TIMOR-LESTE

Timor-Leste’s economic freedom score is 44.2, making its economy the 172nd freest in the 2019 Index. Its overall score has decreased by 3.9 points because of a plunge in the government spending score and sharp drops in business freedom, trade freedom, and labor freedom. Timor-Leste is ranked 42nd among 43 countries in the Asia-Pacific region, and its overall score is well below the regional and world averages.

Timor-Leste has achieved some macroeconomic stability, but structural and institutional deficiencies such as a burdensome regulatory environment and an underdeveloped financial sector still constrain economic freedom. Lower oil revenues in 2014–2016 renewed doubts about the long-term sustainability of government spending. The government spent vast sums to build basic infrastructure, including electricity and roads, but its limited experience in procurement and public works hampered progress. Political instability is the biggest single obstacle to development. Widespread corruption unchecked by a weak judicial system remains a considerable drag on economic activity.

BACKGROUND: The Democratic Republic of Timor-Leste gained independence from Indonesia in 2002 and has struggled to achieve political stability. The presence of U.N. peacekeepers was required until 2012. Since then, several elected presidents and prime ministers, including current President Francisco Guterres and Prime Minister Taur Matan Ruak, have clashed as they maneuvered for power. Timor-Leste remains one of East Asia’s poorest countries and is heavily dependent on foreign aid. Economic liberalization has mostly stalled. Oil and gas account for more than 95 percent of government revenue, which is consigned to a Petroleum Fund that had assets of $16.8 billion at the end of 2017. The technology-intensive oil industry has done little to create jobs.
Conflicting governing statutes from the Portuguese, Indonesian, and post-independence eras contribute to the difficulty of resolving competing property claims. The overly complex legal framework reflects that same confusing pedigree. Qualified personnel are scarce in the judicial system, which has failed to demonstrate independence in some politically sensitive cases. Corruption and nepotism continue to plague the country.

The top personal income and corporate tax rates are 10 percent. Most government revenue comes from offshore petroleum projects in the Timor Sea. The overall tax burden equals 13.1 percent of total domestic income. Over the past three years, government spending has amounted to 57.5 percent of the country’s output (GDP), and budget deficits have averaged 13.0 percent of GDP. There is no public debt.

The lack of consistency in enforcing regulations continues to discourage private-sector development. The minimum amount of capital necessary to start a business is quite high. The public sector accounts for approximately half of nonagricultural employment, and the formal labor market remains underdeveloped. In 2018, involved in a bidding war with Australia, the government offered a large subsidy to bring ashore a natural gas pipeline.

The combined value of exports and imports is equal to 39.3 percent of GDP. The average applied tariff rate is 2.5 percent. The country is not a member of the WTO. Timor-Leste’s WTO accession working party was established in December 2016. Foreign ownership of land is not allowed, and investment in other sectors of the economy is screened. The financial sector is still at a nascent stage of development.