Micronesia’s economic freedom score is 52.0, making its economy the 156th freest in the 2020 Index. Its overall score has increased by 0.1 point due to a higher property rights score. Micronesia is ranked 38th among 42 countries in the Asia–Pacific region, and its overall score is well below the regional and world averages.

The economy of Micronesia moved from being repressed to mostly unfree in 2016 and remains there in 2020. Economic expansion during the past five years has been unexceptional.

The lack of economic freedom in Micronesia is partly the legacy of its long-time dependence, which has had an enervating and debilitating impact on entrepreneurship and economic initiative. Low scores for property rights protection, judicial effectiveness, and government integrity are indicative of undependable enforcement of laws and high levels of corruption. That is particularly alarming given the exceedingly large percentage of the workforce that is employed directly by the government.

### Economic Freedom Score

**Score:** 52.0  
**Regional Average (Asia-Pacific Region):** 61.1  
**World Average:** 61.6  
**Change:** Up 0.1 point

### Quick Facts

**Population:** 0.1 million  
**GDP (PPP):** $0.4 billion  
2.1% growth in 2018  
5-year compound annual growth 1.6%  
$3,482 per capita  
**Unemployment:** 16.2% (2010 estimate)  
**Inflation (CPI):** 2.0%  
**FDI Inflow:** $20.2 million (2014)  
**Public Debt:** 20.2% of GDP

### Recent Freedom Trend

<table>
<thead>
<tr>
<th>Year</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>51.8</td>
</tr>
<tr>
<td>2017</td>
<td>54.1</td>
</tr>
<tr>
<td>2018</td>
<td>52.3</td>
</tr>
<tr>
<td>2019</td>
<td>51.9</td>
</tr>
<tr>
<td>2020</td>
<td>52.0</td>
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</tbody>
</table>

### 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 only limited powers. Elections for the unicameral parliament took place in March 2019. In the same month, David Panuelo was elected president by a narrow margin. Under a Compact of Free Association signed in 1986, the U.S. is responsible for Micronesia’s defense and currently provides about $130 million annually in economic assistance. Economic activity consists largely of subsistence farming and fishing.
Micronesia is ranked at the bottom of the World Bank’s *Doing Business* assessment of property registration. Foreign ownership of land is prohibited. There is no system for land title insurance. The judiciary is independent, but it is also slow and weak and lacks the ability to enforce judgments properly. Official corruption is a problem, but there is no government agency that is specifically assigned to combat corruption.

Decreasing Micronesia’s dependence on grants and aid from the U.S. will require invigoration of the small and stagnant private sector. Lowering business start-up costs, decreasing time to settle disputes, and digitalizing the land registry would be important first steps. The government employs over two-thirds of the adult working population; has monopolies in fuel, telecommunications, and copra production; and is heavily dependent on U.S. subsidies.

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 13.0 percent of total domestic income. Government spending has amounted to 63.2 percent of the country’s output (GDP) over the past three years, and budget surpluses have averaged 15.2 percent of GDP. Public debt is equivalent to 20.2 percent of GDP.

The total value of exports and imports of goods and services equals 99.0 percent of GDP. The average applied tariff rate is 7.1 percent, and layers of nontariff barriers undercut trade flows. The undeveloped investment framework does not facilitate vibrant flows of investment. High credit costs and scarce access to financing constrain the private sector. Much of the population remains outside of the formal banking sector.