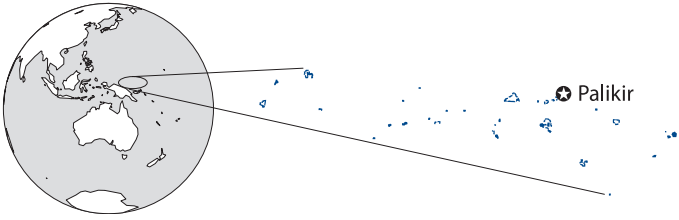


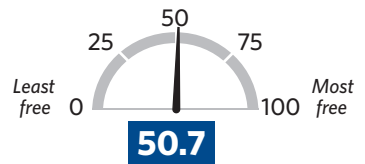
# MICRONESIA



World Rank: **143**

Regional Rank: **31**

## Economic Freedom Score



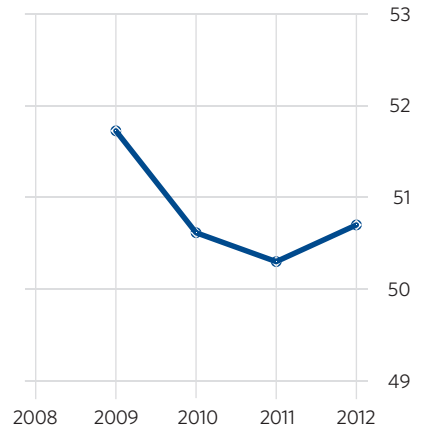
**M**icronesia's economic freedom score is 50.7, making its economy the 143rd freest in the 2012 *Index*. Its score has increased by 0.4 point since last year, with labor freedom and government spending registering minor improvements. Micronesia is ranked 31st out of 41 countries in the Asia-Pacific region, and its overall score is lower than the world and regional averages.

Poor governance and the lack of commitment to structural reform continue to hamper Micronesia's economic development. The country performs very poorly in many components of the *Index*. Long-standing problems include poor public finance management and underdeveloped legal and regulatory frameworks. Weak enforcement of property rights and the fragile rule of law have driven many people into the informal sector.

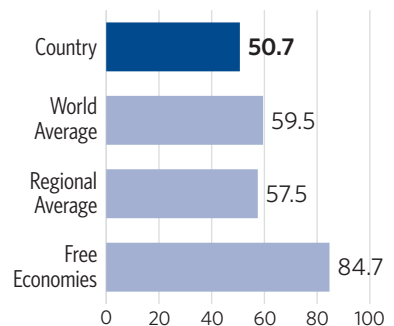
The inefficient public sector remains the largest source of employment. Monetary stability remains fragile. Faced with substantial uncertainty and instability, the private sector has been marginalized to a great extent in an economically stagnant environment. Open-market policies are not in place to spur dynamic growth of trade or investment.

**BACKGROUND:** Micronesia spreads over a South Pacific archipelago of 607 islands. Politically organized as a confederation of four states—the island groups of Pohnpei, Chuuk, and Yap and the island of Kosrae—it has a central government with limited powers. The president is elected by the small unicameral legislature from among its at-large members. Formerly administered by the United States as a U.N. Trust Territory, Micronesia became independent in 1986 and signed a Compact of Free Association with the United States. Under an amended compact, Micronesia receives \$100 million annually from the U.S. in addition to \$35 million in other U.S. government grants. The government sector employs more than half of Micronesia's workforce. Despite large inflows of foreign aid, the economy suffers from a lack of infrastructure, electricity, running water, and employment opportunities.

## Freedom Trend



## Country Comparisons



## Quick Facts

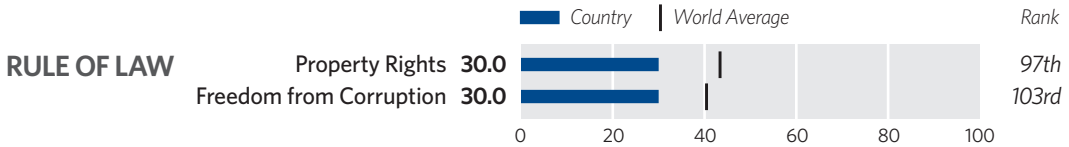
**Population:** 106,836  
**GDP (PPP):** \$238.1 million (2008)  
 n/a growth in 2010  
 5-year compound annual growth n/a  
 \$2,200 per capita (2008)  
**Unemployment:** 22.0%  
**Inflation (CPI):** n/a  
**FDI Inflow:** \$10.0 million  
**Public Debt:** n/a

### How Do We Measure Economic Freedom?

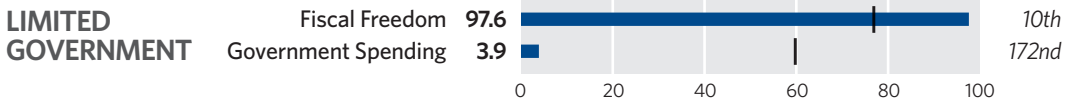
See page 455 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2010 data unless otherwise noted.  
 Data compiled as of September 2011.

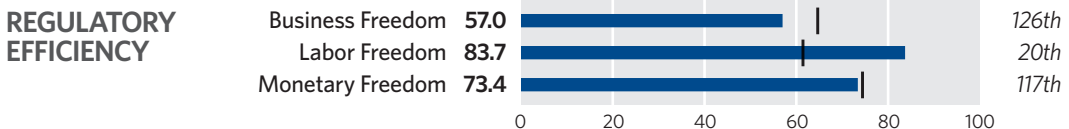
**THE TEN ECONOMIC FREEDOMS**



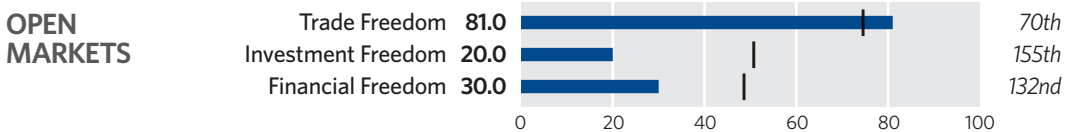
The rule of law remains uneven across the islands, and a well-functioning, consistent legal framework is not yet in place. Squatters, long-standing disputes over land ownership, and the absence of property records make the exercise or enforcement of property rights difficult. Commercial laws are ineffective and inconsistently applied, and contracts are not secure. Despite laws prohibiting and punishing corrupt acts, corruption is widespread.



Tax laws are administered and enforced erratically. National taxes include a wages and salary tax (10 percent at the highest level); a 3 percent gross revenue tax on businesses with turnover that exceeds \$10,000 a year; and an excise tax. In the most recent year, overall tax revenue was estimated to be 11.5 percent of GDP. Public spending has been chronically high at levels equivalent to over 55 percent of total domestic output.



Procedures for establishing and running a business are opaque. Regulations are not applied consistently. The inefficient and non-transparent regulatory framework continues to discourage emergence of entrepreneurial dynamism. Labor regulations are not enforced effectively, and there is no efficient country-wide labor market. A large share of the workforce is employed in the informal sector. Monetary stability has been weak.



The trade weighted average tariff rate is 4.5 percent, and numerous complex non-tariff barriers severely constrain the freedom to trade. The investment framework remains too underdeveloped to facilitate flows of capital and foreign investment. High credit costs and scarce access to financing continue to constrain the small private sector. Much of the population remains outside of the formal banking sector.

**Score Changes**

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	0	Business Freedom	-1.7	Trade Freedom	0
Freedom from Corruption	0	Government Spending	+3.9	Labor Freedom	+1.3	Investment Freedom	0
				Monetary Freedom	0	Financial Freedom	0