

An Analysis of Cross-Sectoral Economic Dynamics in Timor-Leste: Integrating Sustainable Tourism, the Informal Economy, and Cultural Influences

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ABSTRACT

This study analyzes and synthesizes the findings of three research reports funded by the INCT (Instituto Nacional de Ciências e Tecnologia) in 2024, focusing on the socio-economic dynamics of Timor-Leste. The paper offers a novel, cross-sectoral analysis that synthesizes the dynamics of the informal economy, cultural influences, and emerging economic opportunities. Using a qualitative literature review methodology, this research integrates insights from reports on dive tourism, cultural influences on family finances, and the informal economy of women. The synthesis reveals that development in Timor-Leste is a closely interconnected process, where the sustainability of new economic sectors depends on how structural challenges (such as the lack of informal sector regulation) and socio-cultural barriers (like the financial burden of traditions) are managed. Overall, this study concludes that sustainable progress requires a holistic strategy that integrates economic, social, and cultural policies, rather than treating them as separate domains.

Keywords: informal economy, cultural-influences, sustainable-development

INTRODUCTION

Economic development in developing nations is often a complex and multidimensional process, influenced by various interconnected factors ranging from economic structures and socio-cultural dynamics to natural resource potential. In Timor-Leste, a country in a post-conflict transition phase, a comprehensive understanding of its development challenges and opportunities is crucial. While numerous studies have focused on specific sectors, a significant research gap remains in analyzing the interconnections among these sectors, as emphasized by Todaro & Smith in their development theories (Klarin, 2018; Todaro & Smith, 2020).

The literature on cross-sectoral development studies has increasingly recognized that sectoral isolation in development analysis can lead to fragmented policy interventions and missed opportunities for synergistic growth. Recent scholarship emphasizes that economic sectors do not operate in isolation but are deeply embedded within broader social, cultural, and institutional contexts (Pike et al., 2023; Rodríguez-Pose & Wilkie, 2019). For instance,

studies on informal economies have demonstrated that informal sector dynamics are intricately linked to formal sector performance, labor market structures, and household livelihood strategies, particularly in developing and post-conflict contexts (Chen, 2012; Williams & Horodnic, 2021). Similarly, research on cultural economics has shown that traditional norms and social capital significantly shape economic behaviors, market participation, and entrepreneurial activities, creating feedback loops that affect both micro-level household decisions and macro-level development outcomes (Beugelsdijk & Maseland, 2011; Guiso et al., 2006).

Moreover, the literature on sustainable development has progressively shifted from single-pillar approaches to integrated frameworks that account for economic, social, and environmental interdependencies (Sachs et al., 2019; Stafford-Smith et al., 2017). Studies examining post-conflict economies, in particular, have highlighted the necessity of cross-sectoral analysis, as reconstruction efforts in one domain often depend critically on progress in others—for example, tourism development requiring both infrastructure investment and social stability, or agricultural modernization necessitating financial inclusion and cultural acceptance of new practices (Collier & Hoeffler, 2004; Gizelis, 2009). Recent work on small island developing states and fragile economies further underscores that sectoral linkages become even more pronounced in resource-constrained environments, where spillover effects and unintended consequences of sector-specific policies can significantly impact overall development trajectories (Briguglio et al., 2009; Niles & Lloyd, 2021).

Despite these advances, empirical applications of integrated cross-sectoral frameworks remain limited, particularly in Southeast Asian post-conflict contexts. Most existing studies continue to adopt single-sector perspectives or, at best, examine pairwise relationships between two domains without considering broader systemic interactions (Andersson & Shimada, 2020; McGregor et al., 2019). This methodological gap is particularly evident in Timor-Leste, where research has tended to compartmentalize findings within disciplinary boundaries rather than exploring how informal economic activities, cultural-economic patterns, and emerging sectors mutually reinforce or constrain each other.

Separately, research funded by the INCT has highlighted the vital role of the informal sector as a livelihood buffer, analyzed how cultural norms affect household financial decisions, and identified the potential of new economic sectors like tourism. However, few studies have attempted to unify these findings to provide a holistic picture. This gap in research hinders the formulation of integrated and effective policies, as challenges in one sector are often exacerbated by issues in another. This study is grounded in the theoretical framework of Sustainable Development by World Commission Environment and Development, in 1987; the Informal Economy by Hart, in 1973, and Cultural Economics by Granovetter, in 1985, which collectively argue that development must be understood through an interdisciplinary lens (Anyolo et al., 2024; Gaiger, 2019; Koellner & Roth, 2025; Ward, 2024). Therefore, this research aims to fill this gap by conducting a synthesis analysis of three relevant research reports in Timor-Leste. By systematically integrating findings across the informal economy, cultural-economic dynamics, and emerging sectors, this study contributes a unified analytical framework that reveals cross-sectoral interdependencies and provides actionable insights for holistic, context-sensitive development policy in post-conflict nations.

RESEARCH METHOD

This study employs a qualitative approach using a literature review (documentary analysis) to analyze and synthesize the findings from three existing research reports. This method was chosen because it allows for in-depth analysis of existing documents, with a focus on data interpretation and synthesis, consistent with the principles of qualitative research as articulated by Creswell & Creswell (2018).

Data Sources

The data used in this study are secondary, derived from the following three scientific reports, which are the results of **INCT 2024** research:

1. *Report on Diving Tourism: "Diving Development Business Opportunities for Young Timorese Entrepreneurs: A Case Study of Diving Companies in Dili, Timor-Leste"* by Silva, H. B. et al. (2024)
2. *Report on Cultural Influences: "Cultural Influences on Family Income and Expense Management in Timor-Leste (Study Case in Urban and Rural Areas)"* by Belo, T. F. et al. (2024).
3. *Report on the Informal Economy: "Economia informal das mulheres de food street vendors em Timor-Leste: Uma análise exploratória sobre as condições socioeconómicas, a prática de negócio e os seus contributos para o rendimento familiar no Município de Díli"* by Brito, M. et al. (2024).

Data Analysis Procedures

The data analysis process was conducted systematically:

1. Identification of Key Findings: Each report was carefully read to identify its main findings, a fundamental step in qualitative content analysis as described by (Ahmed et al., 2025; Vears & Gillam, 2022).
2. Synthesis and Integration: The findings from the three reports were synthesized to build a larger narrative, uncovering causal relationships and interconnections that are not apparent when the reports are analyzed in isolation, a technique known as thematic synthesis (Ahmed et al., 2025).
3. Discussion with Theoretical Frameworks: The data analysis was not merely descriptive but also interpretive. According to Garvey & Jones (2021) this method can provide a strong theoretical foundation and place the findings within a broader academic context.

RESULT

Based on the analysis of the three INCT 2024 reports, several key findings were identified that support the study's arguments:

1. Untapped Blue Economy Potential: The report on diving tourism by Silva, H. B. da et al. (2024) identifies significant potential in Timor-Leste's marine tourism industry. This finding is supported by the fact that coral reefs around Dili and Atauro Island are considered among the most beautiful in the world, with endemic species and the migration of whales and dugongs serving as major attractions. The report also found that young Timorese entrepreneurs are highly motivated to develop businesses in this sector but lack support in terms of funding and training.

2. **The Informal Sector as an Economic Buffer:** The report on the informal economy of women by Brito, M. et al. (2024) indicates that the street food vending business is a vital source of livelihood for women who cannot enter the formal sector. The study found that these vendors generate an average daily income of between \$10 and \$40. Despite its vitality, the sector faces major challenges as it is considered illegal and unregulated by authorities, making its participants vulnerable to eviction and a lack of social protection.
3. **Strong Cultural Influence on Financial Stability:** The report on cultural influences by Belo, T. F. et al. (2024) found that traditional cultural practices like *barlake* (bride price), *lia mate* (death rituals), and *lia moris* (birth and marriage rituals) have a significant impact on family financial management. This study shows that expenses for these cultural events often burden household finances and push families into debt, which limits their ability to save or invest in the future.

DISCUSSION

This discussion integrates the above findings with theoretical frameworks from economics and development studies to provide a more profound and comprehensive analysis.

The Informal Sector and the Theory of the Informal Economy

The findings from the report by Brito, M. et al. (2024) are directly relevant to the research conducted by Kong & Wei (2023) who said that the informal sector is not merely a remnant of the traditional economy but as a functional and dynamic response to the formal sector's failure to provide adequate employment. The report confirms this theoretical argument by showing how street food vendors in Dili form a vital economic ecosystem. However, it also highlights the sector's weaknesses, the lack of recognition and regulation, which aligns with the view that the informal sector often operates outside the legal protection and support systems provided by the government (Rustamova et al., 2025).

Cultural Influence and the Theory of Cultural Economics

The report by Belo, T. F. et al. (2024) interacts with the Theory of Cultural Economics, which emphasizes that economic decisions and behavior are not entirely rational but are deeply influenced by cultural values, norms, and practices. This report provides strong empirical evidence that cultural practices like *barlake* and other social rituals can create significant financial burdens, often pushing families into cycles of debt. This demonstrates that, as the theory suggests, cultural factors are not external variables but integral elements that must be accounted for in household financial analysis and policy formulation (Yakob et al., 2021).

Tourism and the Theory of Sustainable Development

The report by Silva, H. B. da et al. (2024) can be analyzed through the lens of the Theory of Sustainable Development and Sustainable Tourism, which encompasses three pillars (economic, social, and environmental), asserts that development must meet the needs of the present without compromising the ability of future generations to meet their own needs (Andersson et al., 2022). The report identifies the significant economic potential in Timor-Leste's marine tourism industry. However, the discussion emphasizes that to realize this potential sustainably, economic gains must be balanced with efforts to protect the fragile marine ecosystem and empower local communities. The report shows that human capital (training and education for youth) is key to ensuring that the benefits of tourism are enjoyed

not just by foreign investors but also by the Timorese people themselves, in line with the principles of community-based development.

CONCLUSION

This study concludes that socio-economic development in Timor-Leste is a complex and interconnected process, influenced by economic, social, and cultural factors. No single approach can solve all challenges. The three reports collectively highlight three key aspects: the importance of the informal sector, the significant impact of culture, and the great potential for sustainability. Overall, the findings suggest that effective development requires a holistic and integrated approach, one that recognizes that progress in one sector is dependent on progress in others, a concept supported by various contemporary development theories.

Based on the conclusions above, the following suggestions can be made:

Suggestions for Government Policy:

- a. Legitimize the Informal Sector: The government needs to formulate policies that legitimize and support informal vendors.
- b. Integrate Culture into Development: Financial literacy programs should be designed with local cultural practices in mind to help families manage the financial burdens of tradition.
- c. Promote Sustainable Sector Development: Investments in the tourism sector must align with the principles of sustainable development, ensuring that local communities enjoy economic benefits, and that the natural environment is protected from overexploitation.

Suggestions for Future Research:

- a. Quantitative Studies: Future research could use a quantitative approach to more specifically measure the economic impact of the informal sector and the financial burden of cultural practices.
- b. Intervention Studies: Conduct studies to test the effectiveness of culturally adapted financial literacy programs in urban and rural areas.
- c. Cross-Sectoral Analysis: Further research can more deeply examine the interconnections between these sectors, for example, how income from tourism can affect family financial practices or how informal vendors can be integrated into the tourism supply chain.

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