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Economic Governance Pathways for Productive Sector Diversification and Post-Oil Economic Resilience in Timor-Leste

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Abstract

Timor-Leste's transition beyond major petroleum production is constrained not only by the cessation of extractive activity but also by the limited capacity of domestic institutions and firms to convert accumulated petroleum wealth into productive activity. Although the Petroleum Fund remains a substantial fiscal buffer, public expenditure continues to rely heavily on withdrawals, while non-oil exports and private-sector capabilities remain narrow. This study examines how economic governance can connect petroleum-wealth management with productive diversification and post-oil resilience. It adopts a qualitative, interpretive literature-based design, synthesizing peer-reviewed studies published primarily between 2016 and 2026 alongside country assessments and policy reports from the IMF, World Bank, ADB, WTO, and Timor-Leste institutions. Sources were purposively selected for their relevance to fiscal governance, public investment, private-sector development, human capital, digital transformation, and regional integration, and were compared through thematic analysis. The synthesis identifies an interdependent governance pathway: fiscal discipline and Petroleum Fund management shape the resources available for development; the quality of public investment builds infrastructure and human capabilities; these capabilities, together with finance and digital access, enable domestic firms to expand; and stronger firms and value chains are better positioned to benefit from regional market integration. The findings also show that these mechanisms are mutually reinforcing rather than strictly sequential, and that regional access cannot substitute for domestic institutional and productive readiness. The study contributes a governance-centred conceptual framework that explains how resource wealth may be converted into durable productive capabilities in a small, resource-dependent economy. Its policy implications concern expenditure quality, revenue mobilization, firm-level capability formation, and the implementation of ASEAN and WTO commitments. The framework is interpretive and requires future empirical testing.

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Keywords: Economic Governance, Economic Diversification, Post-Oil Economy, Timor-Leste, Economic Resilience.

1. Introduction

Timor-Leste's economic transition has entered a qualitatively different phase. The Bayu-Undan field, the country's principal producing petroleum asset, ceased operations in June 2025, and the Government's 2026 budget baseline included no future petroleum revenue from existing fields (Ministry of Finance, 2025). The end of production does not, however, mean that petroleum wealth has disappeared: The Petroleum Fund stood at approximately US$18.61 billion at the end of 2025 (Government of Timor-Leste, 2026). The central challenge is therefore no longer simply how to manage an active extractive sector, but how to convert accumulated financial wealth into a productive economy capable of sustaining public services, employment, and income after petroleum production has ended. The scale of this challenge is evident in the structure of the non-oil economy. Public spending averaged around 80 percent of non-oil GDP over the preceding decade (Asao & Huidrom, 2026), while non-oil goods exports accounted for only about 3 percent of non-oil GDP in the IMF's 2025 assessment (International Monetary Fund [IMF], 2025). A large sovereign asset base thus coexists with a narrow export structure and limited domestic productive capacity.

The fiscal implications are substantial. The Petroleum Fund has financed more than 70 percent of the national budget over the past decade, making it a central source of public financing rather than merely a reserve for exceptional circumstances (Ministry of Finance, 2025). The 2026 budget report's Table 35 estimated the Fund's Estimated Sustainable Income (ESI) at US$543.3 million, compared with budgeted withdrawals of approximately US$1.719 billion; the difference reflects withdrawals above the ESI that require parliamentary approval. These figures illustrate the tension between front-loading expenditure to address development needs and preserving financial assets for future generations. They do not, by themselves, establish that all excess withdrawals are unproductive. Their developmental value depends on the composition, execution, and returns of the expenditure they finance. IMF assessments project that, in the absence of significant fiscal and structural reforms, the Petroleum Fund could be depleted in the late 2030s; the precise timing varies with assumptions about expenditure, investment returns, and future petroleum receipts (IMF, 2025, 2026). The issue is therefore one of fiscal conversion: whether finite petroleum wealth is transformed into durable capabilities before the financial buffer is exhausted.

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Research on Timor-Leste has examined several aspects of this transition, but from different analytical angles. John et al. (2020) identify resource-curse mechanisms in the country while cautioning against attributing complex development problems to petroleum dependence alone; historical legacies and institutional weaknesses also matter. Doraisami (2018) examines the intergenerational implications of Petroleum Fund withdrawals, while the World Bank's country economic memorandum emphasizes the weak dynamism of the private sector, constraints on trade, and the need for a growth model less dependent on public expenditure (Rezza et al., 2023). At a broader level, Lashitew et al. (2021) identify human capital, public and intellectual capital, and firm dynamism as correlates of successful diversification in resource-rich economies. Jolo et al. (2022) similarly demonstrate that diversification is associated with a combination of economic, institutional, and structural factors. More recent firm-level evidence from Timor-Leste shows that formalized, digitalized, internationalized, and women-led MSMEs exhibit different business characteristics and performance profiles, suggesting that enterprise support cannot be designed as a uniform intervention (Shinozaki, 2026). Research on tourism also demonstrates the potential of linkages among food production, local places, communities, and visitor services (Berno et al., 2022).

Taken together, these studies provide important insights, yet they do not fully explain how the different mechanisms combine to move a small, petroleum-dependent economy from resource-financed public expenditure toward sustained non-oil production. Country-specific studies tend to concentrate on the resource curse, fiscal management, or particular sectors; cross-country studies identify the correlates of diversification but do not necessarily trace how those factors interact within Timor-Leste's institutional and fiscal setting. The resulting gap is not an absence of research on diversification, but a lack of an integrated, governance-centred account of the conversion process linking petroleum-wealth management, productive investment, human and digital capabilities, firm development, value-chain formation, and regional market access.

This study addresses that gap by examining how economic governance can connect petroleum-wealth management with productive sector diversification and post-oil economic resilience in Timor-Leste. It asks three related questions: (1) how do fiscal and Petroleum Fund governance shape the conversion of petroleum wealth into productive capacity; (2) through what complementary roles do public investment, human capital, digital capabilities, and private enterprises support diversification; and (3) under what conditions can regional integration reinforce domestic productive transformation? The study's contribution is an integrated conceptual framework that treats economic governance as a conversion mechanism rather than simply a set of fiscal rules or administrative arrangements. It also positions regional integration as a conditional amplifier of domestic capabilities, not as an independent solution to structural weakness. Because the study is based on secondary literature, its contribution is conceptual and interpretive; it does not claim to establish causal effects empirically.

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2. Literature Review

2. 1. Economic Governance and Structural Transformation

Economic governance concerns the institutions, rules, administrative capabilities, and accountability arrangements through which public resources are mobilized and allocated and economic activity is regulated. In resource-dependent economies, its significance lies in the ability to prevent temporary resource rents from becoming a substitute for productive development. The relevant question is not only whether revenues are managed transparently, but whether public institutions can direct them toward investments that expand the capabilities of firms, workers, and domestic markets. This broader view links fiscal management with public investment quality, regulatory predictability, and the institutional conditions under which private actors can invest.

The relationship between governance and diversification is reciprocal. Cross-country evidence associates stronger institutions with more diversified export structures (Lei & Luo, 2022), while Olander (2019) argues that diversification can itself alter the distribution of economic interests and constrain the formation of narrow elite coalitions. This reciprocal relationship cautions against treating governance as a one-way antecedent of diversification. In the present study, governance is examined as the institutional architecture that shapes the allocation of petroleum wealth and the formation of productive capabilities, while diversification may in turn broaden the economic interests and revenue sources on which institutions depend.

2. 2. Resource Dependence and the Post-Oil Transition

Resource dependence can expose an economy to fiscal volatility, weak incentives for non-resource production, and an overextended public sector. Nevertheless, the resource-curse perspective should not be applied deterministically. In their review of Timor-Leste, John et al. (2020) find evidence of several resource-curse mechanisms but emphasize that the extractive sector may intensify pre-existing institutional and historical problems rather than independently cause them. This distinction matters because the policy response cannot be reduced to limiting petroleum revenues; it must also address the institutional and productive conditions that shape how those revenues are used.

Comparative research provides a broader account of the capabilities associated with diversification. Alsharif et al. (2017) map the evolution of research on diversification in resource-rich countries, while Lashitew et al. (2021) emphasize human capital, public and intellectual capital, and firm dynamism. Jolo et al. (2022) identify a combination of institutional, investment, and economic factors across resource-rich countries. Muhamad et al. (2021) likewise discuss the importance of private-sector development, taxation, institutional quality, and human development in reducing natural-resource dependence. These studies suggest that diversification is not simply the expansion of additional

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sectors. It is a process of building the capabilities and linkages that allow non-resource activities to become productive, competitive, and fiscally consequential.

2. 3. Petroleum Fund and Fiscal Governance

Sovereign wealth funds can stabilize public finances and preserve resource wealth across generations, but their developmental contribution depends on the rules governing deposits, withdrawals, investment, and public accountability (Bahoo et al., 2020; Megginson & Gao, 2020). Timor-Leste's Petroleum Fund is governed by a fiscal framework that uses the ESI as a reference for sustainable withdrawals. Withdrawals above the ESI are legally possible with parliamentary approval, but repeated excess withdrawals can accelerate the depletion of the Fund if they are not matched by durable increases in domestic productive capacity and revenue.

Doraisami (2018) highlights the intergenerational implications of Petroleum Fund use and the political economy of expenditure choices. The relevant distinction is between the financial sustainability of the Fund and the developmental quality of the expenditure it finances. A large fund balance may provide room for investment, but it does not guarantee that public spending will generate productivity gains. Fiscal governance must therefore be assessed in relation to expenditure composition, project selection, implementation capacity, domestic revenue mobilization, and the extent to which public investment crowds in private economic activity.

2. 4. Productive Diversification and Value-Chain Development

Economic diversification is more meaningful when it expands domestic value added, productivity, employment, and export capacity rather than merely increasing the number of sectors recorded in national accounts. The distinction is important for small economies in which agriculture, tourism, construction, and services may grow without developing strong linkages to domestic suppliers, processors, logistics providers, or export markets. The World Bank's country economic memorandum for Timor-Leste identifies the need for private-sector-centred growth and stronger trade performance as central to the country's diversification challenge (Rezza et al., 2023).

Agriculture and tourism offer opportunities for mutually reinforcing value chains. Berno et al. (2022), for example, show how sustainable tourism futures in Timor-Leste can be strengthened through synergies among food, place, and people. Such linkages imply that sectoral policy should connect production, processing, quality standards, transport, hospitality, and market access. Diversification is therefore treated in this study as a process of value-chain formation and upgrading, not as a simple shift in sectoral shares.

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2. 5. Private-Sector Development, Human Capital, and Digital Capabilities

Private firms are the principal channels through which infrastructure, finance, skills, and regulatory reforms are translated into continuing production, employment, innovation, and exports. Their capacity to perform this role depends on access to finance, secure property rights, predictable regulation, managerial capabilities, and opportunities to connect with larger markets. Funk et al. (2021) show that resource dependence and institutional development can co-evolve with firm internationalization, underscoring the importance of firm-level responses in resource-dependent settings. In Timor-Leste, Shinozaki (2026) finds that formalized, digitalized, internationalized, and women-led MSMEs have different characteristics and performance profiles, supporting a more differentiated approach to enterprise development.

Human capital is a foundational component of productive capacity. Skills in production, processing, logistics, hospitality, management, and digital services influence whether workers and firms can take advantage of new investment opportunities. The World Bank's Human Capital Review identifies substantial constraints in the education and health capabilities that shape the productivity of the future workforce (World Bank, 2023a). Cross-country research also identifies human capital as an important correlate of diversification in resource-rich economies (Lashitew et al., 2021; Jolo et al., 2022). Hussain et al. (2021) further emphasize the interaction among institutional quality, human capital, and financial development, although their analysis focuses on resource-rich high-income economies and should not be transferred uncritically to Timor-Leste. Human capital can therefore be understood as an absorptive capacity: it determines whether workers and firms can use infrastructure, technology, finance, and market access effectively.

Digital transformation cuts across these dimensions. ICT can reduce transaction costs, improve access to market information, support digital payments, and increase the reach of small firms. Entele (2021) links ICT services and institutional quality to the capacity of economies to avoid resource-curse outcomes, although the evidence is cross-country rather than specific to Timor-Leste. The implications for Timor-Leste should consequently be framed with care: digitalization is a potential productivity enabler, but its effects depend on connectivity, skills, reliable infrastructure, payment systems, and the ability of firms to integrate digital tools into business processes.

2. 6. Regional Integration and Economic Resilience

Regional integration can enlarge the market available to domestic firms, facilitate investment and knowledge transfer, and create opportunities to participate in regional value chains. Timor-Leste became the 166th member of the World Trade Organization on 30 August 2024 and the eleventh member of ASEAN on 26 October 2025 (WTO, 2024; ASEAN, 2025). These developments provide an institutional platform for deeper trade and investment links. The World Bank's 2026 economic report presents ASEAN

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membership as an opportunity to accelerate reforms that support productive firms, exports, and a skilled workforce (World Bank, 2026).

Membership alone, however, does not guarantee export growth or diversification. Domestic firms must be able to meet product standards, deliver reliably, access trade finance, and compete on quality and cost. Evidence on trade openness and institutional quality similarly suggests that market access interacts with domestic institutional and productive conditions (Redmond & Nasir, 2020). Regional integration is therefore conceptualized here as a conditional mechanism: it can amplify the gains from domestic capability formation, but it cannot substitute for that formation.

2. 7. Conceptual Synthesis and Research Gap

The literature points to six interdependent dimensions of post-oil transformation: fiscal and Petroleum Fund governance; the quality of public investment; private-sector development; human-capital formation; digital capabilities; and regional integration. Existing research has generated substantial knowledge about each dimension, but the mechanisms connecting them are less often examined as a single country-specific pathway. This study brings them together through a governance-centred perspective in which fiscal institutions shape the allocation of resource wealth, public investment and human and digital capabilities build productive capacity, firms translate that capacity into economic activity, value chains deepen domestic value creation, and regional integration expands the markets available to competitive firms. The framework also allows for feedback: a broader productive base can expand non-oil revenue and strengthen the institutional incentives for more sustainable fiscal governance.

3. Research Method

3.1. Research Approach

This study adopts a qualitative, interpretive literature-based design to examine the governance mechanisms linking petroleum-wealth management, productive diversification, and post-oil economic resilience in Timor-Leste. It does not collect primary data or estimate causal relationships. Instead, it synthesizes conceptual arguments, empirical findings, and institutional assessments to develop an integrated analytical framework. The unit of analysis is the governance mechanism through which resource wealth may be converted into productive capabilities and non-oil economic activity.

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3.2. Literature Sources and Selection

Academic literature was identified from studies indexed in Scopus and records located through Google Scholar. Institutional evidence was drawn from reports and assessments published by the World Bank, IMF, Asian Development Bank, World Trade Organization, the Ministry of Finance, the Central Bank of Timor-Leste, and other relevant Timor-Leste institutions. The principal publication window was 2016–2026. Earlier studies were retained when they provided foundational evidence on the Petroleum Fund, resource dependence, or the country's institutional context.

The search focused on combinations of concepts relating to economic governance, resource dependence, the resource curse, Petroleum Fund management, fiscal sustainability, economic diversification, private-sector development, MSMEs, human capital, digital transformation, value chains, regional integration, and Timor-Leste. Search concepts were grouped into related clusters, including "Timor-Leste" with "Petroleum Fund", petroleum dependence, or post-oil transition; "resource dependence" or "resource curse" with economic or productive diversification; MSMEs or private firms with finance, digital adoption, productivity, or exports; and ASEAN or WTO with trade, market access, or regional value chains. Sources were purposively retained when they (i) addressed one or more analytical dimensions, (ii) provided identifiable empirical, theoretical, or policy evidence, and (iii) were relevant either to Timor-Leste or to resource-dependent economies with insights that could be assessed for contextual transferability. Duplicate records, sources without traceable authorship or institutional provenance, and materials that did not contribute to the research questions were excluded.

The study is a qualitative literature synthesis rather than a systematic review. It therefore does not claim exhaustive coverage, does not use a PRISMA screening protocol, and does not report a systematic-review flow count. The selection emphasizes contextual and analytical relevance. Table 1 maps the principal literature streams, representative sources, and the role and limits of each evidence group in the synthesis. This distinction is important when interpreting the results: the findings represent a reasoned synthesis of selected evidence, not a statistically representative estimate of the entire research field.

Tabel 1. Literature Categories and Analytical Focus

Literature Category	Analytical Focus
Economic governance	Institutions, fiscal governance, public expenditure
Resource dependence	Petroleum dependence and resource management
Petroleum Fund	Fiscal sustainability and intergenerational equity
Economic diversification	Agriculture, tourism, and productive sectors
Private-sector development	MSMEs, entrepreneurship, and investment

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Literature Category	Analytical Focus
Human capital	Skills, education, and productivity
Digital transformation	ICT, digital services, and business efficiency
Regional integration	Trade, investment, and regional value chains
Economic resilience	Diversification and post-oil sustainability

The sources were selected based on their relevance to the research objectives and organized into thematic categories to support comparative and interpretive analysis.

3.3. Literature Analysis

The selected sources were examined through thematic analysis. For each source, the analysis matrix recorded the publication year, geographical focus, source type, research design or data basis where reported, principal finding, and relevance to the study's research questions. The material was then coded into six themes: (1) fiscal and Petroleum Fund governance; (2) public investment and productive capacity; (3) private-sector development; (4) human capital; (5) digital transformation; and (6) regional integration and resilience. Findings were compared across peer-reviewed studies, working papers, and institutional assessments to identify convergence, differences in emphasis, and areas where country-specific evidence remained limited. Finally, the themes were mapped onto the proposed governance pathway.

Throughout the analysis, three levels of statement were distinguished. Source-based evidence refers to information or findings explicitly reported in the reviewed material. Analytical interpretation refers to the authors' explanation of how those findings relate to the study's framework. Policy implications refer to actions that may follow from the synthesis. This separation is intended to prevent recommendations from being presented as if they were direct empirical findings.

3.4. Analytical Framework

The analytical framework positions economic governance as the central mechanism connecting petroleum-wealth management with productive transformation. Fiscal and Petroleum Fund governance provide the financial foundation, while public investment, infrastructure, human capital, and digitalization strengthen productive capacity.

These capabilities support private-sector development and diversification in agriculture, tourism, and emerging sectors. Value-chain development, employment, exports, and regional market integration subsequently contribute to post-oil economic resilience.

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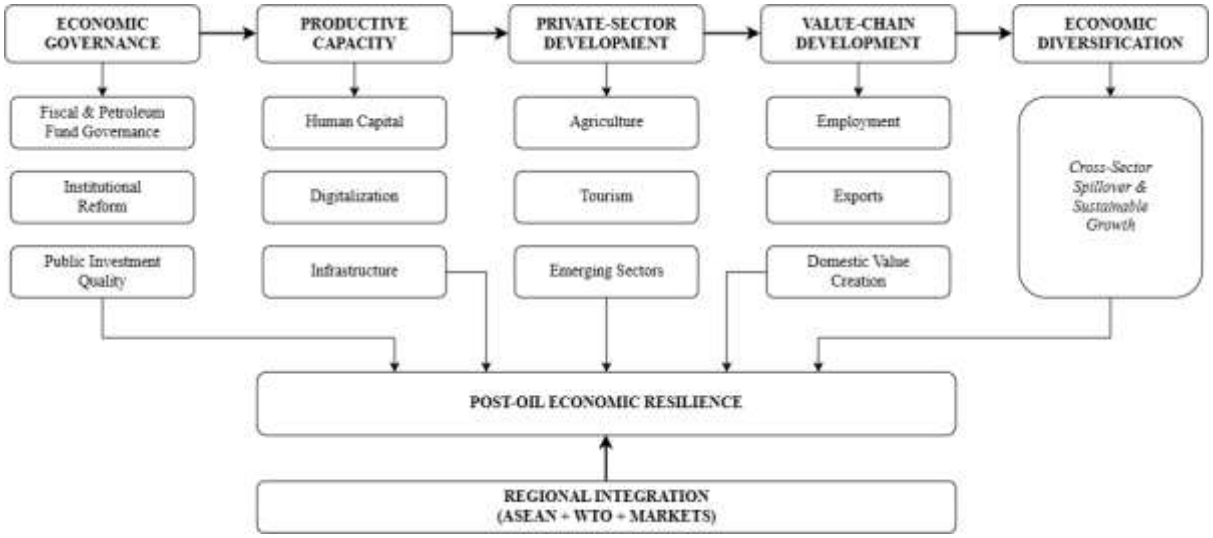


Figure 1. Conceptual Framework of Economic Governance, Productive Diversification, and Post-Oil Economic Resilience in Timor-Leste.

This framework provides the basis for interpreting the literature and organizing the findings into the subsequent Result and Discussion sections, consistent with the IJIS structure. The IJIS template specifies that the research method should explain the research approach, data and sources, framework, analysis techniques, and credibility of the research.

4. Result

4.1. Fiscal Governance and Petroleum Wealth Management

The literature synthesis identifies fiscal governance and Petroleum Fund management as a central finding in Timor-Leste's post-oil transition. The reviewed sources indicate that petroleum revenues have played an important role in financing public expenditure and national development. However, continued reliance on petroleum-related financing creates fiscal sustainability challenges as petroleum resources decline (Doraisami, 2018; IMF, 2024, 2025).

The analysis identifies five interconnected issues: Petroleum Fund dependence, high public expenditure, limited domestic revenue, the need for productive investment, and intergenerational sustainability. These findings indicate that fiscal governance extends beyond managing petroleum revenues and involves determining how financial resources are allocated to support long-term productive capacity.

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Tabel 2. Fiscal Governance Findings

Key Finding	Evidence Identified in Literature	Governance Priority
Petroleum Fund dependence	Petroleum wealth continues to support public expenditure	Strengthen fiscal discipline
High public expenditure	Public spending remains an important component of economic activity	Improve expenditure quality
Limited domestic revenue	Non-oil revenue remains relatively constrained	Strengthen domestic revenue mobilization
Productive investment needs	Diversification requires stronger productive capacity	Prioritize infrastructure, skills, and productive sectors
Intergenerational sustainability	Petroleum resources are finite	Preserve and strategically manage petroleum wealth

The findings show that Petroleum Fund management is closely connected with the broader structure of fiscal governance. Petroleum wealth provides Timor-Leste with financial resources to support development, but its contribution to long-term economic transformation depends on how these resources are managed and allocated. The literature therefore points to the importance of maintaining fiscal discipline while improving the productive quality of public expenditure (Doraisami, 2018; IMF, 2024, 2025) .

The synthesis also indicates that the sustainability challenge is related to the composition of government financing. Continued reliance on petroleum resources can limit the development of alternative domestic revenue sources and reinforce the role of public expenditure in economic activity. Strengthening domestic revenue mobilization consequently emerges as an important component of the transition toward a less petroleum-dependent fiscal structure. (W. Bank, 2023).

Another important finding concerns the allocation of public resources. The literature emphasizes the need for greater attention to infrastructure, human capital, and productive sectors that can strengthen the foundations of the non-oil economy (W. Bank, 2025; IMF, 2025). In this context, fiscal resources are not only relevant for maintaining current government functions but also for building productive capacity that can support future economic activity.

Overall, the results identify fiscal governance and Petroleum Fund management as the financial foundation of Timor-Leste's post-oil transformation. The findings provide a basis for the next result, which examines how public resources can be translated into productive investment and sectoral diversification.

4.2. Public Investment and Productive Sector Development

The literature synthesis identifies public investment and productive sector development as the second major finding. The reviewed literature indicates that the effectiveness of public expenditure depends not only on its scale but also on its contribution to infrastructure, human capital, productive sectors, and private-sector

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development (W. Bank, 2025; IMF, 2025). Public investment therefore represents an important mechanism for translating fiscal resources into productive economic capacity.

The analysis identifies five closely related areas: infrastructure, agriculture, tourism, human capital, and private-sector development. These areas appear repeatedly in the literature as important components of Timor-Leste's economic diversification. Agriculture is particularly relevant to rural livelihoods and domestic production, while tourism provides opportunities for employment and service-sector development. Both sectors, however, require supporting infrastructure, skills, finance, logistics, and market access (Berno et al., 2022).

Tabel 3. Public Investment and Productive Sector Findings

Key Finding	Evidence Identified in Literature	Investment Priority
Infrastructure	Supports connectivity and market access	Improve infrastructure quality
Agriculture	Important for livelihoods and value creation	Increase productivity and processing
Tourism	Provides opportunities for employment and services	Strengthen tourism infrastructure and skills
Human capital	Supports productivity across economic sectors	Align education and training with market needs
Private-sector development	Required to sustain productive economic activity	Improve business and investment conditions

The findings indicate that infrastructure constitutes an important foundation for productive-sector development. Improved transport, energy, water, and logistics infrastructure can support the movement of people, goods, and services while reducing constraints faced by businesses. The literature consequently links the quality of public infrastructure with the ability of productive sectors to access markets and participate in broader economic activities (W. Bank, 2025; IMF, 2025).

Agriculture and tourism emerge as two important areas of diversification. Agriculture contributes to rural livelihoods and provides opportunities for value addition, while tourism can connect local communities with hospitality, food production, transportation, and other service activities (Berno et al., 2022). The literature suggests that the development of these sectors should therefore be accompanied by investments that strengthen their supporting economic activities rather than focusing exclusively on sectoral expansion.

Human capital represents another recurring element in the reviewed literature. The development of agriculture, tourism, services, and emerging economic activities requires workers with relevant technical, managerial, and vocational skills. Similarly, stronger private-sector conditions are needed to translate public investment into business expansion, employment, and productive economic activity.

Overall, the results demonstrate that public investment contributes to diversification when it strengthens the productive infrastructure, capabilities, and economic linkages

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required by non-oil sectors. The findings also show that productive-sector development is interconnected with human capital and private-sector capacity, providing a basis for the next result concerning private-sector development and entrepreneurship.

4.3. Private-Sector Development and Entrepreneurship

The literature synthesis identifies private-sector development and entrepreneurship as the third major finding. The reviewed literature indicates that a stronger private sector is necessary to reduce dependence on government expenditure and to expand employment, investment, productivity, and innovation. Institutional quality, access to finance, regulatory conditions, and digitalization influence the ability of firms to develop and participate in broader markets (Funk et al., 2021; Shinozaki, 2026).

The analysis identifies five recurring issues: access to finance, business formalization, digital adoption, market access, and entrepreneurial capabilities. These factors are particularly relevant for MSMEs, which represent an important component of the non-oil economy but continue to face constraints in developing their productive capacity.

Tabel 4. Private-Sector Development and Entrepreneurship Findings

Key Finding	Evidence Identified in Literature	Development Priority
Limited access to finance	Financing constraints can restrict enterprise expansion	Improve MSME financing
Business informality	Informality limits access to formal markets and services	Simplify formalization
Limited digital adoption	Digital capacity affects business efficiency and market participation	Strengthen digital adoption
Restricted market access	Small domestic markets constrain enterprise growth	Expand domestic and regional market access
Entrepreneurial capabilities	Business skills influence enterprise productivity	Strengthen entrepreneurship and managerial skills

The findings indicate that MSME development requires an enabling institutional and business environment. Access to finance is important because enterprises need working capital and investment resources to expand their operations. At the same time, formalization can improve access to financial services, government programs, and broader markets. These factors are therefore interconnected rather than independent constraints.

Digital adoption also emerges as an important component of private-sector development. Digital technologies can improve business processes, facilitate transactions, and provide enterprises with access to wider markets. For Timor-Leste, this is particularly relevant because digitalization can help overcome some limitations associated with a relatively small domestic market (Shinozaki, 2026).

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The literature further identifies market access and entrepreneurial capabilities as important conditions for enterprise development. Firms require appropriate managerial and technical capabilities to respond to market opportunities, while broader domestic and regional market access can provide opportunities for business expansion. These conditions connect private-sector development with the broader objective of economic diversification.

Overall, the results demonstrate that private-sector development is an important channel for translating diversification policies into sustained economic activity. Strengthening finance, formalization, digitalization, market access, and entrepreneurial capabilities can increase the capacity of domestic enterprises to contribute to employment, productivity, investment, and value creation.

4.4. Human Capital and Productive Capacity

The literature synthesis identifies human capital and productive capacity as the fourth major finding. The reviewed literature indicates that economic diversification requires workers with technical, vocational, managerial, digital, and entrepreneurial capabilities. Human capital therefore represents an important component of the capacity to develop and sustain non-oil economic activities (Lashitew et al., 2021).

The analysis identifies five recurring areas: skills alignment, technical and vocational education, digital skills, entrepreneurship capabilities, and industry-education linkages. These areas are relevant to Timor-Leste because the development of agriculture, tourism, logistics, services, and emerging sectors requires skills that correspond to changing economic and labor-market needs.

Tabel 5. Human Capital and Productive Capacity Findings

Key Finding	Evidence Identified in Literature	Development Priority
Skills mismatch	Existing skills may not fully correspond to productive-sector needs	Align training with labor-market demand
Limited technical skills	Productive sectors require specialized capabilities	Strengthen vocational education
Digital skills gaps	Digital transformation requires appropriate competencies	Expand digital literacy and skills
Limited entrepreneurial capabilities	Enterprise development requires managerial and business skills	Strengthen entrepreneurship training
Weak industry–education linkages	Skills development benefits from stronger interaction with firms	Increase collaboration between education and industry

The findings indicate that skills development must be connected to the requirements of productive sectors. Agriculture requires technical capabilities related to production and processing, while tourism requires competencies in hospitality, management,

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services, and destination development. Similarly, logistics, digital services, and emerging industries require increasingly specialized technical and digital skills.

The literature also highlights the importance of vocational and technical education. Strengthening vocational training can improve the availability of workers with practical competencies while supporting the transition from education into employment. The International Monetary Fund (2025) identifies education and vocational training as relevant components of structural reform, while the World Bank (2022) emphasizes human-capital development as a foundation for expanding economic opportunities.

Digital capabilities represent an additional dimension of productive capacity. As enterprises and public institutions adopt digital technologies, workers need appropriate digital competencies to use these technologies effectively. Entrepreneurship and managerial capabilities are similarly important for enabling individuals and firms to identify opportunities, manage resources, and expand economic activities.

Overall, the results demonstrate that human-capital development is closely connected to productive-sector diversification. Strengthening the alignment between education, vocational training, firms, and labor-market requirements can improve the capacity of the non-oil economy to generate productivity and employment. This finding leads to the next result concerning digital transformation and economic diversification.

4.5. Digital Transformation and Economic Diversification

The literature synthesis identifies digital transformation as the fifth major finding supporting Timor-Leste's economic diversification. The reviewed literature indicates that digital technologies can improve information access, reduce transaction costs, expand market opportunities, and increase the efficiency of public and private activities. The interaction between ICT development and institutional quality is particularly relevant for resource-dependent economies seeking to strengthen economic performance beyond extractive activities (Entele, 2021).

The analysis identifies five main areas: digital infrastructure, MSME digitalization, digital financial services, digital applications in productive sectors, and digital public services. These areas demonstrate that digital transformation has relevance across both economic and institutional dimensions.

Tabel 6. Digital Transformation and Economic Diversification Findings

Key Finding	Evidence Identified in Literature	Development Priority
Digital infrastructure	Connectivity supports access to information and markets	Improve digital connectivity
MSME digitalization	Digital tools can improve business efficiency	Expand digital adoption
Digital financial services	Digital payments can facilitate transactions	Strengthen digital financial access

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Productive-sector digitalization	Digital information can support agriculture and tourism	Develop sector-specific digital applications
Digital public services	Digital systems can improve administrative efficiency	Strengthen digital government

The findings indicate that digital infrastructure provides a basic foundation for broader digital participation. Improved connectivity can enable enterprises, workers, consumers, and public institutions to access information and services more efficiently. For MSMEs, digital technologies can support marketing, transactions, communication, and access to customers beyond their immediate geographic markets.

Digitalization also has potential applications across productive sectors. In agriculture, digital information can support access to production and market information, while in tourism digital platforms can improve destination promotion and connections between visitors and local service providers. Digital financial services can further facilitate transactions and improve the accessibility of financial activities for businesses and consumers.

The literature also identifies digital transformation within public services as an important institutional dimension. More efficient digital public services can reduce administrative barriers and improve interactions between government and economic actors. The IMF (2025) identifies digitalization as part of the broader structural reforms relevant to improving productivity and diversification.

Overall, the results show that digital transformation operates across the economic governance and productive-sector dimensions of diversification. Its contribution depends on the availability of digital infrastructure, institutional support, enterprise capabilities, and appropriate applications. These findings provide a basis for examining the role of regional integration and market connectivity in strengthening Timor-Leste's post-oil economic resilience.

4.6. Regional Integration and Post-Oil Economic Resilience

The literature synthesis identifies regional integration and market connectivity as the sixth major finding. The reviewed literature indicates that integration with regional and international markets can expand market access, support investment, facilitate knowledge transfer, and provide opportunities for participation in regional value chains. These mechanisms are particularly relevant for small economies seeking to reduce dependence on domestic demand and resource-based activities (W. Bank, 2024, 2025).

The analysis identifies five main areas: trade integration, investment, market access, regional value chains, and domestic competitiveness. These areas indicate that regional integration can provide external opportunities for diversification while simultaneously increasing the need to strengthen domestic productive capacity.

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Tabel 7. Regional Integration and Economic Resilience Findings

Key Finding	Evidence Identified in Literature	Development Priority
Trade integration	Wider markets can expand export opportunities	Strengthen trade facilitation
Investment opportunities	Regional integration can attract investment	Improve investment conditions
Market access	Small domestic markets limit enterprise expansion	Connect firms with regional markets
Regional value chains	Integration provides opportunities for production linkages	Upgrade domestic productive capacity
Domestic competitiveness	Market integration requires competitive enterprises	Strengthen skills, infrastructure, and productivity

The findings indicate that regional integration can provide an important external market dimension to Timor-Leste's diversification strategy. Access to larger regional markets can create opportunities for domestic firms to expand beyond the limitations of domestic demand. It can also provide opportunities for investment, technology transfer, and participation in regional production networks.

The literature further indicates that the benefits of integration depend on domestic productive capacity. Market access alone is insufficient if enterprises face constraints in skills, infrastructure, finance, technology, or regulatory capacity. Consequently, regional integration needs to be accompanied by policies that improve the competitiveness and readiness of domestic enterprises (W. Bank, 2024, 2025). This is consistent with the IMF's 2022 assessment, which links regional integration with diversification and emphasizes the need to strengthen domestic productive capacity (International Monetary Fund, 2022).

The findings also demonstrate that regional integration connects the different dimensions identified in the previous results. Improved infrastructure facilitates trade and logistics, human capital supports enterprise competitiveness, digitalization improves market connectivity, and private-sector development strengthens the ability of domestic firms to participate in regional markets.

Overall, the results indicate that regional integration can reinforce economic diversification and post-oil resilience when supported by stronger domestic productive capacity. Rather than functioning as a separate policy area, regional integration represents an external market dimension that can strengthen the economic linkages developed through fiscal governance, public investment, private-sector development, human capital, and digital transformation.

4.7. Integrated Findings on Economic Governance and Post-Oil Resilience

The synthesis of the preceding findings shows that Timor-Leste's post-oil transformation involves interconnected governance dimensions rather than isolated policy interventions. Fiscal and Petroleum Fund governance provide financial resources, while public investment converts these resources into infrastructure and productive

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capacity. Human capital, digitalization, and private-sector development subsequently strengthen the ability of productive sectors to generate employment, value creation, and market participation.

The analysis further indicates that diversification is strengthened when domestic productive capacity is connected to broader regional markets. Agriculture, tourism, MSMEs, and emerging sectors can benefit from improved infrastructure, skills, digital connectivity, finance, and regional market access. These relationships indicate that economic resilience depends on the interaction between fiscal capacity, productive capability, enterprise development, and market connectivity.

Tabel 8. Integrated Findings of Economic Governance and Post-Oil Transformation

Governance Dimension	Main Finding	Contribution to Transformation
Fiscal governance	Petroleum wealth requires sustainable management	Provides financial foundation
Public investment	Expenditure needs stronger productive orientation	Builds productive capacity
Private sector	MSMEs require stronger enabling conditions	Generates employment and investment
Human capital	Skills need alignment with economic demand	Supports productivity
Digitalization	Digital connectivity expands economic opportunities	Improves efficiency and market access
Regional integration	Wider markets create diversification opportunities	Strengthens exports and resilience

The integrated findings demonstrate that economic governance functions as a connecting mechanism across the different dimensions of post-oil transformation. Fiscal resources alone cannot produce diversification without productive investment, while productive investment requires skilled workers, capable enterprises, digital infrastructure, and access to markets. Similarly, regional integration can provide new opportunities only when domestic firms and productive sectors possess sufficient capacity to compete and participate in regional value chains.

Taken together, the results support the conceptual framework presented in Figure 1. The post-oil transition can therefore be understood as a progressive transformation from petroleum wealth management toward productive capacity, diversified economic activity, and resilience. This integrated result provides the foundation for the following section, Discussion, where these findings are compared with existing theories and empirical literature to establish the study's contribution and novelty.

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5. Discussion

5.1. Economic Governance as a Mechanism of Post-Oil Transformation

The findings demonstrate that economic governance should be understood as more than the management of petroleum revenues. In the context of Timor-Leste, it represents a broader mechanism for converting temporary resource wealth into sustainable productive capacity. This finding is consistent with research showing that diversification in resource-dependent economies depends strongly on institutional quality, public investment, human capital, and the development of competitive non-resource sectors (Alsharif et al., 2017; Lashitew et al., 2021; Olander, 2019).

The results extend this perspective by showing that these factors are interconnected. Fiscal and Petroleum Fund governance provide the financial foundation, but their contribution to economic resilience depends on how resources are transformed into infrastructure, skills, digital capabilities, and private-sector capacity. Thus, the effectiveness of resource governance should not be assessed only through the preservation of financial assets, but also through its ability to generate productive economic capabilities.

This finding is particularly relevant to Timor-Leste because petroleum dependence has historically shaped both fiscal management and economic activity. Previous research identifies resource-dependence characteristics in Timor-Leste while emphasizing the importance of institutional and historical factors (John et al., 2020). The present study complements this literature by connecting resource management with a broader diversification pathway involving public investment, private enterprises, human capital, digital transformation, and regional integration.

The study therefore contributes an integrated perspective in which economic governance functions as a bridge between petroleum wealth and post-oil resilience. Rather than treating fiscal policy, diversification, and private-sector development as separate policy domains, the findings position them within a connected governance process. This represents the principal conceptual contribution of the study.

5.2. Productive Diversification through Public Investment and Private-Sector Development

The findings indicate that diversification requires a shift from resource-financed expenditure toward productivity-oriented investment. This finding supports the argument that successful diversification in resource-dependent economies requires coordinated investment in infrastructure, human capital, institutions, and productive firms (Alsharif et al., 2017; Lashitew et al., 2021). In Timor-Leste, public investment therefore needs to generate productive linkages rather than merely expand government expenditure. Cross-country evidence similarly links diversification with human capital, financial development, investment, and the rule of law (Jolo et al., 2022).

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The results also highlight the complementary relationship between public investment and private-sector development. Infrastructure, skills, digital connectivity, and access to finance can create the conditions for firms to expand, while private enterprises provide the mechanisms through which investment is translated into employment, innovation, and value creation. This is consistent with Funk et al. (2021), who emphasize the importance of institutional conditions for firm development in resource-dependent economies. This complements evidence that institutional quality and firm-level capabilities shape how resource-dependent economies develop competitive enterprises (Funk et al., 2021; Hussain et al., 2021).

The findings concerning MSMEs further support the importance of an enabling business environment. Shinozaki (2026) identifies challenges related to formalization, finance, digitalization, and internationalization among Timor-Leste's MSMEs. These constraints suggest that diversification cannot depend exclusively on government-led investment. Sustainable transformation requires domestic enterprises to become increasingly capable of participating in productive and regional markets.

Agriculture and tourism illustrate this relationship particularly clearly. Their contribution to diversification depends not only on sector-specific investment but also on infrastructure, skills, logistics, processing, digital services, and market connectivity (Berno et al., 2022). The implication is that productive diversification should be understood as the development of interconnected value chains, rather than simply increasing the number of economic sectors.

The study consequently extends existing diversification literature by emphasizing the interaction between public investment and private-sector capability. Public resources create the foundations for productive activity, while private enterprises convert these foundations into continuing economic activity. This interaction provides an important pathway through which Timor-Leste can reduce structural dependence on petroleum and strengthen the foundations of a diversified post-oil economy.

5.3. Human Capital, Digital Transformation, and Productive Capacity

The findings show that human capital and digital transformation are complementary components of productive capacity. Economic diversification requires not only financial resources and physical infrastructure but also workers and enterprises capable of adopting new technologies, improving productivity, and participating in emerging economic activities. This is consistent with Lashitew et al. (2021), who identifies human capital as an important condition for diversification in resource-dependent economies. The broader evidence also connects human capital with institutional quality and financial development in resource-rich economies (Hussain et al., 2021).

For Timor-Leste, the relevance of human capital is particularly evident in agriculture, tourism, logistics, digital services, and entrepreneurship. Education and vocational training need to be connected more closely with the requirements of these sectors so that skills development contributes directly to employment and productivity. This finding is

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consistent with the emphasis placed by the IMF (2025) on education, vocational training, and structural reforms.

Digital transformation further strengthens this process. Entele (2021) demonstrate that ICT development combined with institutional quality can contribute to economic performance in resource-dependent economies. In Timor-Leste, digitalization can improve business processes, financial transactions, market access, tourism promotion, agricultural information, and public services. Its contribution therefore extends beyond technology adoption to the broader functioning of the economy.

An important implication is that human-capital development and digitalization should not be implemented as separate policy agendas. Digital technologies require appropriate skills, while skills become more economically valuable when workers and enterprises can access productive technologies and markets. Their integration can therefore strengthen the capacity of firms and workers to participate in diversified economic activities.

The study contributes to the existing literature by positioning human capital and digitalization as enabling capabilities within economic governance, rather than as independent components of development policy. Their strategic integration with fiscal resources, infrastructure, and private-sector development can strengthen the productive foundations required for Timor-Leste's post-oil economic transformation.

5.4. Regional Integration and Post-Oil Economic Resilience

The findings indicate that regional integration provides an important external dimension of Timor-Leste's diversification strategy. Access to regional and international markets can expand opportunities for trade, investment, knowledge transfer, and participation in regional value chains. This is particularly relevant for a small economy where domestic market size can constrain the expansion of productive enterprises (W. Bank, 2024, 2025). Earlier country-level analysis likewise emphasizes that Timor-Leste's diversification requires private-sector development, agriculture, tourism, and infrastructure investment (Asian Development Bank, 2015; W. Bank, 2020).

The findings are consistent with the broader literature indicating that market integration can support diversification when domestic institutions and productive capabilities are sufficiently developed. However, the results also demonstrate that regional integration does not automatically generate economic transformation. Enterprises need appropriate infrastructure, finance, skills, technology, and regulatory support to take advantage of wider markets. Cross-country evidence also indicates that trade openness and institutional quality interact with economic development, reinforcing the importance of domestic capabilities when markets are opened (Redmond & Nasir, 2020).

Timor-Leste's regional integration therefore needs to be understood as part of a broader governance strategy. Trade and investment opportunities can reinforce the development of agriculture, tourism, MSMEs, and emerging sectors when domestic

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policies strengthen their competitiveness. In this context, regional integration complements rather than replaces domestic economic reforms.

The study further shows that regional integration connects several dimensions identified in the preceding findings. Infrastructure facilitates trade and logistics; human capital improves enterprise competitiveness; digitalization strengthens market connectivity; and private-sector development increases the capacity of domestic firms to participate in regional markets. These relationships suggest that resilience emerges from the interaction between domestic productive capacity and external market connectivity.

This finding extends the post-oil diversification perspective by positioning regional integration as a supporting mechanism for economic resilience. Rather than treating ASEAN, WTO, and regional markets simply as external opportunities, the findings suggest that their benefits depend on the capacity of Timor-Leste's economic governance system to prepare domestic sectors and enterprises for regional participation.

5.5. Integrated Governance Framework for Post-Oil Economic Resilience

The findings demonstrate that Timor-Leste's post-oil transformation requires an integrated economic governance framework rather than isolated sectoral policies. Fiscal and Petroleum Fund governance provide the financial foundation, while public investment determines how these resources are converted into infrastructure and productive capacity. Private-sector development, human capital, and digitalization subsequently strengthen the capacity of firms and workers to participate in diversified economic activities.

The relationship among these dimensions is consistent with the literature on resource-dependent economies, which emphasizes the importance of institutional quality, productive investment, human capital, and firm capabilities in achieving successful diversification (Alsharif et al., 2017; Lashitew et al., 2021). However, the present findings extend this perspective by incorporating regional integration as an additional mechanism connecting domestic productive capacity with external markets.

The integrated framework developed in this study can therefore be represented as: Economic Governance → Productive Capacity → Private-Sector Development → Productive Diversification → Regional Market Integration → Post-Oil Economic Resilience

This framework suggests that petroleum wealth should serve as a transitional financial resource for building capabilities that can continue generating economic value after petroleum revenues decline. The role of government consequently extends from resource management toward creating the institutional, infrastructural, human, digital, and market conditions necessary for sustained economic activity.

The main contribution of the study is therefore the integration of these dimensions into a governance-centered pathway for post-oil transformation. Rather than viewing fiscal sustainability, diversification, private-sector development, digitalization, human

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capital, and regional integration as separate policy areas, the framework explains how they can function as interconnected components of economic resilience.

This integrated perspective also provides a basis for understanding why diversification should not be measured simply by the emergence of additional economic sectors. More meaningful transformation requires stronger value chains, employment, productivity, exports, domestic value creation, and institutional capacity. In this sense, post-oil resilience represents the outcome of sustained improvements in the productive structure and governance capacity of the economy.

5.6. Novelty and Contribution to the Literature

The study contributes to the literature by positioning economic governance as the connecting mechanism between petroleum wealth and post-oil economic resilience. Existing literature has examined resource dependence, fiscal management, diversification, human capital, private-sector development, and regional integration, but these dimensions are frequently addressed as separate areas of policy and analysis (Alsharif et al., 2017; John et al., 2020; Lashitew et al., 2021). This synthesis is also consistent with the broader evidence on resource dependence, institutions, human capital, and diversification (Jolo et al., 2022; Muhamad et al., 2021).

The present study integrates these dimensions into a single governance-centered framework. The framework explains how petroleum and fiscal resources can be directed toward productive investment, infrastructure, human capital, digital capabilities, and private-sector development, which subsequently support sectoral diversification and regional market participation.

A second contribution concerns the meaning of diversification. The findings suggest that diversification should not be understood simply as adding new economic sectors. Instead, it involves strengthening linkages among agriculture, tourism, MSMEs, services, infrastructure, technology, and regional markets. These linkages can generate employment, productivity, exports, and domestic value creation.

A third contribution is the incorporation of regional integration as a reinforcing mechanism. The study shows that ASEAN, WTO, and regional markets can strengthen diversification when domestic productive capacity is sufficiently developed. Regional integration is therefore positioned as a complement to domestic institutional and productive reforms rather than as an independent solution.

Overall, the study offers an integrated perspective that connects resource governance → productive capacity → private-sector development → diversification → regional integration → post-oil resilience. This framework provides a conceptual contribution for understanding economic transformation in Timor-Leste and potentially other small resource-dependent economies.

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5.7. Policy Implications for Timor-Leste

The findings have several implications for economic governance in Timor-Leste. First, fiscal policy needs to place greater emphasis on the productive quality of public expenditure. Petroleum wealth can provide financial support during the transition period, but its long-term contribution depends on whether expenditure strengthens infrastructure, human capital, productive sectors, and private-sector capacity.

Second, economic diversification requires stronger institutional coordination across sectors. Agriculture, tourism, MSMEs, digitalization, infrastructure, and skills development should not be managed as completely separate policy areas. Their interaction is important for developing value chains and increasing domestic value creation.

Third, private-sector development should become an increasingly important component of the post-oil strategy. Improving access to finance, business formalization, digital adoption, entrepreneurial capabilities, and regional market access can strengthen the ability of domestic enterprises to generate employment and investment.

Fourth, regional integration should be accompanied by domestic competitiveness policies. Access to ASEAN and WTO, and wider markets provides opportunities, but these opportunities require enterprises with sufficient skills, productivity, infrastructure, and technological capabilities to participate effectively.

Finally, the findings suggest that post-oil resilience should be pursued as a long-term governance process rather than a short-term response to declining petroleum revenues. The central policy challenge is to transform finite petroleum wealth into durable productive capabilities that can support diversified economic activity after petroleum revenues become less significant.

6. Conclusion

This study has examined how economic governance connects petroleum-wealth management with productive sector diversification and post-oil economic resilience in Timor-Leste. The synthesis indicates that the transition cannot be secured by the Petroleum Fund alone. Fiscal and Petroleum Fund governance provide the financial foundation, but the long-term contribution of petroleum wealth depends on the composition and quality of public expenditure and on the formation of infrastructure, human, and digital capabilities. These capabilities must be translated into firm-level investment and value-chain development, while regional integration can expand opportunities for enterprises that are sufficiently productive and prepared to access wider markets.

The study contributes an integrated conceptual framework that positions economic governance as a conversion mechanism linking resource wealth, productive capacity, private-sector development, diversification, and regional market participation. It also

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emphasizes complementarity and feedback: productive returns depend on the interaction of public investment, skills, digital capabilities, and firm development, while stronger firms, exports, and domestic value creation may broaden the non-oil revenue base and alter institutional incentives. This perspective shifts the meaning of diversification from the addition of sectors toward the strengthening of productive linkages, productivity, employment, and export capacity.

The study has limitations. It relies on purposively selected secondary literature and institutional reports, does not constitute a systematic review, and does not empirically test the proposed relationships. The available country-specific evidence is also uneven across themes, particularly for digital transformation and firm-level productivity. Future research could test the framework using sectoral and firm-level data, examine how public investment affects private investment and employment, and compare Timor-Leste with other small resource-dependent economies. The framework should therefore be read as an analytically grounded set of propositions for further investigation rather than a validated causal model.

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