Micronesia’s economic freedom score is 50.4, making its economy the 160th freest in the 2021 Index. Its overall score has decreased by 1.6 points, primarily because of a decline in property rights. Micronesia is ranked 36th among 40 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

The economy of Micronesia remains in the mostly unfree category at the bottom of that rank. The lack of economic freedom in the country is partly the legacy of its long-standing dependence on U.S. assistance, which has had an enervating and debilitating impact on entrepreneurship and economic initiative. The rule of law has deteriorated, especially for the protection of property rights, partly because of corruption.

**IMPACT OF COVID-19:** As of November 1, 2020, no deaths had been attributed to the pandemic in Micronesia, but the economy was forecast to contract by 3.8 percent for the year.

**ECONOMIC FREEDOM SCORE**

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**ECONOMIC FREEDOM STATUS:**
- WORLD RANK: 160
- REGIONAL RANK: 36
- MOSTLY UNFREE

**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 approximately $130 million annually in economic assistance. Economic activity consists largely of subsistence farming and fishing.

**QUICK FACTS**

- **POPULATION:** 0.1 million
- **GDP (PPP):** $0.4 billion
- **INFLATION (CPI):** 1.8%
- **FDI INFLOW:** $20.2 million (2014)
- **PUBLIC DEBT:** 18.5% of GDP

2019 data unless otherwise noted. Data compiled as of September 2020
The law respects and protects property rights. The judiciary is constitutionally independent, but courts are weakened by chronic underfunding, technical capacity constraints, delays, and the inability to enforce judgments properly. Although the authorities can investigate and punish cases of official corruption and misuse of funds, both problems remain subjects of public discontent.

The top individual income tax rate is 10 percent, and the top corporate tax rate is 21 percent. The overall tax burden equals 25.2 percent of total domestic income. Government spending has amounted to 64 percent of total output (GDP) over the past three years, and budget surpluses have averaged 18.6 percent of GDP. Public debt is equivalent to 18.5 percent of GDP.

Micronesia’s business environment has been considered mostly unfree ever since 2009 when it was first included in the Index. Construction permits and electricity connections have become even more expensive. It has also become harder to hire workers. The government has monopolies in fuel, telecommunications, and copra production and is heavily dependent on U.S. subsidies.

Micronesia has two preferential trade agreements in force. The simple average tariff rate is 5.1 percent, but overall trade freedom is limited by nontariff barriers and poor trade infrastructure. Micronesia is not a member of the World Trade Organization. Numerous impediments discourage foreign investment. High credit costs and scarce access to financing constrain the small private sector. Much of the population does not use formal banking.