

US dollar to be official currency in East Timor

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The UN Transitional Administration in East Timor (UNTAET) announced last Monday that the US dollar would be the official currency of the former Portuguese colony and Indonesian territory. As a result, government transactions must be conducted in dollars for at least the two to three years of UNTAET's expected rule.

Private contracts may still be executed in any currency, but civil service wages, taxes and other payments owed to any public authority must be in US dollars. The former official currency, the Indonesian rupiah, may be used to make such payments temporarily, subject to a yet-to-be-determined transaction fee.

UNTAET said the move had been adopted by the 15-member National Consultative Council (NCC), which includes seven representatives of East Timor's nationalist coalition, the National Resistance Council of East Timor (CNRT). The announcement was followed by a joint news conference of officials from the UN and the CNRT.

A senior CNRT figure, Joao Carrascalao, president of the Timorese Democratic Union (UDT), was anxious to dispel the impression of a complete lack of economic sovereignty. "It was a unanimous decision by the UN and the CNRT," he said, without "any pressure" from the UN or the International Monetary Fund. He admitted, however, that the choice of the dollar would make the creation of a future local currency "more difficult" because it would have to be "at least as strong" as the US currency.

Despite Carrascalao's assurances, remarks by IMF representatives in East Timor point to definite pressure from the US-based institution. Luis Valdivieso, the head of the IMF office in Dili, said use of the dollar could avoid potential problems associated with the Portuguese escudo, the currency previously favoured by many CNRT leaders. As one of these problems, Valdivieso mentioned the escudo's future absorption into the euro, the currency of the European Union.

Valdivieso added that if the country started with the dollar it could stay with it, suggesting that the decision would not be a temporary one. He indicated that one of the primary factors in adopting the dollar had been the territory's desperate dependence on IMF funds, foreign aid and investment. "I think the main consideration has been one of pragmatic consideration given the fact that it is urgent now to receive the payments on execution of the budget."

In the lead-up to the UN decision, an IMF economist, Luis Mendonca, had publicly opposed use of the rupiah or the escudo. Without waiting for the official announcement, he declared that the rupiah—whose value collapsed in the financial crisis of 1997—was too unstable for East Timor's use. As for the escudo, it "really doesn't exist. It is just a division of the euro."

The decision makes a mockery of claims to national self-determination. In effect, the half-island's currency will now be controlled by the United States Treasury. Its decisions on money supply, interest rates and other economic policies will determine the currency's value, dictate the territory's terms of trade and largely shape the direction of the economy.

Given the close ties between the IMF and the US government, it is inconceivable that the Clinton administration did not support and approve the UN decision. In its media statement, UNTAET admitted that the governments of the US and Portugal had been informed in advance.

The decision provoked ructions within the CNRT, which is an amalgam of formerly pro-independence, pro-Portuguese and pro-Indonesian groups. An unnamed CNRT source told a Reuters correspondent that the move was an affront to the CNRT. "We believe the national currency should be an affirmation of independence and sovereignty," he said. "Having the US dollar as legal tender will make our dream of adopting the escudo just a

dream.”

To associate the Portuguese currency with independence and sovereignty only underscores the fraudulent character of the CNRT's claims that the formation of a statelet in the tiny territory can free the Timorese masses from colonialism and exploitation. Portugal plundered East Timor for more than four centuries, leaving it in 1975 as one of the most impoverished enclaves in the world. Portuguese authorities revived their colonial claims in the late 1980s following the discovery of huge oil and gas deposits in the Timor Sea.

The dollar decision will fuel tensions between the US, Portugal and other economic powers over the future of the strategically located territory. After last year's Indonesian pullout, Portugal, backed by some CNRT leaders, including its vice-president Jose Ramos-Horta, strenuously pushed for the escudo to be restored as Timor's currency.

Portugal's overseas bank, Banco Nacional Ultramarino, even attempted to make the escudo the de facto currency of the UN occupation. It began trading in Dili last December, paying East Timorese public servants in escudos and refusing to issue US or Australian dollars. As an added incentive for the UN and CNRT to adopt the escudo, the Portuguese government offered to underwrite East Timor's expected \$US100 million balance of payments deficit for five years.

After the UNTAET announcement, Portuguese Foreign Minister Jaime Gama issued a terse statement to the effect that Portugal “respected” the decision even though it had provided the necessary “technical conditions” for the escudo to operate as the official currency.

Portugal's loss is also a blow to its partners in the European Union, who backed the revival of its claims over the territory. Japan is also unlikely to welcome the dollar's dominance. It has become the largest aid supplier to East Timor and last month chaired an international donors' conference in Tokyo.

The dollarisation of East Timor has a distinct class content. Since Indonesian rule ended, the US greenback, along with the escudo and the Australian dollar, has become the currency of the elite economy that surrounds the operations of UNTAET and aid agencies. By contrast, the destitute people of the devastated territory have largely continued to use the rupiah—or relied on barter.

A stark example is the floating Hotel Olympia, sitting in Dili harbour for the use of UN personnel. Even before the UN decision, only US and Australian dollars, and escudos, were accepted as legal tender. Other hotels took

only US dollars; some restaurants accepted Australian dollars.

One youth leader commented that the rich and the poor were using two different sets of currencies. “The poor are holding onto Indonesian rupiah while the rich UN people and foreign aid workers pay in escudos, American dollars or Australian dollars,” said Fernando Araujo, the outgoing secretary-general of Renetil—a youth organisation previously affiliated to the CNRT.

For the most part, ordinary Timorese people are excluded by sheer poverty from the dollar economy. The arrival of the Australian-led INTERFET force, followed by aid agencies and the UN, has inflated prices for food and other essentials. An ad hoc price survey by the World Bank found that the cost of living for poor households increased by 200 percent between August and September.

Most people remain unemployed and homeless. The few employed by official or aid organisations are paid a pittance. The National Consultative Council recently unveiled a five-tier wage system for civil servants, with unskilled workers on about \$US3 a day. Aid agencies have agreed between themselves to pay equally low wages to local staff. “There is an explicit understanding between employing agencies that they will adhere to these salary ranges in order to minimise the poaching of employees,” stated a recent report by UNTAET and eight agencies.

In some cases, the UN and relief agencies do not even pay cash, using food handouts instead. “Salaries can be paid in a mixture of cash and commodities,” the UNTAET report said. Official dollarisation will further widen the already growing inequality.



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