visited Melbourne. "We hit it off immediately," he says.

After that meeting Bracks was successful in lobbying the federal government to grant permanent residency to some Timorese on temporary protection visas.

He also raised funds for the restoration of Balibo House – the building in which five Australian journalists spent their last night before being killed by invading Indonesian forces in October 1975.

In 2003, Bracks, Gusmao and Ramos Horta officially opened the house, which serves as a community centre and memorial to the men.

Travelling to Balibo, near the border with Indonesian West Timor, cemented Bracks' relationship with Timor's leaders and there was sporadic contact during the later years of his premiership. Two days after he left office in July 2007, the relationship was formalised when Gusmao's Australian-born wife Kirsty asked Bracks if he was interested in being a special adviser to her husband, who had just been elected prime minister after a term as president.

"I said 'yes' even before the conversation had finished," he says. Bracks had one condition. He would do the work on a voluntary basis but insisted East Timor, then the world's poorest country, should not fund his accommodation or travel expenses.

That meant asking media buyer Harold Mitchell, who has had a long association with East Timor, to fund his trips. That funding is still in place and was complemented recently by money from the UN Development Program.

Bracks usually spends a week in Dili four to five times a year and is part of Gusmao's small inner circle.

Initially, his advice focused on building an effective, transparent public service and, more broadly, "good governance" in an economy dominated by the state. More

recently, he has provided advice on all areas, particularly since Gusmao has largely cut himself off from the international agencies, believing they are too process-driven and slow to act.

Gusmao made it very clear in a recent speech he would prefer the UN to leave his country. He has also been highly critical of how an estimated \$US8 billion in international aid has been spent in East Timor since 2000. "We do not see any physical development, and even more poverty in our country," Gusmao says.

In the absence of advice from the UN or other agencies such as the International Monetary Fund or World Bank, Bracks has stepped up. "It's different from anything I have ever done and probably will ever do," he says. It will take a generation for East Timor to take its place as a middle-income country, he adds, but stresses it's important to remember how far it has come.

In 1999, after East Timor voted for independence, an estimated 75 per cent of the population was displaced and nearly 70 per cent of all infrastructure destroyed in an orchestrated campaign of violence by militia groups loyal to Jakarta.

During the 2006 political crisis and violence, which brought down the government of Mari Alkatiri, 150,000 people were again displaced into camps.

So bad was the paralysis that the government could not even spend its new-found oil wealth. "When I first came up here, the government was spending 20 to 30 per cent of its budget commitments," Bracks says. "Now it's about 80 per cent."

The task now is to ensure it is spent well.

**Watch for ...**  
Dili's new best friend, by Angus Grigg.

In The Australian Financial Review Magazine. Out Friday.