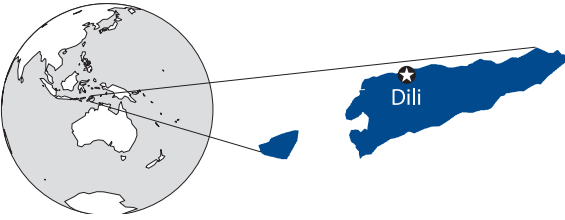


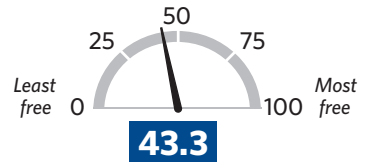
TIMOR-LESTE



World Rank: **169**

Regional Rank: **39**

Economic Freedom Score



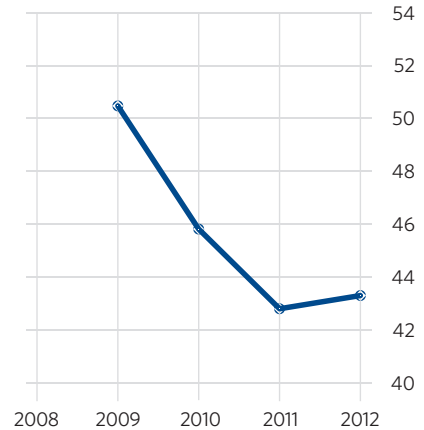
Timor-Leste's economic freedom score is 43.3, making its economy the 169th freest in the 2012 *Index*. Its score has increased by 0.5 point from last year, reflecting improvements in freedom from corruption and investment freedom. Timor-Leste is ranked 39th out of 41 countries in the Asia-Pacific region, and its overall score is well below the world and regional averages.

Timor-Leste's economy has made modest progress since independence in 2002. Some gains have been made in poverty reduction and income growth, supported by competitive tax rates that promote private-sector activity.

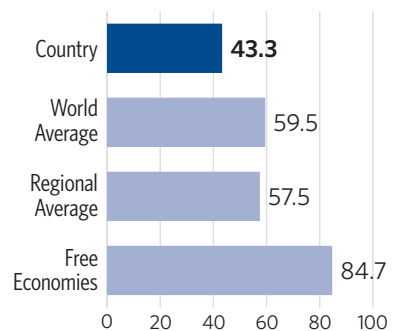
Nonetheless, economic freedom remains severely constrained in Timor-Leste. The economic base is narrow, and continued political instability hampers lasting economic development. The state plays an outsized role in the economy. Private-sector development is also limited by the country's burdensome regulatory environment and underdeveloped financial sector. Widespread corruption unchecked by a weak judicial system has been a considerable drag on economic activity.

BACKGROUND: The Democratic Republic of Timor-Leste is one of Asia's poorest countries. Since 2002, when Timor-Leste became independent after 25 years of Indonesian occupation and two and a half years of administration by the United Nations, the government has struggled to pacify the country. Prime Minister Xanana Gusmao, who along with President Ramos-Horta survived assassination attempts in 2008, heads a coalition government that faces parliamentary elections in 2012. Economic liberalization has mostly stalled, and the economy remains heavily dependent on foreign aid. Infrastructure is very poor, and corruption is pervasive. Timor-Leste benefits from offshore petroleum revenues but remains primarily an agricultural economy. In 2008, more than 95 percent of government proceeds was derived from oil and gas profits. The government deposits all income from the oil sector in a Petroleum Fund that is not counted as part of GDP but is reflected in government revenue figures.

Freedom Trend



Country Comparisons



Quick Facts

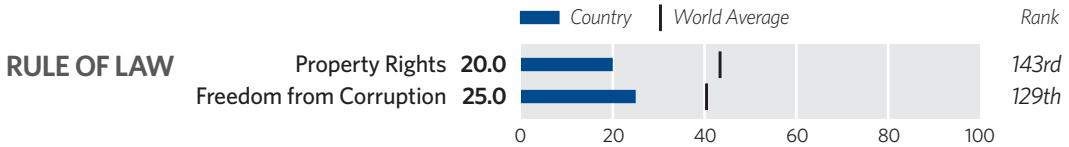
Population: 1.1 million
GDP (PPP): \$3.1 billion
 6.1% growth in 2010
 5-year compound annual growth 6.4%
 \$2,861 per capita
Unemployment: 20.0%
Inflation (CPI): 4.9%
FDI Inflow: \$279.6 million
Public Debt: 0.0% of GDP

How Do We Measure Economic Freedom?

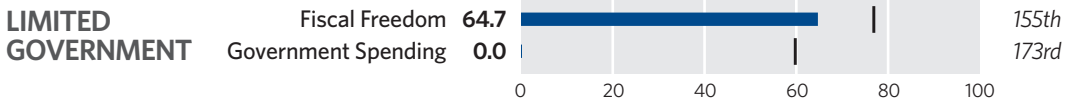
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

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

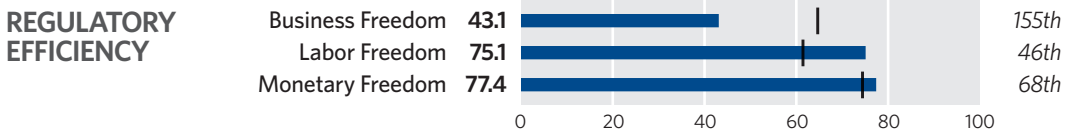
THE TEN ECONOMIC FREEDOMS



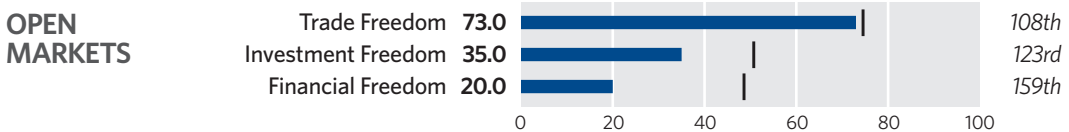
A rudimentary legal system has been established, but the justice system remains among the weakest sectors of government, relying heavily on foreign assistance. Land titles from the Portuguese colonial period may conflict with competing claims from the Indonesian occupation and also with claims from squatters who may occupy the land. Overall progress in fighting corruption has been marginal.



The top income and corporate tax rates are 10 percent. Most government revenue comes from offshore petroleum projects in the Timor Sea. Non-oil tax revenue amounts to less than 10 percent of non-oil GDP. Reflecting increased transfer payments and other subsidies, government spending has increased to a level equivalent to 108.7 percent of total domestic output. The budget balance has been in huge surplus.



The overall freedom to launch and operate a business remains constrained by the burdensome regulatory environment. Despite considerable reductions, the minimum capital requirement for establishing a business remains about twice the level of average annual income. The public sector accounts for around half of employment outside of agriculture, and the formal labor market remains underdeveloped. Inflation has been relatively moderate.



The trade weighted average tariff rate is 6 percent, with non-tariff barriers continuing to distort trade activity. The investment environment is significantly limited by inadequate institutional capacity, complex licensing requirements, and poor infrastructure. The financial sector is very small and underdeveloped. Less than 2 percent of the population has access to financial services.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	0	Business Freedom	-1.1	Trade Freedom	0
Freedom from Corruption	+3.0	Government Spending	0	Labor Freedom	-1.4	Investment Freedom	+5.0
				Monetary Freedom	-0.7	Financial Freedom	0