

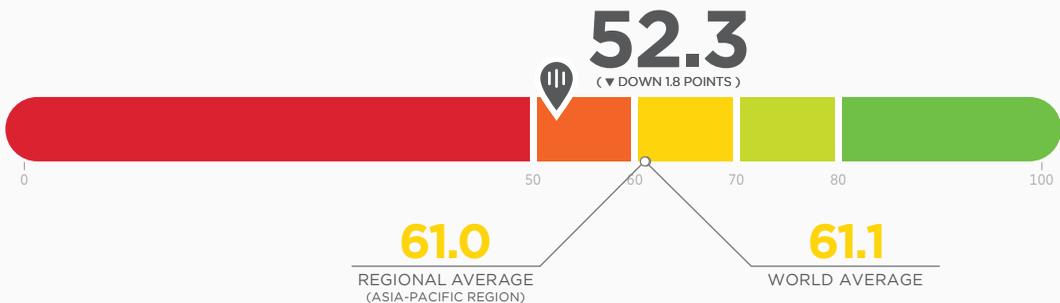
MICRONESIA

WORLD RANK: **143**
 REGIONAL RANK: **36**
 ECONOMIC FREEDOM STATUS: **MOSTLY UNFREE**

Micronesia's economic freedom score is 52.3, making its economy the 143rd freest in the 2018 *Index*. Its overall score has decreased by 1.8 points, with a very steep decline in respect for **property rights** overwhelming a modest improvement in the **government spending** indicator. Micronesia is ranked 36th among 43 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

The public sector is Micronesia's largest employer, and relatively few jobs could be created by exploiting the few commercially valuable mineral deposits. Geographic isolation and other challenges minimize the potential for tourism. The business environment does not encourage entrepreneurial activity, and poor policy choices in critical areas of economic freedom have further retarded growth. Tariff barriers are relatively low, but nontariff barriers and inadequate infrastructure limit trade freedom. The overall regulatory and legal framework remains inefficient and lacking in transparency.

ECONOMIC FREEDOM SCORE



NOTABLE SUCCESSSES:
 Trade Freedom and Monetary Stability

CONCERNS:
 Rule of Law, Government Spending, and Financial Freedom

OVERALL SCORE CHANGE SINCE 2014:
 +2.5

FREEDOM TREND



QUICK FACTS

POPULATION:
 0.1 million

GDP (PPP):
 \$0.3 billion
 2.0% growth in 2016
 5-year compound annual growth -0.3%
 \$3,234 per capita

UNEMPLOYMENT:
 n/a

INFLATION (CPI):
 1.3%

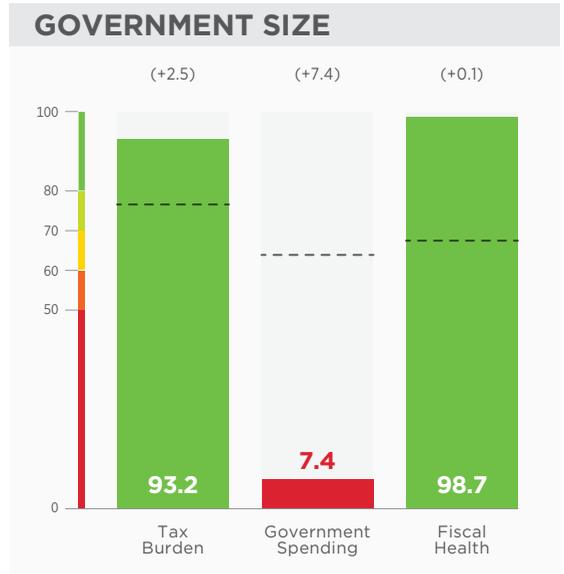
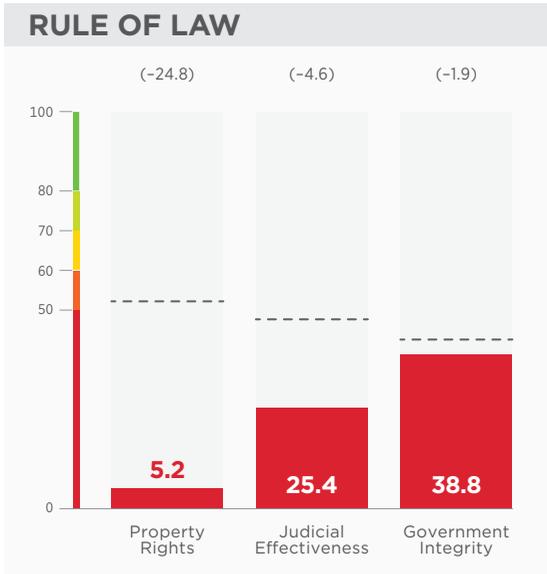
FDI INFLOW: n/a

PUBLIC DEBT:
 24.8% of GDP

2016 data unless otherwise noted. Data compiled as of September 2017

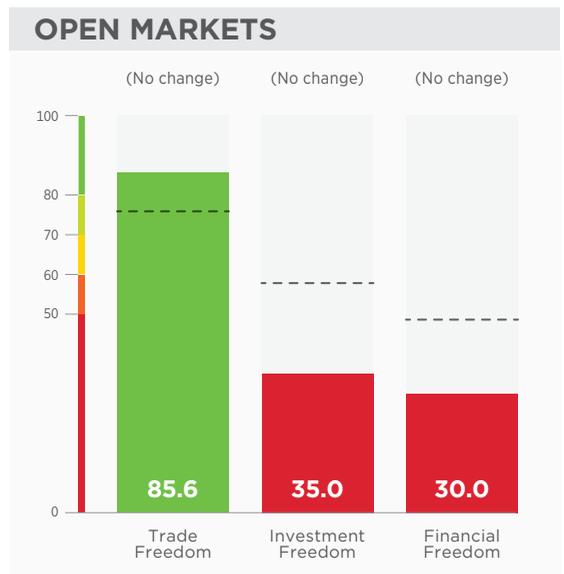
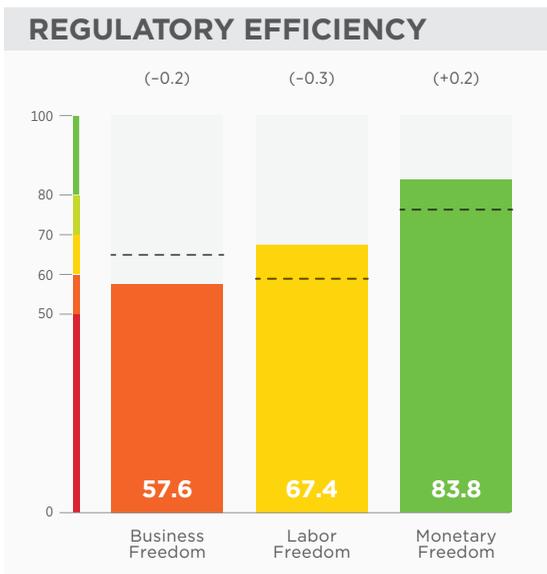
BACKGROUND: The widely scattered Caroline Islands in the southwestern Pacific Ocean were part of a U.N. Trust Territory under U.S. administration after World War II. The eastern four island groups (Pohnpei, Chuuk, Yap, and Kosrae) adopted a constitution in 1979 and became the Federated States of Micronesia. The 607-island archipelago's central government has limited powers. The most recent parliamentary election for the small unicameral legislature took place in March 2015; in May 2015, the legislature's at-large members elected President Peter Christian to a four-year term. Under the Compact of Free Association signed in 1986, the U.S. is responsible for defense and currently provides about \$230 million annually in economic assistance. Economic activity consists largely of subsistence farming and fishing.

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Micronesia ranks very low in the World Bank's *Doing Business* survey for registering property and enforcing contracts. The government generally respects the constitutionally independent judiciary, but the judicial system is chronically underfunded and subject to political influence. Although the government enforces criminal penalties for corruption, some officials appear to engage in corrupt practices with impunity.

Tax laws are administered and enforced erratically. The personal income tax rate is 10 percent, and the corporate tax rate is 21 percent. The overall tax burden equals 12.0 percent of total domestic income. Over the past three years, government spending has amounted to 55.6 percent of total output (GDP), and budget surpluses have averaged 10.5 percent of GDP. Public debt is equivalent to 24.8 percent of GDP.



Micronesia's undeveloped physical and regulatory infrastructure makes forming or operating a private business difficult. The government employs two-thirds of the adult working population. Subsistence farming and fishing are the other two main sources of employment. The government is heavily dependent on U.S. subsidies, which account for roughly 40 percent of annual revenue.

Micronesia's average applied tariff rate is 2.2 percent. Nontariff barriers impede some trade. Government openness to foreign investment is below average. The financial sector remains rudimentary, and much of the population has little contact with the formal banking sector. High credit costs and scarce access to financing continue to constrain the small private sector.