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WORLD BANK GROUP

TIMOR-LESTE
ECONOMIC REPORT

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Timor-Leste Economic Report

Leveling Up: How ASEAN Membership Can Support Timor-Leste's Economic Transformation

April 2026

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Acknowledgments

The Timor-Leste Economic Report is a biannual World Bank report that assesses the latest macroeconomic developments, outlook, and risks for the country, as well as specific development challenges for Timor-Leste's economy. In doing so, the report aims to inform public policy debate and is geared toward a wide audience, including the public, government, private sector, civil society organizations, and other domestic and international stakeholders.

The Timor-Leste Economic Report is a product of the World Bank Group, and receives strategic guidance from Carolyn Turk, Division Director for Indonesia and Timor-Leste. The report was prepared under the leadership of Lalita Moorty (Regional Practice Director), Marco Hernandez (Practice Manager), and David Freedman (World Bank Group Resident Representative). The chapters were led by Amina Coulibaly and Yus Medina Pakpahan, with contributions from David Knight (Lead Economist). Ana Oliveira provided administrative support and coordinated the report's launch event. The report also benefited from comments provided by Csilla Demet Kaya (Senior Economist), Csilla Lakatos (Senior Economist), and Dhruv Sharma (Senior Economist).

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Abbreviations

ASEAN	Association of Southeast Asian Nations
BCTL	*Banco Central de Timor-Leste*I (Central Bank of Timor-Leste)
B-READY	Business Ready
EAP	East Asa and Pacific
ECOWAS	Economic Community of West African States
ESI	Estimated Sustainable Income
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ILO	International Labour Organization
IMF	International Monetary Fund
INETL	*Instituto Nacional De Estatistica Timor-Leste, I.P* (National Institute of Statistics of Timor-Leste)
NEER	Nominal Effective Exchange Rate
NEET	Not in Employment, Education, or Training
OECD	The Organization for Economic Co-operation and Development
PF	Petroleum Fund
PFM	Public Financial Management
REER	Real Effective Exchange Rate
SADC	Southern Africa Development Community
SOE	State-Owned Enterprise
SPS	Sanitary and Phytosanitary (measures)
TBT	Technical Barriers to Trade
TLER	Timor-Leste Economic Report
VAT	Value Added Tax
WTO	World Trade Organization
yoy	Year-On-Year

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Executive Summary

Timor-Leste is entering a new and potentially transformative economic chapter. Oil and gas production from the offshore Bayu Undan field has ended and the country now faces the task of building a durable foundation for prosperity—one driven by productive firms, exports, and a skilled workforce. Economic performance strengthened in 2025, with non-oil gross domestic product (GDP) growth of 4.5 percent, the strongest rate since 2014—supported by political stability, the consolidation of major infrastructure investments, and early signs of a broadening private sector. The Petroleum Fund has proven more resilient than earlier projections suggested, and momentum is building around a new generation of resource developments. These are genuine achievements. Yet headline indicators mask persistent structural challenges. Job creation and productivity remain weak, and growth continues to rely heavily on government spending financed by Petroleum Fund withdrawals. Without new resource inflows, sustained withdrawals could gradually erode the fund's long-term sustainability, with current projections suggesting depletion by around 2037 (Ministry of Finance, 2026 Budget report) under unchanged policies.

The Tasi Mane project,[1] including the development of a liquefied natural gas plant, remains a strategic national priority with the potential to anchor long-term revenues while strengthening energy security. Its fiscal contribution is, however, unlikely to materialize in the medium term. Even under optimistic assumptions, liquefied natural gas production is unlikely to begin before 2032–35,[2] subject to concept selection and final investment decisions, and the project is therefore unlikely to ease fiscal pressures over the medium term. This underscores both the importance of macroeconomic stability as the essential foundation for the next phase of development, and the urgency of converting the country's remaining petroleum wealth into a lasting economic base—deploying the Petroleum Fund as efficiently as possible to support both current and future generations.

This edition of the Timor-Leste Economic Report argues that the country stands at a critical moment. Timor-Leste joined the Association of Southeast Asian Nations (ASEAN) in 2025, following the country's accession to the World Trade Organization (WTO) in 2024, providing a timely platform to accelerate its transition from an oil-dependent economy to one driven by productive firms, exports, and skills. International experience shows that such transitions can succeed when regional integration drives domestic reforms. By treating ASEAN membership as a reform platform now, not later, Timor-Leste can build a more competitive, job-creating economy, and secure its long-term prosperity.

1. Recent Developments: Where the Economy Stands

Timor-Leste's economic performance in 2025 offers real grounds for optimism. Growth was supported by political stability, completion of infrastructure investments, and growing private investment activity, while the Petroleum Fund balance of US$18.6 billion as of December 2025, is significantly stronger than projections made five to 10 years ago, reflecting robust investment returns and prudent management. A new phase of resource development is also building momentum: the Kuda-Tasi and Jahal project is on track for a final investment decision in mid-2026; preparatory work

[1] The Tasi Mane project is a long-term initiative to develop petroleum-related infrastructure along the Timor-Leste's south coast, including the Suai Supply Base, a proposed liquefied natural gas and petrochemical complex in Natarbora (under negotiation), and a highway connecting the main industrial clusters.

[2] The Agreement includes a high-level plan outlining key activities required to mature and progress this opportunity, under which first liquefied natural gas may be produced as early as 2032–35, subject to concept selection and investment decisions. https://timor-leste.gov.tl/?p=46200&lang=en

on Greater Sunrise continues; a minerals licensing round has been launched; and discussions on Bayu-Undan carbon capture and storage remain active.

Private sector dynamism has been another encouraging development. Non-petroleum business employment increased by 27.6 percent from 2021 to 2024, adding about 14,400 workers bringing total employment to about 66,600 workers in 2024. Domestic tax collection rose by 31.6 percent in 2025, far exceeding earlier projections. Together, these trends suggest emerging vitality in the private economy, even as significant structural challenges remain.

Nevertheless, the structure of growth remains narrow, import-intensive, and heavily driven by public spending. Output gains are concentrated in services and construction, while agriculture and manufacturing remain weak. Non-oil GDP per capita has yet to recover to pre-COVID-19 pandemic levels, and much of the demand impulse leaks abroad through imports. Private investment, while rising modestly, remains closely linked to government contracts. The labor market has improved only at the margins and remains structurally weak. Labor force participation stood at just 30.5 percent in 2021, the lowest in East Asia and Pacific, while 30.5 percent of young people ages 15–24 years were not in employment, education, or training. Real median wages in 2021 remained 22 percent below their 2013 level, reflecting limited productivity gains. The recent employment recovery marks a positive improvement; however, the majority of employment growth remains concentrated in Dili and in lower-productivity sectors.

The external imbalances have widened sharply. The merchandise trade deficit reached 47 percent of non-oil GDP in 2025, with imports of US$960 million compared with non-oil exports of just US$41 million—a ratio of 23 to 1. Coffee accounts for almost 90 percent of non-oil export earnings, highlighting the country's extremely limited export diversification. Tourism receipts and remittances, equivalent to about 11 percent of GDP, provide some support but remain far too small to close the trade gap. Foreign direct investment is increasing, largely from ASEAN partners, but remains concentrated in retail, construction, and finance.

Fiscal pressures are also intensifying. The overall deficit widened to 49.0 percent of GDP in 2025, with total spending reaching 93.0 percent of GDP. Domestic revenue performance was strong, but revenues still financed less than half of the total government expenditure, which amounted to roughly US$1.8 billion. Transfers to state-owned enterprises (SOEs) reached 12 percent of total spending—more than the combined spending on health and education—and represent a growing and only partly quantified fiscal risk. Petroleum receipts fell to just US$36 million following the closure of Bayu-Undan, while the Petroleum Fund generated investment returns of about 5.3 percent in 2025. Continued withdrawals above the Estimated Sustainable Income (ESI) are eroding the fund's real per capita value and, under current policies, could exhaust the fund by around 2037, leaving a narrow adjustment window of just 10 to 12 years. Delayed adjustment would increase exposure to market volatility and raise the risk that fiscal correction becomes abrupt rather than gradual.

Taken together, these dynamics point to a fragile economic cycle. Government-led growth raises imports; imports widen the external deficit; the deficit is financed through Petroleum Fund withdrawals; and those withdrawals allow high spending to continue. Breaking this cycle requires a different growth model—one driven by productivity, exports, and private investment, and capable of supporting a gradual and credible fiscal adjustment.

2. Outlook and Risks: Stable but Increasingly Fragile

Under current policies, the near-term outlook for Timor-Leste's economy is stable but increasingly fragile. Non-oil GDP growth is projected at about 4.1 percent in 2026, easing to 4.0 percent over the medium term. Private consumption is expected to remain resilient, supported by continued public spending. Private investment is, however, likely to remain limited and concentrated in construction, retail, and hospitality, with little movement toward tradable or productivity-enhancing sectors. Growth of this pace and composition has historically delivered limited formal job creation and weak productivity gains. It will therefore be insufficient to absorb Timor-Leste's young and rapidly growing workforce. Accelerated reform scenarios—improving public investment efficiency, crowding in private investment, and expanding labor-intensive tradable sectors—could raise non-oil growth above 5 percent and support a more durable growth model.

On the external front, the ongoing conflict in the Middle East introduces a dual exposure for Timor-Leste. Higher energy prices could temporarily support Petroleum Fund investment returns, but further escalation could disrupt shipping, raise import and freight costs, and slow global growth. Higher fuel prices would also increase subsidy costs, while greater market volatility could make fund returns more uncertain. Collectively, these pressures would widen the trade deficit and tighten the fiscal outlook, reinforcing the need to urgently build fiscal buffers now.

Fiscal risks dominate the medium-term outlook through to 2030. Current government projections assume spending will fall slightly—from 113 percent of GDP to about 107 percent by 2030—but even this modest adjustment is optimistic. Recurrent spending, especially wages and transfers, still accounts for 81 percent of the budget and will be politically difficult to contain ahead of the 2027–28 elections. Capital spending remains constrained by low execution rates, limiting its growth impact. Without decisive reforms, depletion of the Petroleum Fund could force abrupt and harmful fiscal tightening. The Greater Sunrise gas field, even under optimistic assumptions, would generate revenues only over the longer term, with initial liquefied natural gas production projected between 2032 and 2035, and would not close the existing fiscal gap in the medium term. Delaying adjustment in anticipation of windfalls would further narrow the window for a gradual post-oil transition.

Timor-Leste therefore needs a credible transition plan that preserves macroeconomic stability while building a new growth engine. Fiscal consolidation is essential, and the pace matters. The objective is to bring Petroleum Fund withdrawals progressively closer to sustainable levels, guided by a strengthened fiscal framework that commands credibility with investors and development partners. This requires a transparent path toward fiscal sustainability—anchored in clear targets, published milestones, and governance arrangements that can withstand economic and electoral cycles. Concretely, it means gradually reducing recurrent spending as a share of GDP through civil service reform, moderation of public wage bill growth, improved targeting and efficiency of social assistance transfers and subsidies, and better alignment of SOE transfers with performance and reform objectives. Domestic revenue mobilization, particularly through the introduction of a value added tax (VAT), and improvements in budget execution will be equally critical. The Government of Timor-Leste's 2027–30 fiscal framework provides a starting point; the priority now is to ensure its credibility through early and visible action.

Alongside fiscal adjustment, reforms to enable private sector-led growth need to accelerate. Improving land access, enhancing licensing transparency, expanding access to finance, strengthening competition policy, and upgrading skills can help create a more enabling environment for firms, complemented by investments in education and health that underpin productivity. These

reforms will act as a foundation, but Timor-Leste needs a clear anchor to accelerate and sequence them effectively, which is where ASEAN becomes central.

3. Special Focus: ASEAN Accession as a Reform Platform for Timor-Leste's Economic Transformation

Timor-Leste's accession to ASEAN in October 2025 offers the country a rare opportunity to anchor its economic transformation. ASEAN provides Timor-Leste with a clear rules-based framework, regional peer benchmarks, and a structured reform agenda that turns commitments into real improvements at the border, in public services, and across the regulatory environment. Experiences from late entrants suggest that ASEAN membership can be associated with stronger growth outcomes when countries act early, build institutions that deliver, and support firms and workers through the adjustment. Where business climate reforms are delayed, gains have tended to be more limited.

Importantly, ASEAN membership goes well beyond tariff reduction. It integrates Timor-Leste into a regional community that promotes cooperation across economic, political, and social dimensions. Economically, ASEAN frameworks extend into services, investment, transport, tourism, competition policy, and the digital economy. As regional integration increasingly shifts toward services and digital connectivity, including paperless trade, digital payments, and cross-border data exchange, the standard for effective participation is rising. In this context, the main gains from membership will depend less on further tariff cuts and more on the building of systems, institutions, and skills needed to implement commitments. ASEAN arrangements also deepen WTO commitments in key areas such as services liberalization, investment protection, digital trade, and professional mobility.

At the same time, ASEAN offers both expanded market access and a supportive external framework for reform. Timor-Leste's development model is entering a period of transition. Public spending remains high relative to other countries of the East Asia and Pacific region, job creation has yet to fully meet the needs of a young population, and the small domestic market continues to limit opportunities for diversification. ASEAN membership helps ease these constraints by expanding Timor-Leste's effective market to one of about 680 million consumers and US$3.6 trillion in GDP. Realizing this potential will depend on how effectively membership is translated into improved competitiveness and private sector activity.

Timor-Leste enters this transition with important policy foundations already established, alongside opportunities to further strengthen delivery systems. Modern systems—such as the Automated System for Customs Data (ASYCUDA) World platform, the automated customs management system used to process and clear trade at the border; Timor-Leste Trade Information Portal; updated sanitary and phytosanitary (SPS) rules; and one-stop investment services—are already in place, and the Petroleum Fund, with assets of US$18.6 billion, provides substantial fiscal buffers to support a carefully managed transition. Inconsistent application of rules, and gaps in customs, licensing, digital systems, standards, and dispute resolution, however, continue to raise business costs and deter investment. The experience of Tibar Bay Port—where customs clearance times fell from nearly two weeks to four days—demonstrates that operational reform can deliver rapid gains. The challenge now is to shift decisively from drafting policies to delivering results.

Regional experience offers clear lessons. Cambodia and Vietnam acted early on operational reforms—particularly customs and business licensing—rather than waiting for agreements to take full effect. Both demonstrated that investors respond to predictability as much as market openness: stable clearance times, reliable licensing decisions, and effective dispute resolution are critical. Vietnam

complemented border reforms with investments in skills and logistics, enabling a gradual move into higher-value exports. Conversely, in the Lao People's Democratic Republic, slower progress on trade facilitation and investment governance limited spillovers from foreign investment. The lesson is clear: agreements implemented inconsistently yield limited benefits.

A "Four Ds" framework for reform can help operationalize ASEAN membership as an economic engine. Design means making rules that are clear, published, and easy to follow. **Delivery** means ensuring that services are fast and reliable, building on Tibar Bay Port's success by expanding pre-arrival processing and making paperless trade work in practice—evidence suggests that each day saved in customs can raise exports by 1–2 percent. **Discipline** means using ASEAN's monitoring and reporting requirements to strengthen accountability, aligning national milestones with ASEAN timelines and publishing regular cabinet-level progress updates. **Development** means investing in the infrastructure that enables reform: accredited testing laboratories, certification services, digital customs platforms, and ASEAN Single Window interoperability. Cambodia and Vietnam used ASEAN support to accelerate these investments, achieving in five to seven years what might otherwise have taken a decade or more.

The risks from regional integration are real but manageable—and they strengthen the case for disciplined implementation rather than delay. Domestic firms will face greater competition but agreed tariff schedules provide transition periods of five to ten years for sensitive products. Fiscal risks from tariff reductions appear limited: import duties account for about 10 percent of domestic revenues once border consumption taxes are excluded, and sequencing implementation alongside the planned VAT rollout would help limit short-term impacts. Preparations for Timor-Leste's ASEAN Chairmanship in 2029 will place additional demands on capacity, reinforcing the need to prioritize high-impact reforms—particularly border efficiency, paperless trade, and licensing—while maintaining dedicated coordination. The five years to 2031 are a critical window. Timor-Leste has the foundations, the opportunity, and the framework to turn the political milestone of ASEAN accession into lasting momentum for growth.

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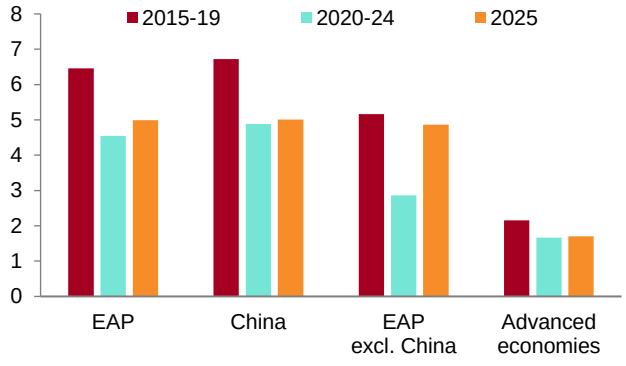
1. Recent Developments

Timor-Leste's economy performed more strongly in 2025. Non-oil GDP grew by 4.5 percent, the fastest pace since 2014, supported by rebounding tourism and sustained public investment. Domestic tax revenue rose by 31.6 percent, foreign visitor arrivals increased by 40.1 percent, non-petroleum business employment expanded by 27.6 percent between 2021 and 2024, and the Petroleum Fund balance—at US$18.6 billion—proved more resilient than earlier projections. Despite these gains, underlying vulnerabilities persist. Growth remains heavily dependent on household consumption and public spending financed by Petroleum Fund withdrawals. Non-oil GDP per capita remains below pre-COVID-19 levels, exports have fallen sharply following the near-cessation of oil production, and the trade deficit has widened significantly. Credit growth remains concentrated in construction and household lending, while government spending continues to outpace domestic revenue, leaving the budget highly dependent on withdrawals well above the Estimated Sustainable Income (ESI).

1.1. Regional Context: Slowing Momentum in East Asia

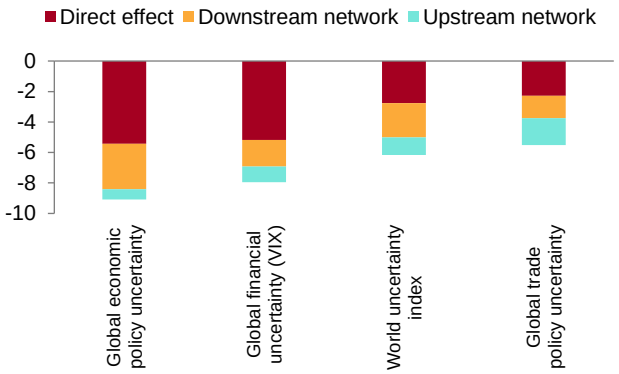
Economic momentum across East Asia and the Pacific remained relatively resilient in 2025, despite weaker global demand, heightened policy uncertainty, and cyclical moderation. Growth remains below pre-pandemic highs but the region outperformed both emerging market peers and advanced economies by a considerable margin. China's growth held steady, broadly in line with recent years, as export performance softens, fiscal support tapers, and structural headwinds persist (Figure 1.1). Elsewhere in the region, EAP excluding China recovered strongly from a sluggish post-pandemic period, reflecting resilient domestic demand and a partial trade recovery. External demand nonetheless remains uneven: exports of goods, especially electronics, have begun to recover but stay highly sensitive to global industrial cycles, while services exports grow even as tourism lags pre-pandemic levels across parts of Association of Southeast Asian Nations (ASEAN) countries. Greater uncertainty (Figure 1.2) is dampening firms' willingness to invest and hire, while trade fragmentation and higher tariffs are weighing on exports to the United States, underlining the region's heightened exposure to external shocks.

Figure 1.1: East Asia and Pacific Leads Global Growth, Though Below Pre-Pandemic Pace
(year-on-year growth, percent)



Source: World Bank. 2025. Washington, DC: World Bank.
Note: EAP = East Asia and Pacific.

Figure 1.2 : Increased uncertainty is negatively affecting firm-level investment in East Asia and Pacific countries
(percent)



Source: Ha et al. 2025.
Note: The chart can be read as follows: a one standard deviation increase in economic policy uncertainty abroad significantly reduces investment growth, as firms prioritize liquidity and flexibility over long-term commitments. These effects amplify upstream and downstream through production networks. VIX = Exchange Volatility Index

1.2. Economic Growth: Stronger Momentum but Largely Driven by Public Spending

Growth is improving in Timor-Leste but remains heavily dependent on public spending, with the private sector not yet able to drive recovery. According to preliminary estimates from the National Institute of Statistics (INETL), GDP growth reached an estimated 4.5 percent in 2025, the strongest outturn in more than a decade and an acceleration from 4.3 percent in 2024 (Figure 1.3). The expansion was driven by robust household consumption—supported by government transfers and remittances—alongside higher government spending and sustained public investment. However, growth remains demand-led and import-intensive: imports subtracted 3.8 percentage points from output, reflecting weak domestic production capacity and continued leakages of fiscal stimulus abroad.

On the demand side, consumption dominates, while investment remains dependent on state spending. Household consumption remains the main growth driver (Figure 1.3). Government final consumption expenditure increased by 4.4 percent, contributing 2.2 percentage points, driven by higher spending on goods and services. Public investment expanded by 8.1 percent, adding 1.6 percentage points, with spending concentrated on roads, fiber-optic infrastructure, and irrigation. Development partners contributed an additional 0.7 percentage points, mainly through infrastructure, health, and agriculture programs. Although private investment grew by 9.7 percent, its contribution remained limited at 0.5 percentage points, the smallest among investment components—and was largely tied to government-led activities rather than reflecting autonomous private sector dynamism. Exports increased by 20.1 percent, led by coffee, copra, and services linked to international events, but contributed only 0.6 percentage points, underscoring the narrow export base.

On the supply side, growth is concentrated in non-tradable sectors, slowing economic transformation. Most of the increase in output is accounted for by services and construction, particularly public administration, retail, and infrastructure-related activities (Figure 1.4). In contrast, tradable sectors remain weak: agriculture and manufacturing continue to face low productivity, limited market access, and persistent structural constraints. Despite strong export growth in 2025—driven by coffee, copra, and event-related services, their contribution to overall growth remained modest at 0.6 percentage points, reflecting the limited diversification of the export base. Without a shift toward more productive, tradable sectors, growth will remain reliant on domestic demand and increasingly constrained by fiscal limits.

Figure 1.3: Government spending has consistently been one of the key growth drivers
(contribution, percentage points)

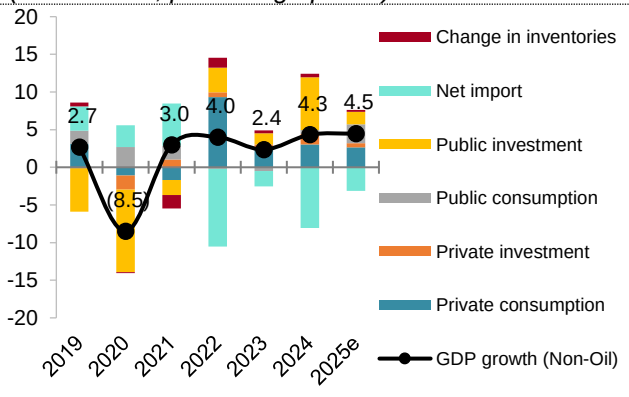
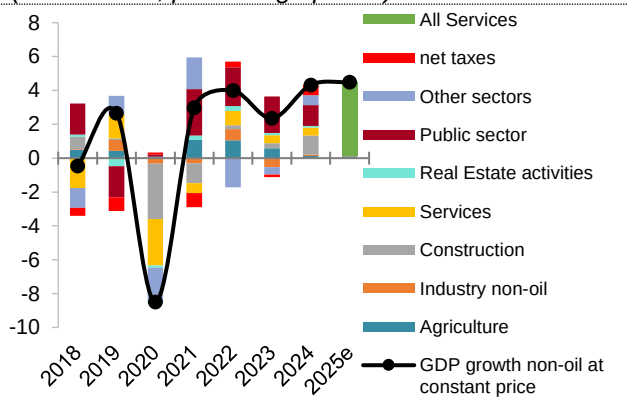


Figure 1.4: The public sector remained one of the largest contributors to the economy
(contribution, percentage points)



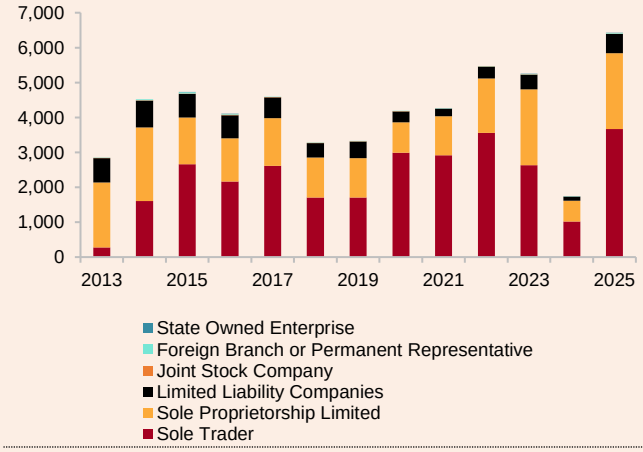
Source: INETL (Instituto Nacional de Estatística de Timor-Leste), 2025 and World Bank staff estimates.
Note: GDP = gross domestic product.

Business activity is picking up, but firm creation remains too shallow to translate liquidity into sustained private sector growth. Business registrations rebounded following the COVID-19 emergency and increased further in 2025, reflecting stronger economic activity and progress in registration procedures (Box 1.1). Most new entrants continue to be sole proprietorships and very small businesses, however, while firms with stronger scaling potential—such as limited liability companies—remain a small share of total registrations. This pattern suggests that entrepreneurial activity exists but remains concentrated in small-scale operations. Timor-Leste scored 63.1 out of 100 for business entry in the World Bank's Business Ready (B-READY) 2025 assessment, reflecting improvements in formal procedures. At the same time, firms continue to face insecure land tenure, high logistics and trade costs, and regulatory uncertainty (World Bank 2025a). These challenges affect firm survival and expansion, discourage larger-scale investment, and weaken the link between access to finance and productive growth.

Box 1.1: Business Entry Signals the Need to Unlock Firm Growth in Timor-Leste

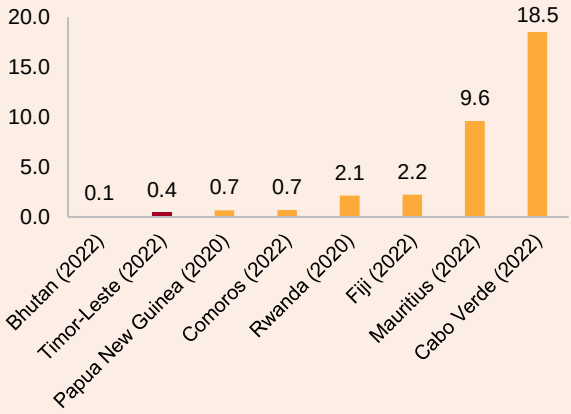
New firm creation in Timor-Leste has shown signs of recovery in recent years, reaching its highest level in more than a decade in 2025. Business registrations remain heavily concentrated among sole traders and sole proprietors, however, while limited liability companies, joint-stock companies, and foreign branches represent only a small share of new firms (Figure B1.1.1). Despite the recent rebound, overall business density remains very low relative to population compared with peer economies (Figure B1.1.2). This indicates that the private sector base remains narrow, with relatively few formal firms operating in the Timor-Leste economy.

Figure B1.1.1: Volatile firm registrations signal room to unlock and deepen private sector development
(new firms registering per year)



Source: SERVE (Serviço de Registo e Verificação Empresarial). 2025. Business Registration Data. Dili https://serve.gov.tl/

Figure B1.1.2: New business density is low compared with peers
(new limited liability company registrations per 1,000 working-age adults)



Source: World Bank Entrepreneurship Database. Washington, DC: World Bank.
Note: Timor-Leste data are from SERVE website at https://serve.gov.tl/.

The volatility of firm entry shows that simplifying registration alone is insufficient to sustain private sector dynamism. The increase in registrations following the COVID-19 emergency likely reflects the recovery in mobility and improvements in business registration systems, but subsequent fluctuations indicate deeper structural constraints that continue to limit firm survival and expansion. Evidence from the World Bank's Business Ready (B-READY) 2025 assessment points to several factors affecting firm growth, including limited access to finance, insecure land tenure, high logistics costs, and regulatory unpredictability. Addressing these constraints will be essential to translate firm entry into sustained business growth, investment, and job creation.

1.3. Labor Market: Signs of Recovery, but Structural Challenges Remain

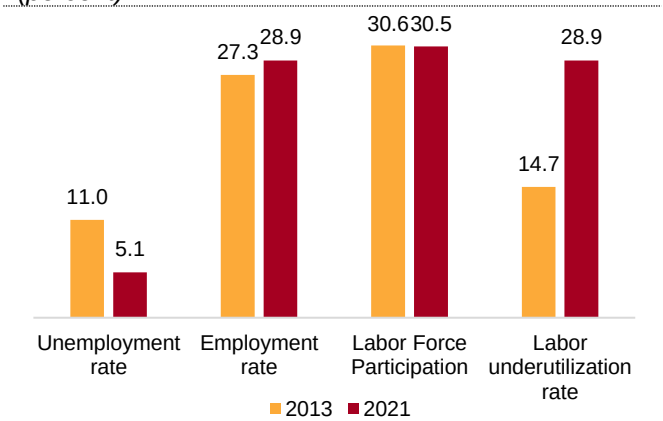
Timor-Leste's labor market is showing early signs of recovery, with private sector employment growing faster than at any point in the past decade. The 2024 Business Activity Survey[3] confirms that total non-petroleum business employment in Timor-Leste reached 66,000 workers in 2024, up 27.6 percent from 2021—equivalent to about 14,400 net new jobs over this period. This growth reflects steadily improving business conditions, the rollout of the Serviço de Registo e Verificação Empresarial (SERVE) digital registration platform, and the stimulus effect of expanded public spending. To sustain and broaden this momentum, the recovery will need to extend beyond its current geographical and sectoral concentrations: more than 80 percent of jobs remain in Dili and weighted toward retail and construction; wage growth over 2021–24 was only 3 percent; and average wages in Dili remain approximately 2.5 times higher than in other municipalities (INETL, 2024 Business Activity Survey). Expanding opportunities beyond the capital city and into higher-productivity sectors is the central labor market challenge ahead.

The broader structural context helps explain why overcoming this challenge remains difficult. The 2021 Timor-Leste Labor Force Survey, the most recent available, reveals a labor force participation rate of only 30.5 percent among working-age adults (Figure 1.5), one of the lowest rates in East Asia and Pacific, where participation typically exceeds 55 percent. Labor underuse increased from 15 percent in 2013 to 29 percent in 2021, indicating that job creation has not kept pace with growth in the working-age population. Youth disengagement is also significant: 30.5 percent of young people ages 15–24 years in Timor-Leste were neither employed nor in education or training in 2025, compared with an ASEAN average of about 17 percent. Gender gaps further limit the effective labor supply in Timor-Leste, with female economic inactivity exceeding male inactivity by 12.7 percentage points, and more than 60 percent of economically inactive women citing unpaid caring responsibilities as the main barrier to participation.

Another feature of the country's labor market is the public sector's dominant role in formal employment. As of 2021, the government accounted for about 73 percent of paid employment and the majority of formal jobs, reflecting the central role that public spending has played in supporting economic activity. At the same time, this structure has limited the scope for private sector job creation. Real median monthly wages declined from US$238 in 2013 to US$185 in 2021, suggesting that employment opportunities and productivity growth have remained constrained. Sustaining the recovery will therefore depend on continued improvements in the business environment and access to finance, and the development of private sector activities beyond Dili and the construction sector.

Figure 1.5: Labor force participation has not increased while labour underuse has nearly doubled

(percent)



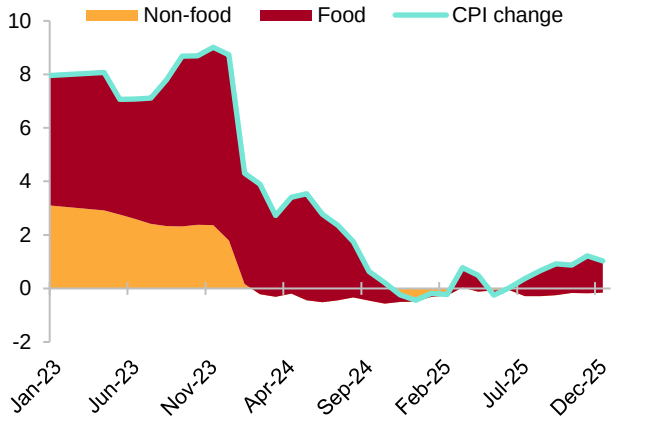
Source: INETL (Instituto Nacional de Estatística de Timor-Leste). 2021. Timor-Leste Labour Force Survey 2021. Dili: INETL.

[3] The scope of the BAS includes the non-petroleum producing business sector of Timor-Leste that actively traded during the 2024 calendar year. https://inetl-ip.gov.tl/2025/09/29/timor-leste-business-activity-survey-2024/

1.4. Prices: Inflation is Low, but Food Costs Remain High

Inflation fell sharply in 2025, easing pressure on households but masking underlying vulnerabilities. Headline inflation declined to 0.5 percent in 2025 (Figure 1.6), down from 2.1 percent in 2024 and a peak of 8.4 percent in 2023. This fall, driven by lower international food and fuel prices and a strong US dollar,[4] supported household purchasing power and macroeconomic stability. As low inflation reflects external conditions rather than stronger domestic supply, however, this inflationary easing mask important risks to household welfare and competitiveness Figure 1.6).

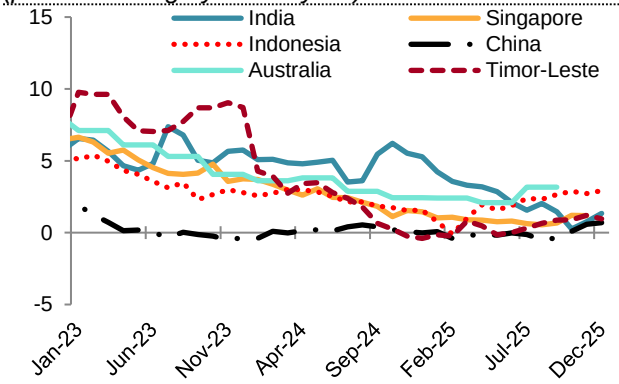
Figure 1.6: Average headline inflation eased further in 2025, although food price inflation picked up
(percent contribution and change year-on-year)



Source: INETL (Instituto Nacional de Estatística de Timor-Leste). 2025. Consumer Price Index Statistical Release and World Bank staff calculations
Note: CPI = Consumer Price Index.

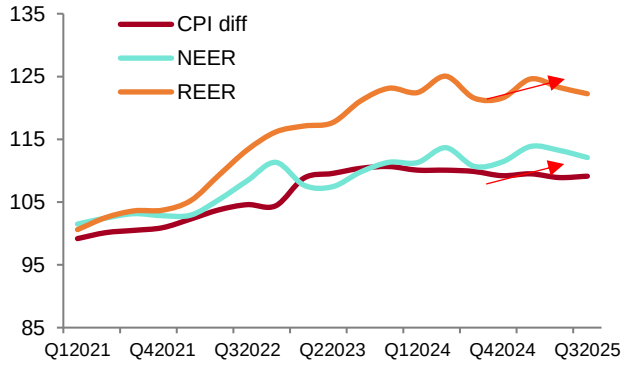
Food price volatility remains a key vulnerability. Despite low headline inflation, vegetable prices increased by 9.4 percent in 2025 because of weather-related production losses and weak supply chains. Food accounts for about half of household consumption, and up to 60 percent of food consumed in Timor-Leste is imported,[5] leaving households highly exposed to global price swings, exchange rate movements, and supply disruptions. Although global trends caused rice prices to fall by 1.8 percent, domestically produced rice remained expensive owing to low yields. As a result, households continued to face the risk of food insecurity even in a low-inflation environment.

Figure 1.7: Inflationary pressures in Timor-Leste's main trading partners could affect tradable goods prices
(percent change year-on-year)



Source: World Bank. 2025. Commodity Markets Outlook. Washington, DC: World Bank.

Figure 1.8: Both real and nominal exchange rates have largely been strong for the last three years
(index, 2016 Q1 = 100, where 100 represents the exchange rate level in the first quarter of 2016)



Source: BCTL (Banco Central de Timor-Leste). 2025 Note: CPI = Consumer Price Index; NEER = nominal effective exchange rate; REER = real effective exchange rate, which measures the average of the bilateral real effective exchange rates between the country and its trading partners weighted by trade shares.

[4] Timor-Leste has been using the US dollar as its official currency since 2000, a policy introduced by the UN during its transition to independence to foster stability, reduce inflation, and enhance investor confidence.
[5] In the year 2025, about 60 percent of the country's total cereal consumption needs were covered by imports, mostly sourced from India, China and Vietnam (FAO 2025)

The strong dollar that has lowered inflation has also weakened competitiveness. The real exchange rate remained elevated against key partners such as Australia and Indonesia, making Timor-Leste's exports and tourism services more expensive in foreign currency terms. A modest softening of the dollar in mid-2025, with the nominal and real effective exchange rates declining by about 1 percent quarter-on-quarter in Q2–Q3, provided only limited relief (Figure 1.8). With dollarization ruling out exchange rate adjustment, restoring competitiveness depends entirely on productivity-enhancing reforms, lower logistics and energy costs, and stronger institutions. ASEAN integration offers significant channels to support export-led diversification, faster customs clearance, improved standards and certification systems, and a more predictable business environment.

1.5. External Sector: A Structural Imbalance After Oil

The end of oil exports has severely weakened Timor-Leste's external position. In 2025, the merchandise trade deficit reached 47 percent of non-oil GDP (Figure 1.9). Imports totaled US$960 million (51 percent of GDP), compared with non-oil exports of just US$41 million (2.3 percent of GDP), a ratio of 23 to 1. Coffee accounts for nearly 90 percent of export earnings, making the country highly vulnerable to price and weather shocks, although the value of coffee exports increased in 2025 due to higher global prices (Figure 1.10).[6] Manufacturing exports remain negligible and tourism receipts, though growing, are still far below import needs. Remittances—equivalent to more than 11 percent of GDP—and official development assistance provide partial offsets to the external deficit but are insufficient to close the gap. As a result, the external deficit is now financed almost entirely through Petroleum Fund withdrawals.

Figure 1.9: The trade deficit remained weak in 2025 (*percent of non-oil GDP)*

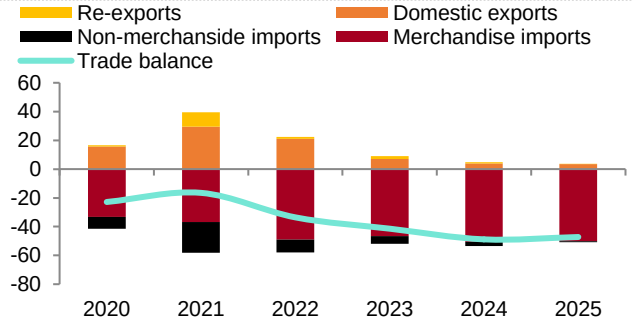
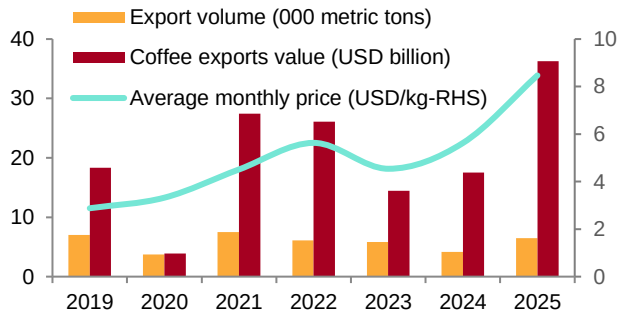


Figure 1.10: Coffee exports have been helped by global price increases
(*volume, thousand metric tons; exports value, US$, billions; and coffee price, US$/kg (RHS))*

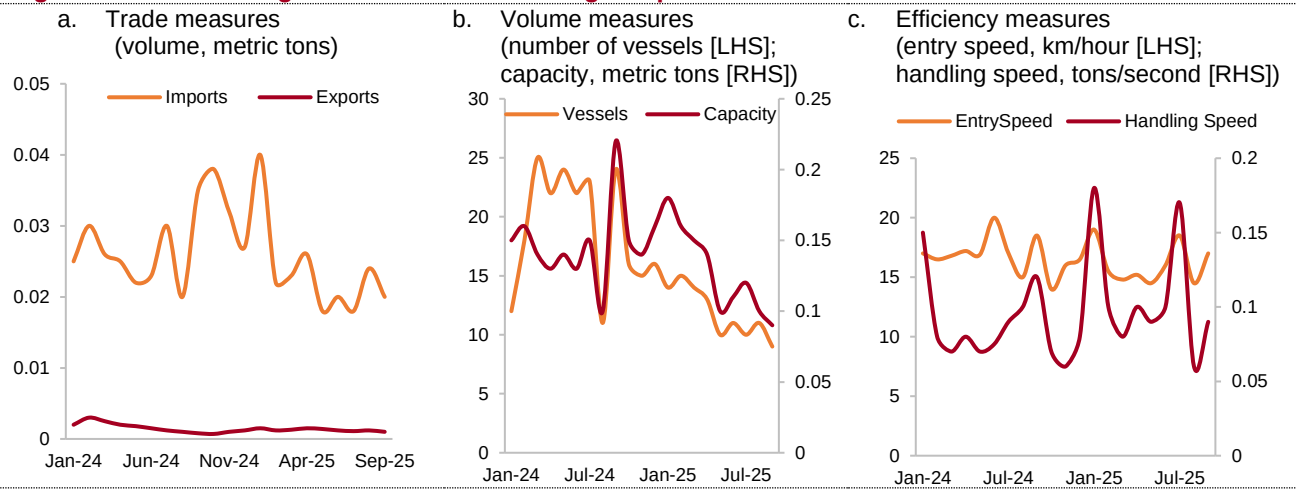


Source: INETL (Instituto Nacional de Estatística de Timor-Leste). 2025. Monthly Trade Report. Dili: and World Bank staff calculations.
Note: Trade balances are expressed as share of non-oil GDP to better reflect developments in the economy.
Coffee price is the average price of arabica coffee each year.

High-frequency trade data confirm the lack of a new export engine. Import volumes remained volatile throughout 2024–25, reflecting delays in public investment and project execution, while export volumes remained persistently flat and very low (Figure 1.11a). Port activity tells the same story: both the number of ships in port and cargo capacity fell after mid-2024, with only brief spikes linked to fuel imports and public procurement rather than sustained private trade (Figure 1.11b). Since port efficiency indicators—entry speed and handling speed—remained stable throughout the period (Figure 1.11c), this slowdown reflects weak demand and structural constraints rather than operational problems.

[6] The annual coffee harvest usually begins in May, so exports from January until May in the current year would be from the previous year's harvest.

Figure 1.11: Trade in goods has slowed through September 2025



Source: UN Global platform at Trade measures.

These trade imbalances have widened the current account deficit. In 2025, the deficit expanded year-on-year (Figure 1.12) as shrinking oil receipts and strong import demand for fuel, food, and construction inputs outweighed gains from non-oil exports, remittances and Petroleum Fund income. Services exports—mainly tourism—more than doubled year-on-year (Figure 1.13), but growing from a low base and remaining far below import levels, limiting their macroeconomic impact.

Figure 1.12: The current account deficit continued to widen
(percent of non-oil gross domestic product [GDP])

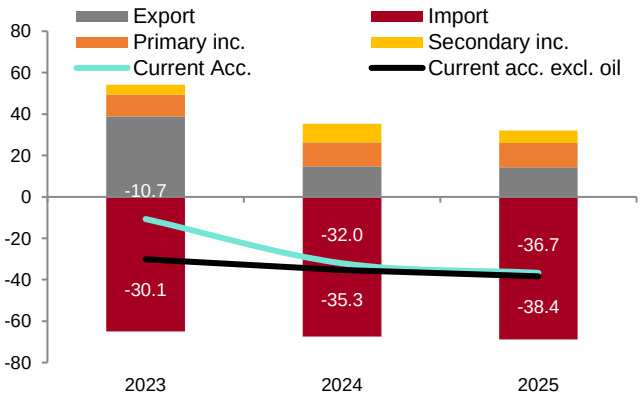
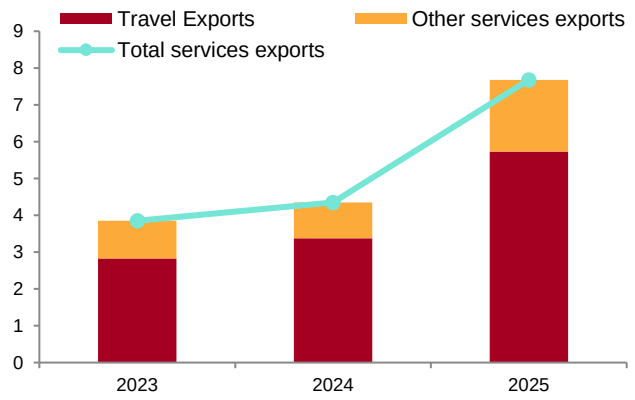


Figure 1.13: Services exports, mainly tourism, grew significantly
(percent of non-oil GDP)



Source: BCTL (Banco Central de Timor-Leste). 2025 and World Bank staff calculations.
Note: 2025 GDP is estimated using the annual average GDP during the period 2019–24. The government's new method for calculating balance of payments (BOP), such as including oil and gas sales as exports, started in Q3 2019 (IMF 2024).

Box 1.2: Rising Foreign Direct Investment—Early Progress but Limited Structural Transformation

Investment trends reflect a similar structural pattern to the trade dynamics described above: export capacity remains narrow while domestic demand continues to dominate economic activity. Foreign direct investment (FDI) inflows are rising, reflecting growing regional interest, but their composition means they make a limited contribution to external adjustment. In 2024, FDI inflows to Timor-Leste reached US$228.6 million, with more than two-thirds originating from ASEAN and nearby partners, led by Australia, China, Indonesia, Singapore, and Vietnam (Figure B1.2.1). Most inflows, however, remain concentrated in non-tradable sectors such as

retail, construction, finance, and information and communication technology, while manufacturing received only US$10.8 million in 2024 (Figure B1.2.2).

FDI is thus doing more to support domestic demand and imports than to build export capacity, providing limited relief to the current account deficit. Association of Southeast Asian Nations (ASEAN) accession creates an opportunity to increase export-oriented and productivity-enhancing investment, but this will require parallel reforms in trade facilitation, logistics, standards, competition, and skills.

Figure B1.2.1: Most FDI inflows have come from ASEAN countries
(FDI inflows, US$, millions)

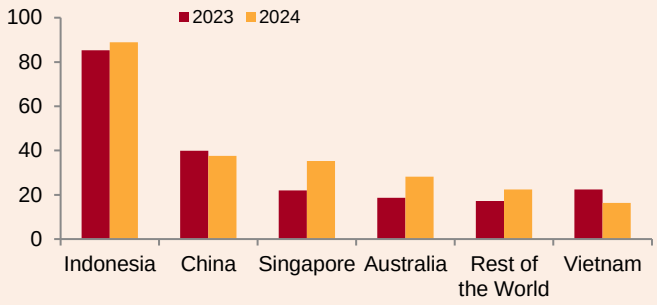
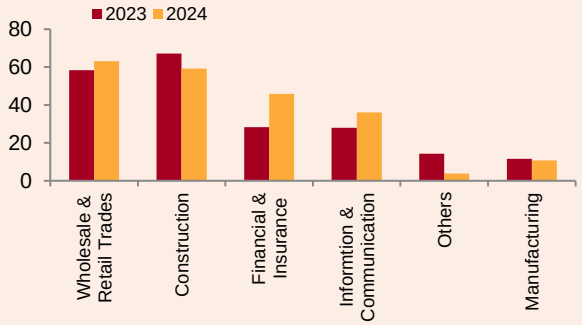


Figure B1.2.2: Wholesale and retail trades, and construction are the two biggest FDI sectors
(FDI inflows, US$, millions)



Source: BCTL (Banco Central de Timor-Leste). 2025.
Note: FDI = foreign direct investment.

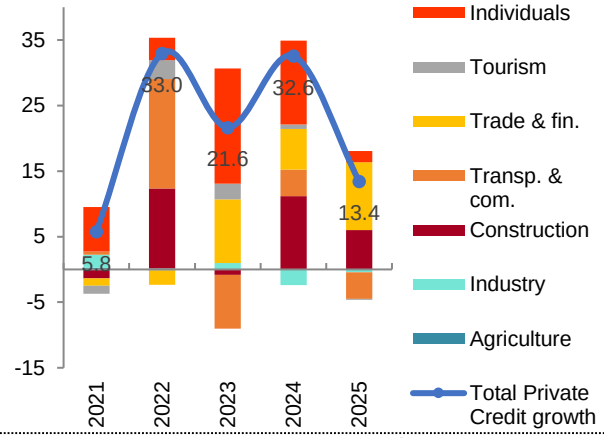
1.6. Monetary and Financial Sector: Credit Expansion Is Focused on Construction and Household Lending

Private sector credit continues to grow but remains concentrated in certain activities, with limited impact on diversification. Credit to the private sector increased by 13.4 percent year-on-year to end-December 2025, with total credit rising by about US$78 million, following very rapid growth in 2024. Most new lending was to the construction sector, partly driven by increased government infrastructure activity, while trade and finance credit also expanded (Figure 1.14). Credit to agriculture, industry, and tourism remained limited. As a result, credit growth is supporting short-term demand but is doing little to change the structure of the economy. The widespread between lending and deposit rates (Figure 1.15) reflects the underlying structural constraints that drive up the cost of intermediation: incomplete land registration limiting the use of property as collateral, weak financial documentation among firms, and limited contract enforcement (World Bank 2025[7]). Together, these factors raise the perceived risk and cost of lending to the private sector, particularly to smaller firms.

[7] https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099091925052531343

Figure 1.14: Private credit growth is slowing and mainly attributed to construction, and trade and finance sectors

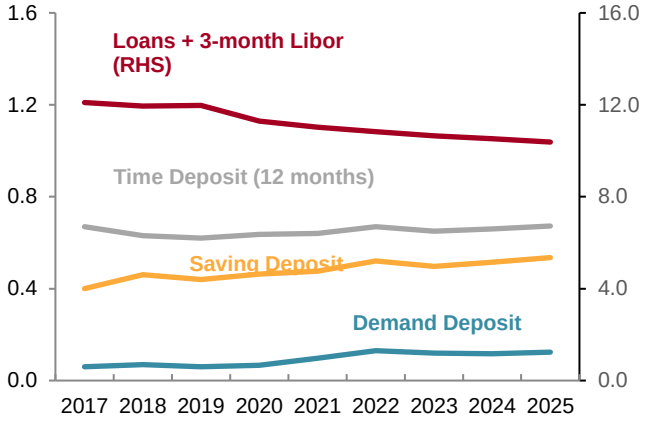
(contribution to year-on-year growth, percentage points)



Source: INETL (Instituto Nacional de Estatística de Timor-Leste). 2025.; World Bank. 2025.

Figure 1.15: Though declining, the gap between lending and deposit rates has remained wide

(percent)

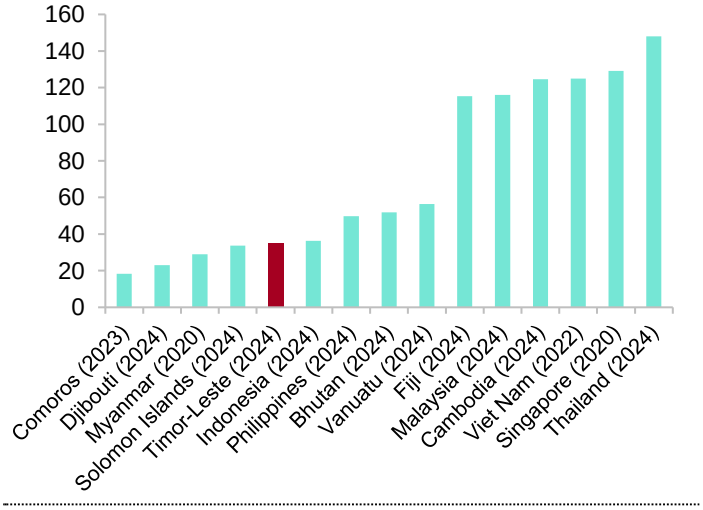


Source: BCTL (Banco Central de Timor-Leste). 2025, and World Bank staff calculations.

Household lending remains substantial, but firms face more access barriers to finance. Although credit growth slowed in 2025, loans to individuals—mainly for consumption purposes—still accounted for 49 percent of total private credit, compared with 22 percent directed to the construction sector and 23 percent for trade and finance. While the average lending interest rate declined to 10.4 percent by December 2025, borrowing costs remain high by regional standards. In response, the Government of Timor-Leste has introduced credit guarantee schemes, concessional lending facilities, the new establishment of Banco Nacional De Comércio De Timor-Leste (Timor-Leste Development Bank) and loan-to-deposit ratio targets to support lending to micro, small, and medium enterprises, and other businesses.

Figure 1.16: Credit as a share of GDP remains below regional peers

(percent of gross domestic product [GDP])



Source: World Bank. 2025. World Development Indicators https://databank.worldbank.org/source/world-development-indicators

Abundant liquidity has not yet translated into stronger financial intermediation. The credit-to-GDP ratio remains far below the regional benchmark of about 56 percent (Figure 1.16). Monetary assets are growing, and nonperforming loans remain low at 2.2 percent, suggesting that weak credit growth reflects institutional and structural constraints rather than financial distress. Timor-Leste's financial sector is thus not contributing to structural transformation through domestic investment (Box 1.3).

Box 1.3: Why Financial Sector Is Not Yet Supporting Economic Diversification

Despite rising liquidity in the banking system, Timor-Leste's financial sector is not yet supporting economic diversification. By end-December 2025, the loan-to-deposit ratio was only 35 percent (Figure B1.3.1), meaning that about 65 percent of bank deposits were not being lent to the domestic economy. Over 70 percent of monetary assets were held offshore, reflecting banks' preference for low-risk foreign placements rather than domestic lending (Figure B1.3.).

Figure B1.3.1:The financial sector remains shallow, indicated by low credit relative to GDP
(percent)

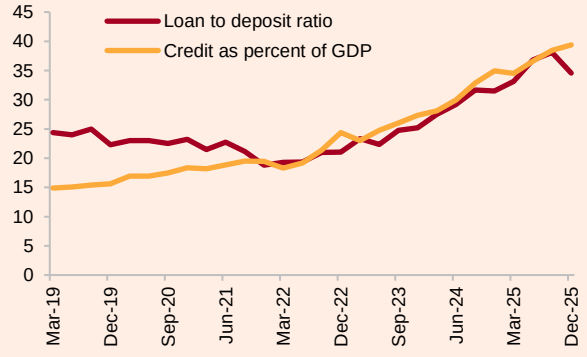
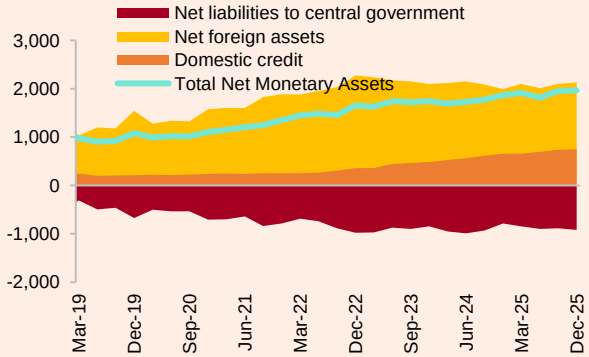


Figure B1.3.2: Monetary assets remained stable but largely consisted of net foreign assets
(US$, millions)



Source: BCTL (Banco Central de Timor-Leste). 2025.and World Bank staff calculations.
Note: GDP = gross domestic product.

The disconnect between liquidity and productive lending reflects both supply and demand constraints. On the supply side, incomplete land registration, weak financial management and reporting among firms, and limited contract enforcement make it risky for banks to lend to tradable sectors (World Bank2025). On the demand side, firms face limited export opportunities. Most lack the scale or capacity to meet quality standards, process agricultural products, or manage export logistics—all prerequisites for competing in Association of Southeast Asian Nations (ASEAN) markets.

Recent reforms provide a solid foundation to reorient the financial system toward productive growth. The Secured Transactions Law adopted in July 2025)[8] expands the use of movable assets as collateral, making it easier for micro, small, and medium enterprises to access credit even if they lack titled land. The Insolvency Law adopted in July 2025 strengthens creditor rights and restructuring options. Credit guarantee schemes can help share risk and crowd in private lending to smaller and first-time borrowers. If well governed and appropriately mandated, the planned national development bank—Banco Nacional De Comércio De Timor-Leste—would complement commercial banks by extending medium- and long-term finance to priority sectors through cofinancing arrangements. The decision to upgrade the national payment system to an instant payment platform (Montran 2025), fully aligned with ASEAN payment integration initiatives, could lower transaction costs, improve financial inclusion, and support formalization. Combined with ASEAN-aligned trade facilitation, logistics, and standards reforms, these measures can help ensure that expansion of credit translates into higher productivity, export growth, and sustainable job creation.

1.7. Fiscal Policy: Urgent Need for Adjustment

Current fiscal policy raises three sustainability concerns that are ultimately about intergenerational equity. First, spending growth consistently exceeds growth in both GDP and domestic revenues, implying an increasing dependence on Petroleum Fund withdrawals. Second, with oil revenues in structural decline, any sustained market downturn could rapidly erode fiscal

[8] (Instruction of BCTL No.31/2025) collateral registry (Lei N.º 6/2025 de 30 de Julho))

space. Third, the composition of spending—heavily weighted toward recurrent obligations—leaves little room for countercyclical adjustment or reallocation toward growth-enhancing investment. Together, these dynamics mean that any delay to making the urgently needed adjustment will shift an increasing share of the burden to future generations: excess withdrawals above the ESI are drawing down financial wealth that future generations would otherwise inherit, narrowing their fiscal options and weakening long-term economic resilience.[9] The policy question, therefore, is not whether adjustment is needed, but how soon and how gradually it can be managed.

Figure 1.17: The fiscal balance remained in deficit as of June 2025
(actual, percent of gross domestic product [GDP])

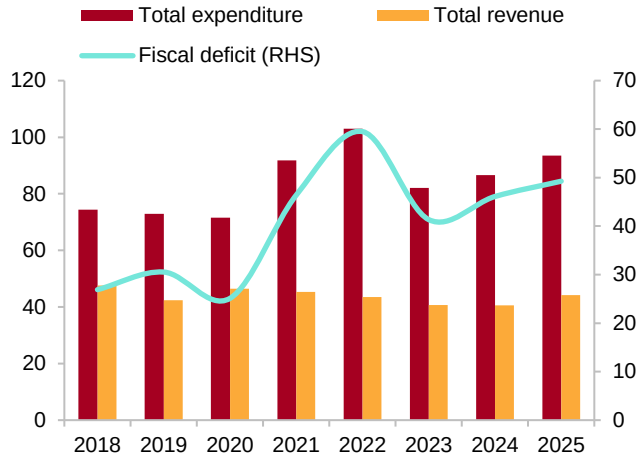
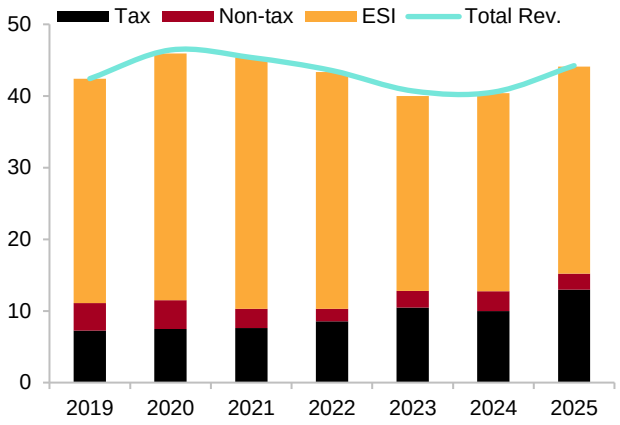


Figure 1.18: Revenue performance in 2025
(as percent of GDP)



Source: Ministry of Finance, Timor-Leste. 2025. and World Bank staff calculations.
Note: 2025 GDP number uses a World Bank estimate. ESI = Estimated Sustainable Income.

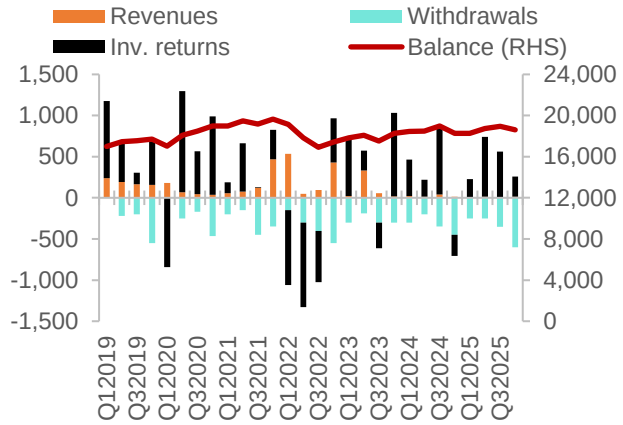
The fiscal deficit widened sharply in 2025 as spending growth outpaced revenue gains. The deficit increased to 49.0 percent of GDP in 2025, up from 46.1 percent in 2024 (Figure 1.17). Although total revenues rose by 10.6 percent, supported by stronger tax collection and by ESI withdrawals from the Petroleum Fund, this was not enough to keep pace with expenditure growth. Total government spending rose by 9.4 percent in 2025, reaching 93.0 percent of GDP, up from 86.7 percent in 2024 (Figure 1.17). Revenues financed less than half of the government's US$1.8 billion in spending, requiring large withdrawals from the Petroleum Fund above the ESI threshold.

Domestic revenues improved, but from a low and still fragile base. Domestic revenues (tax and nontax) rose by 21.1 percent in 2025—much faster than the 5 percent average annual growth during the period 2019–24—reflecting cyclical recovery, improved revenue administration, and stronger income and commodities tax performance (Figure 1.18). Tax revenues increased by 31.6 percent, supported partly by higher public sector wages and expanded government transfers, which boosted household consumption and sales-related taxes. Despite this rebound, the revenue base remains narrow and fragile. Revenue collected by the Timor-Leste Customs Authority, including duties, sales tax, and selective consumption tax, was slightly over target at US$120.9 million, despite the mid-2023 reduction in import duties from 5 percent to 2.5 percent. Collections are highly concentrated at Tibar Bay Port, which generated over US$116 million in revenue,[10] reflecting improved port operations, tighter supervision, harmonized procedures, and stronger enforcement against under-declaration.

[9] The ESI is defined as 3 percent of Timor-Leste's total petroleum wealth, which includes the current balance of the Petroleum Fund plus the net present value of expected future petroleum revenue. The revenue from ESI in 2025 increased compared to last year following the higher petroleum fund balance due to higher return rather than oil and gas revenue inflows. Total revenue is dominated by the ESI, which accounts for around 71 percent each year, while tax revenue made up 22 percent.
[10] Ministry of Finance, https://www.mof.gov.tl/eventdetails/event-2

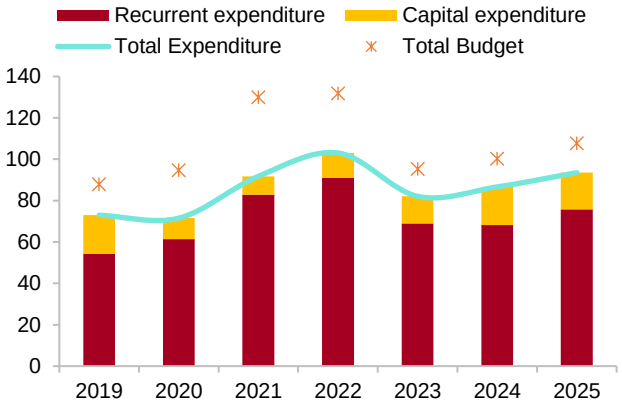
Import duties declined by 23 percent, however, owing to the continued impact of tariff reductions and a shift toward the lower import tariff categories, and continued exemptions.

Figure 1.19: The balance of the Petroleum Fund was relatively stable in 2025, after edging down in the first quarter.
(US$, millions)



Source: INETL (Instituto Nacional de Estatística de Timor-Leste). 2025. Wthe , and World Bank staff calculations.

Figure 1.20: Recurrent spending still makes up the largest share of government expenditure
(percent of gross domestic product [GDP])



Source: Ministry of Finance, Timor-Leste. 2025. and World Bank staff calculations.
Note: Total spending covers central administration and Região Administrativa Especial de Oé-Cusse Ambeno (RAEOA)

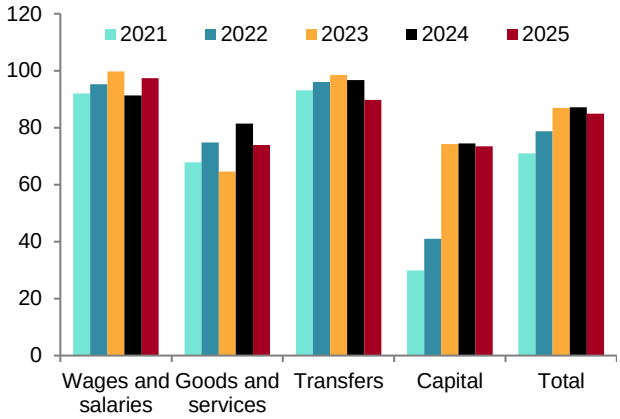
The Petroleum Fund continues to provide an important financial reserve, but its role is changing as oil revenues decline. The fund's balance stood at US$18.6 billion by end-2025, about 10 times the country's GDP (Figure 1.19). Strong global bond yields and equity markets led to investment returns of about 5.3 percent in 2025, higher than the 4.4 percent average annual return since the fund's inception. The underlying flow of petroleum revenues has fallen sharply, however: oil receipts declined from an annual average of US$667 million in 2019–23 to US$85 million in 2024, and just US$36 million by end-2025, following the closure of the Bayu-Undan field. With the Greater Sunrise project still uncertain and withdrawals exceeding the ESI, Petroleum Fund receipts are largely dominated by financial returns rather than resource inflows. This underscores the urgent need to increase fiscal discipline, improve domestic revenue mobilization, and accelerate growth-enhancing investment to ensure that the fund can continue to support macroeconomic stability over the long term.

Meanwhile, spending is increasingly skewed toward recurrent obligations. Recurrent spending accounted for 81 percent of total public expenditure in 2025, leaving only 19 percent for capital spending, which is below 2018–19 levels (Figure 1.20). Under recurrent spending, transfers alone grew by 16.5 percent in 2025 to reach US$681 million (36.1 percent of GDP), driven by social security, veterans' payments, subsidies, and support for state-owned enterprises (SOEs). While social protection transfers remain essential for poverty reduction and equity, economic transfers to public entities—particularly SOEs—often yield limited development returns.

Strengthening credibility through the budget process is essential to sustain the growth impact of public spending. In 2025, 84.9 percent of the US$2.1 billion budget was executed, below both the 2024 level and the government's target of 90 percent (Figure 1.21). Although there was nearly full execution of wages and salaries (97.4 percent), goods and services execution fell to 73.9 percent and transfer execution to 90 percent (partly due to delays in the expanded veterans' program). Capital spending execution was down slightly, at 73.4 percent, suggesting that it will continue to be critical to not only manage overall spending levels but also work toward high-quality, timely budget execution—particularly for public investment.

Figure 1.21: Budget execution declined in 2025, potentially limiting the impact of increased spending

(execution rate, percent)



Source: Ministry of Finance, Timor-Leste. 2025 and World Bank staff calculations.

Fiscal pressure is rising even though Timor-Leste remains at moderate risk of debt distress. External public debt is low—about 15 percent of non-oil GDP in 2025—and mostly concessional, with debt service averaging 1.1 percent of GDP. At the same time, the Petroleum Fund continues to provide an important financial buffer (World Bank–IMF 2025 DSA)[11]. Risks are nonetheless increasing with debt service relative to exports is projected to exceed its threshold in 2027–30, and under the baseline scenario the Petroleum Fund could be depleted by around 2037, requiring a sharp increase in borrowing thereafter.

Transfers to SOEs have also become a major fiscal burden. In 2025, transfers to SOEs reached US$206 million (Figure 1.22), representing 11 percent of GDP, 12 percent of total spending, and 55–60 percent of non-oil domestic revenues (Figure 1.23). SOE support thus exceeded both health spending (US$100 million) and education spending (US$164 million) and was equivalent to about 60 percent of infrastructure capital spending. SOE transfers alone may account for approximately one-quarter of withdrawals exceeding the ESI—equivalent to about 1.0–1.2 percent of GDP per year. Weak oversight, unclear performance targets, and limited financial transparency mean that the government's implicit support for SOEs—while not formally recorded as public debt—could rapidly translate into direct budget costs if any of these entities face financial distress, adding to fiscal pressures at precisely the moment they are most difficult to absorb.

[11] World Bank and IMF. 2025. Timor-Leste: Joint Debt Sustainability Analysis. Washington, DC: World Bank and IMF.

Figure 1.22: SOE support has risen since 2022, with the bulk going to the electricity company
(US$, millions)

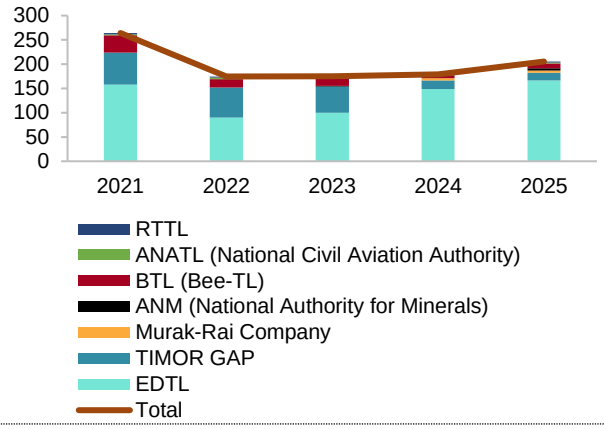
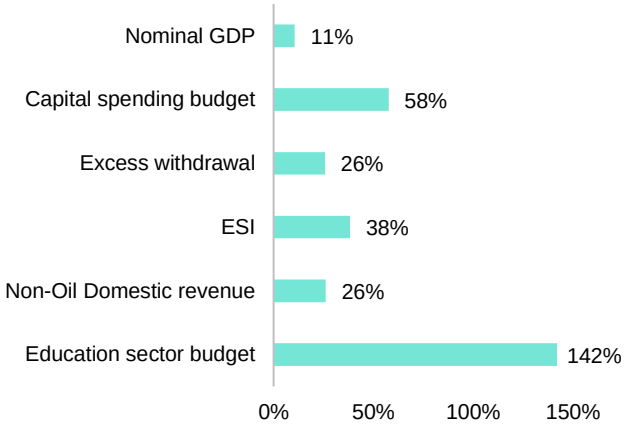


Figure 1.23: SOE support has become a structural fiscal burden
(state-owned enterprise [SOE] transfers as percent of each category)



Source: Ministry of Finance, Timor-Leste. 2025.
Note: ANATL = National Civil Aviation Authority; BTL = Bee-TL telecommunications company; EDTL = Electricidade de Timor-Leste; RTTL = Rádio e Televisão de Timor-Leste; ANM = National Authority for Minerals; SOE = state-owned enterprise

2. Economic Outlook and Risks

Timor-Leste's economy is projected to grow by about 4.1 percent in 2026, before stabilizing at 4.0 percent over the medium term under current policies—enough to preserve stability in the short term but insufficient to generate the levels of job creation, productivity gains, and export expansion needed to sustain long-term development. Growth continues to rely heavily on public spending financed by withdrawals from the Petroleum Fund, with the fiscal deficit expected to widen in the near term. Recent developments in the Middle East present additional short-term risks: potential disruptions to global oil supply and rising oil prices could increase fuel import costs and subsidy pressures, while heightened financial market volatility may affect Petroleum Fund investment returns. These factors could place further pressure on the budget and lead to withdrawals above the Estimated Sustainable Income (ESI). External shocks could threaten growth, and under current policies, the Petroleum Fund is projected to be depleted by around 2037, potentially creating a fiscal crisis. Improving medium-term outcomes will therefore depend on reforms to accelerate private sector development, job creation, domestic revenue mobilization, and stronger fiscal discipline to support a more sustainable growth model.

2.1. Growth Projections: Positive but Insufficient for Structural Transformation

The regional environment is expected to become somewhat less supportive of growth. Growth in developing East Asia and Pacific economies is projected to moderate from 5.0 percent in 2025 to about 4.2 percent in 2026, before edging up to around 4.4 percent in 2027. While growth will remain above the global average, the outlook reflects weaker external demand, higher energy prices, and persistent structural headwinds. Economic activity across the region is expected to soften in the near term as economies adjust to elevated energy prices, tighter financial conditions, and heightened global uncertainty, with a modest recovery anticipated in 2027 as conditions stabilize. Risks to the outlook remain elevated, including policy uncertainty, trade fragmentation, and subdued global demand. The Middle East conflict represents an additional external risk, as higher energy prices could weigh on growth prospects for energy-importing economies and increased financial market volatility could affect capital flows and investor confidence across the region."

Within this context, Timor-Leste's economic outlook remains stable in the near term but increasingly fragile under current policies. Its gross domestic product (GDP) is projected to grow by about 4.1 percent in 2026, moderating to 4.0 percent over the medium term—enough to preserve stability, but insufficient to generate jobs, raise productivity, or expand exports at the pace needed to support a durable economic transition (Table 2.1). Growth continues to be driven mainly by household consumption, supported by one-off pension payments to newly registered veterans and sustained high government spending (Box 2.1). Public investment is expected to improve only modestly, as capital budget execution remains below 80 percent because of fragmented public investment management, weak project pipelines, limited pre-investment appraisal, and insufficient quality controls. Private investment is likely to remain concentrated in construction, retail, and hospitality, constrained by limited access to finance, weak land tenure security, and underdeveloped logistics. Credit growth is likely to continue flowing largely toward consumption and construction rather than tradable sectors. The planned National Development Bank of Timor-Leste (BNDTL), expected to be established in 2026, could help expand access to finance for priority productive sectors such as agriculture, fisheries, tourism, and manufacturing. Inflation risks are forecast to rise to about 2.3 percent in 2026, driven by higher global food and commodity prices; elevated oil prices linked to the Middle East conflict risk increasing fuel import costs and subsidy outlays, compressing fiscal space for public investment and social spending.

Table 2.1: Economic Forecast

(percent unless otherwise directly indicated)

	2021	2022	2023	2024	2025e	2026f	2027f	2028f
Real non-oil gross domestic product (GDP) growth	3.0	4.0	2.4	4.3	4.5	4.1	4.0	4.0
Private consumption	-2.4	14.0	3.4	4.1	3.6	7.6	9.4	9.7
Government consumption	2.9	-0.3	-0.8	0.9	4.4	4.3	4.1	4.0
Gross fixed capital investment	-6.1	27.0	11.5	43.7	8.4	8.8	4.7	5.1
Public investment	-14.9	29.7	10.8	46.9	8.0	9.0	3.7	4.0
Private investment	40.9	18.3	14.1	32.7	9.7	8.0	8.5	9.0
Exports: goods and services	79.3	30.3	31.8	13.3	20.1	8.8	9.5	10.0
Imports: goods and services	-8.8	22.9	4.9	14.6	5.9	10.4	10.5	11.0
Inflation (Consumer Price Index)	3.8	7.0	8.4	2.1	0.5	2.3	2.1	2.0
Fiscal balance (percent of non-oil GDP)	-46.4	-59.5	-41.4	-46.1	-49.0	-56.7	-56.3	-55.6
Current account balance (percent of non-oil GDP)	127.0	29.1	-10.7	-31.1	-38.8	-47.0	-52.6	-55.6

Source: INETL (Instituto Nacional de Estatística de Timor-Leste). 2025. and World Bank staff estimates and forecasts.
Note: World Bank projections assume more gradual fiscal consolidation than the government's medium-term framework owing to: (a) rigidity of recurrent spending, particularly during 2027–28 election cycle; (b) implementation challenges for value added tax (VAT) and revenue mobilization; (c) historical patterns of below-target budget execution which may lead to some under-execution of planned expenditure but reflect implementation constraints rather than deliberate fiscal consolidation;; (d) capacity constraints limiting reform delivery speed.

On the external side, the deficit is expected to widen, although resource developments could offer a medium-term upside. Non-oil exports are projected to grow modestly. Given that Timor-Leste's oil exports have ended, and with investment-related imports rising alongside higher fuel import costs driven partly by Middle East supply disruptions, the current account deficit is expected to remain large, financed mainly by Petroleum Fund withdrawals and investment income. While Association of Southeast Asian Nations (ASEAN) membership and ongoing reforms are expected to support tourism and investor confidence, non-oil exports start from a very small base, and gains will take time to materialize. In the near term, imports are likely to outpace exports as trade facilitation lowers import costs prior to export competitiveness being strengthened.

Resource developments could improve the longer-term outlook but remain uncertain and hence are omitted from the baseline. TIMOR GAP, Timor-Leste's national oil company, has advanced the Kuda Tasi and Jahal project,[12] with a final investment decision targeted for the third quarter of 2026 and the first oil expected in late 2027—potentially the first domestic production since the closure of the Bayu-Undan field. In addition to their potential fiscal contribution, these developments could also support national energy security by strengthening domestic supply capacity. Preparatory work on the Greater Sunrise project also continues, with possible first gas in the early 2030s, although key commercial and legal arrangements remain unresolved. A new mining licensing round covering gold, copper, and rare earth elements has also been launched. Given uncertainty over the scale and timing of these developments, they are not incorporated into the baseline projections, but they underscore that the fiscal transition challenge is one of timing rather than the exhaustion of resource potential. Investment linked to the Tasi Mane project and early-stage activities associated with Greater Sunrise would support domestic economic activity over the medium term, partially offsetting external pressures.

[12] TIMOR GAP has advanced the Kuda Tasi and Jahal projects, with Finder Energy, a private energy company, serving as the field operator, https://www.timorgap.com/newsroom/press-releases/timor-gap-and-finder-strengthen-partnership-to-advance-ktj-project/

With nearly 60 percent of the Timor-Leste population under 25 years of age, both the pace and composition of economic growth matter. Growth driven mainly by consumption and public spending has historically produced limited job creation and weak productivity gains, and Timor-Leste's recent experience reflects this pattern. Non-petroleum business employment grew by 27.6 percent from 2021 to 2024, a rate that appears strong by international standards but warrants careful interpretation. The increase largely reflects a post-emergency rebound from the sharp COVID-19 contraction, amplified by expansionary public spending that stimulated activity in construction, retail, and other domestic services. The formal private sector's small size also means that even modest absolute job gains translate into large percentage increases. Consistent with this, the employment growth in 2021–24 remained concentrated in Dili and in relatively low-productivity sectors. Although the 2024 Business Activity Survey indicates that job growth rates outside Dili were higher, they started from a small base and therefore contributed little to overall employment expansion. Further, wage growth of just 3 percent over the same period points to limited underlying productivity improvement. International evidence suggests that employment increases by only 0.2–0.5 percent for each 1 percent of GDP growth in lower-middle-income economies (World Bank 2013; IMF 2012). Applied to Timor-Leste, this would mean projected non-oil growth of 3.5–4 percent would generate employment growth of just 1–2 percent per year—insufficient to absorb new labor market entrants. As the *2023 Country Economic Memorandum for Timor-Leste*, stronger and more inclusive job creation will depend on a gradual rebalancing toward activities led by a more dynamic private sector (World Bank 2023a). Achieving that shift requires accelerated reform.

Over the medium term, growth will depend increasingly on domestic reform rather than external conditions alone. Three clusters of reform matter most. First, investment climate improvements: progress on land titling and dispute resolution, regulatory alignment with international standards, and a more predictable business environment for firms. Second, infrastructure and connectivity: targeted upgrades to digital and transport networks, and sustained progress on ASEAN Single Window interoperability. Third, public investment effectiveness: stronger project pipelines, improved procurement systems, and a unified public investment management framework that ensures that capital spending translates into productive assets. These reforms aim to address gaps in competitiveness and institutional capacity identified in the World Bank's Business Ready (B-READY) 2025 assessment, which indicates that while legal frameworks are broadly in place, operational delivery and implementation remain uneven (World Bank 2025b) Long-term growth model simulations suggest that a combined package along these lines—to raise public investment efficiency, boost total factor productivity, increase labor force participation, and crowd in private investment—could lift non-oil growth above 5 percent over the long run and materially increase GDP per capita.

Critically, ASEAN accession can reinforce the channels that will translate domestic reforms into stronger growth and fiscal outcomes. Improvements in trade facilitation will lower logistics costs and strengthen incentives for export-oriented investment. As a result, foreign direct investment (FDI) in tradable sectors will grow, in turn increasing non-oil exports and broadening the tax base, generating additional domestic revenues without raising tax rates.[13] An illustrative scenario—consistent with outcomes observed in Cambodia and Vietnam in the five years following their respective accessions—suggests that a combination of lower trade costs, higher FDI, and modest productivity gains could lift non-oil growth by 0.5–1.0 percentage points per year and reduce the fiscal

[13] The transmission mechanism from trade facilitation to FDI, export growth, and revenue broadening is well established in the integration literature. See World Bank (2020), World Development Report 2020: Trading for Development in the Age of Global Value Chains (Washington, DC: World Bank); UNCTAD (2007), Vietnam: Investment Policy Review (New York and Geneva: UNCTAD); and IMF (1996), Vietnam: Economic Developments, Staff Country Report No. 96/145 (Washington, DC: IMF), which documents FDI rising to 9 percent of GDP and exports growing at double-digit annual rates within one year of Vietnam's ASEAN accession in 1995.

deficit by 3–5 percentage points of GDP within five years, largely through revenue gains.[14] Importantly, however, these benefits are conditional on effective domestic reform implementation and will not materialize from ASEAN membership alone. Chapter 3 sets out the specific actions and sequencing required to activate these benefits.

2.2. Fiscal Sustainability: The Adjustment Window is Finite—and Shrinking

Fiscal risks are rising as high spending is locked in yet oil revenues have ended. The 2026 budget sets expenditure at US$2.24 billion, pushing the fiscal deficit to about 59 percent of GDP, among the highest globally (Box 2.1). This deficit is financed almost entirely through Petroleum Fund withdrawals, including US$1.18 billion above the ESI—a pattern that, if sustained, would reduce the resources available to future generations and erodes the intergenerational savings base the fund was designed to protect. The expansion is driven mainly by continued growth in recurrent spending—wages, subsidies, and transfers to state-owned enterprises (SOEs)—while capital investment is rising only modestly. With petroleum revenues sharply reduced following the closure of the Bayu-Undan field, this fiscal path significantly increases long-term risks and narrows the options available to future governments and citizens.

Domestic revenues are expected to improve but will remain far below what is needed to sustain current spending. Tax collection is projected to rise gradually as income and employment recover. The core constraint is not tax policy alone, but rather the narrow productive base of the economy. Sustainable revenue growth depends first on economic expansion: more firms operating formally, higher productivity, and stronger job creation. As the economy grows and formalizes, the tax base broadens naturally, generating higher collections without rate increases. This makes private sector development, trade facilitation, and ASEAN integration central to the revenue strategy, with the planned introduction of a value added tax (VAT) playing a necessary but complementary role. Since VAT bears more heavily on lower-income households, distributional risks will be important. Exempting staple foods, strengthening cash transfers, and better targeting existing social protection programs can substantially offset regressive effects—which is essential to the political sustainability of the consolidation path.

Under current policies, the Petroleum Fund is projected to be depleted by around 2037, intensifying fiscal adjustment pressures within the next decade. The Middle East conflict adds a further dimension of risk to this trajectory: sustained financial market volatility could reduce fund investment returns below the assumed 4–5 percent range, accelerating depletion and narrowing the already finite adjustment window. The reform choices made now will therefore play a decisive role in shaping both the pace of adjustment and intergenerational outcomes. A moderate reform scenario[15]—including a 10 percent VAT rate, stronger income taxation, a ceiling on the public wage bill, and phased rationalization of goods and transfers spending—would gradually narrow the deficit to about 29 percent of GDP by 2040. This path would also extend the Petroleum Fund's life beyond 2037, though it would nevertheless leave it at a significantly lower level, reducing the income buffer available to future generations. A more ambitious package could combine deeper expenditure

[14] The quantitative ranges presented here are authors' illustrative estimates, calibrated to the post-accession growth and fiscal trajectories observed in Cambodia (1999–2004) and Vietnam (1995–2000), and informed by the broader literature on trade integration and fiscal outcomes in late-entering ASEAN economies. They are not drawn from a formal computable general equilibrium (CGE) model and should be interpreted as indicative orders of magnitude. The closest published quantitative benchmarks are Boumellassa and Valin (2009), who estimated that Vietnam's WTO accession—an integration step closely linked to and building on its ASEAN membership—would lift real GDP cumulatively by approximately 2.1 percent by 2015 through tariff reduction and quota elimination; and Cling et al. (2009), whose CGE model projected a 3 percent real GDP gain when greater FDI inflows were added to trade liberalization effects. On the fiscal side, ADB (2023) documents Cambodia's fiscal balance improving from persistent deficits to near-surplus within five years of deeper trade integration in the 2010s, driven substantially by revenue gains from a broadened tax base.

[15] World Bank Analysis in "Promoting Fiscal Sustainability for Timor-Leste"

prioritization, better targeted transfers, stronger public investment efficiency, and structural reforms that raise long-term growth by about 0.76 percentage points. Such a scenario could reduce the deficit to about 12 percent of GDP by 2040 while preserving the fund's balance at more than US$15 billion, strengthening its role as a durable source of intergenerational income. Delays would narrow these options: even postponing the introduction of VAT by just one year could mean forgone revenues of about 2–3 percent of non-oil GDP, increasing excess fund withdrawals and shifting forward a larger share of the adjustment burden. Seen in this light, fiscal consolidation is not only a near-term stabilization task but also a strategic choice about fairness across generations and the long-term resilience of Timor Leste's development model.

The government has articulated a consolidation path, but its credibility depends on delivery. The 2027–30 fiscal framework envisages a gradual reduction in spending relative to GDP through tighter civil service management, better-targeted transfers, and more selective capital investment (Box 2.1). This strategy is supported by recent reforms, including the new Public Financial Management Law approved in April 2025 procurement reforms, and the rollout of public investment management guidelines (annex 2). Preparatory steps toward VAT adoption also support medium-term revenue mobilization. These measures will only strengthen fiscal sustainability, however, if implemented on time and at sufficient scale. Continued reliance on excess Petroleum Fund withdrawals means that any delay directly erodes the fiscal buffers needed to absorb future shocks.

Box 2.1: The Budget Deficit Is Expected to Widen, then Moderate over the Medium Term

The budget approved for 2026 establishes a higher spending baseline. It sets total expenditure at US$2.24 billion, up from US$2.1 billion in 2025, raising the starting point for the 2027–30 fiscal framework (Figure B2.1.1). Recurrent expenditure continues to drive the increase, particularly wages, subsidies, and transfers to state-owned enterprises (SOEs), while capital spending is rising only modestly. With revenues projected at US$803 million—slightly below 2025 levels due to weaker Petroleum Fund income—the deficit will be financed almost entirely through excess fund withdrawals, including US$1.18 billion above the Estimated Sustainable Income (ESI) (Figure B2.1.2). This increases fiscal risk in the longer term.

Figure B2.1.1: The 2026 budget is higher than in 2025, representing a missed opportunity for fiscal consolidation …

(US$, millions)

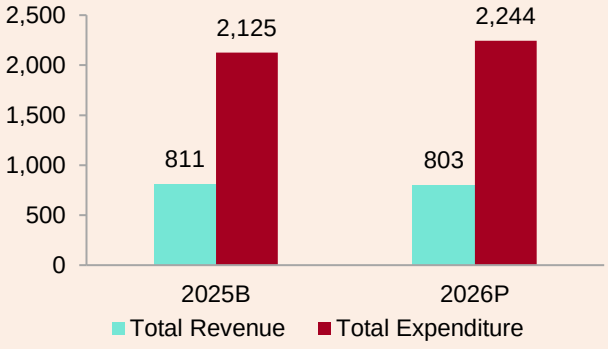
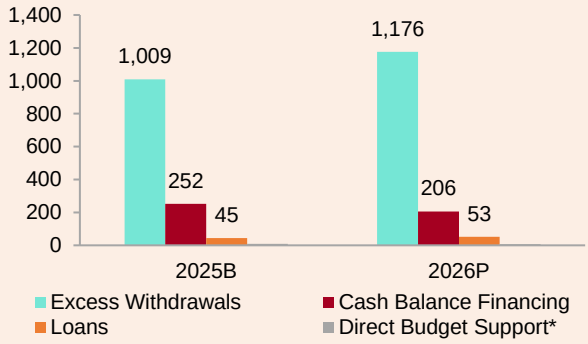


Figure B2.1.2: … which will mean increased Petroleum Fund withdrawals to cover bulk of the deficit

(US$, millions)



Source: 2026 Budget Book, Ministry of Finance, Timor-Leste. 2026

Domestic tax revenue is projected to rise to US$280 million in 2026 as income and wage taxes continue to recover, but this remains insufficient to offset declining Petroleum Fund income. With the mid-2025 closure of the Bayu-Undan field, the ESI is expected to fall to US$543 million in 2026, down from US$552 million in 2025 (Figure B2.1.3).

Rebalancing the spending composition and improving its execution will create room for stronger, more inclusive growth. The 2026 budget continues to allocate a much larger share to recurrent spending, while capital investment remains low relative to infrastructure and human capital needs (Figure B2.1.4). Capital execution remains below 80 percent, and the 2026 budget continues to allocate a disproportionately large share to recurrent spending relative to infrastructure and human capital needs (Figure B2.1.5). Strengthening public investment management and procurement systems will be critical to improving value for money and accelerating project delivery.

Figure B2.1.3: Domestic revenues are projected to continue to recover but the ESI will fall
(US$, millions)

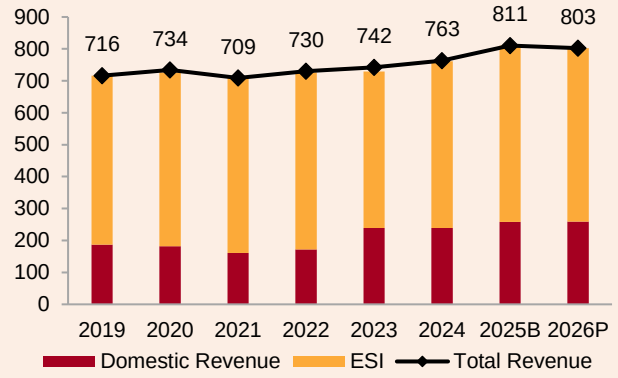
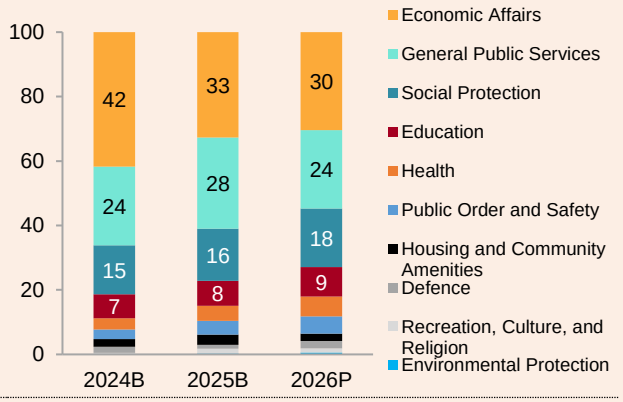


Figure B2.1.4: Spending on human capital investment is still relatively low compared with social protection and public services
(percent)

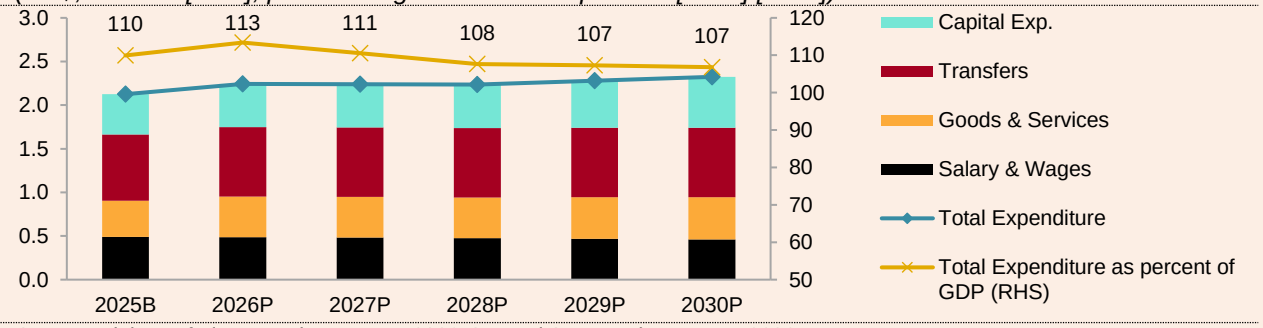


Source: 2026 Budget Book, Ministry of Finance, Timor-Leste. 2026.
Note: ESI = Estimated Sustainable Income.

The government's 2027–30 framework targets a gradual reduction in spending from 113 percent of GDP in 2026 to 107 percent by 2030 (Figure B2.1.5). to be achieved through civil service retirements and hiring controls, reductions in transfers to SOEs, and more selective capital spending. Reducing the deficit will also depend on timely VAT introduction, better tax compliance, and a shift toward higher-return public investment. Concessional financing may help smooth the adjustment, but real fiscal sustainability will ultimately depend on accelerating domestic reforms that raise revenues, improve spending quality, and support private sector-led growth.

Figure B2.1.5: The government has plans for fiscal consolidation in the medium term

(US$, millions [LHS]; percent of gross domestic product [GDP] [RHS])



Source: Ministry of Finance, Timor-Leste. 2026 *General State Budget Report 2026.*

2.3. Key Risks and Opportunities

Risks are tilted to the downside. Weaker external financing conditions and higher commodity prices, especially oil—could slow growth if the conflict in the Middle East persists beyond the one-year baseline assumption, with potentially large effects for Timor-Leste as a net energy importer. Prolonged supply chain disruptions and higher shipping costs could raise food import prices and constrain availability, increasing food insecurity risks in a country where about 60 percent of cereal consumption is imported and food accounts for nearly half of household spending. Because Timor-Leste subsidizes diesel-based electricity generation using imported fuel, higher global oil prices would widen the current account deficit, raise subsidy costs, and increase inflation, while weighing on growth. At the same time, heightened global financial market volatility poses a fiscal risk. As the Petroleum Fund now relies almost entirely on investment returns rather than oil receipts, a sustained downturn in global bond and equity markets could reduce fund income, compress fiscal space, and require additional withdrawals above the ESI, accelerating the fund's depletion. Upside risks stem from the potential development of new upstream oil and gas projects, including the Kuda Tasi and Jahal project, which could improve the medium-term fiscal outlook and support domestic economic activity.

Domestically, risks relate primarily to reform implementation: delays in introducing the planned VAT, advancing public investment reforms, or implementing ASEAN-related commitments could slow revenue mobilization, reduce spending efficiency, and weaken investor confidence. Weak budget execution would further limit the growth impact of public spending and increase reliance on Petroleum Fund withdrawals. Coffee price volatility remains an additional vulnerability, while climate shocks continue to threaten infrastructure and agricultural production.

Conversely, faster and more effective reform delivery could significantly improve outcomes. Accelerated implementation of ASEAN requirements could attract private investment, lower trade costs, and support export diversification. A stronger tourism recovery could boost services exports and employment, while quality upgrading in the coffee supply chain could raise export earnings and rural incomes. Timely VAT implementation, supported by strong administrative readiness and improved tax compliance, would create fiscal space for priority spending and reduce pressure on national savings. Key priorities for accelerating private sector development include strengthening land access, improving transparency in licensing, expanding access to finance, and ensuring a more predictable regulatory environment. Progress in these areas, supported by consistent policy implementation and clear public communication, can sustain development momentum and reinforce private sector confidence. The following section outlines practical actions that could be advanced over the next three years to support a more sustainable and resilient growth path.

2.4. Policy Options for Timor-Leste's Transformation

Timor-Leste has a clear opportunity to strengthen its long-term economic sustainability, though challenges remain. Growth is projected at about 4.0 percent through 2026, well below the government's 5 percent target (Government of Timor-Leste 2023). This maintains a stable economy in the short term but does not create sufficient jobs and depends on very high public spending—about 90–100 percent of non-oil GDP—financed largely through Petroleum Fund withdrawals above the ESI. In effect, the country is using its savings to support growth rather than to build a stronger economy. With oil revenues largely ended, Timor-Leste has about 12 years to bring spending in line with sustainable revenues before the Petroleum Fund is depleted. Acting now allows the adjustment to be gradual and manageable; any delay increases the risk of sharp spending cuts and economic disruption.

The Timor-Leste's government aspires to accelerate growth and diversify the economy away from petroleum dependence. Progress on three priorities will determine whether the economy can move from petroleum-financed consumption to productivity-driven growth and job creation (**Table 2.2**)

First, it is a priority to enable private sector-led growth and job creation. Despite high public spending, private investment and employment remain weak. The public sector dominates economic activity, while private firms face high costs, limited access to finance, infrastructure gaps, and skills shortages. Without a stronger private sector, growth will remain driven by consumption, and job creation will continue to fall short of the needs of a young and rapidly growing population. Improving land access, licensing transparency, access to finance, competition, and skills—supported by ASEAN integration— would play an important role in strengthening the reform agenda.

Second, building a credible domestic revenue base is a priority. Domestic revenues of only about 14 percent of GDP remain structurally insufficient to finance public services without drawing down national wealth. The introduction of VAT represents an important near-term step and will benefit from careful sequencing around the envisaged 2027 rollout. Allowing adequate time for business registration, taxpayer education, and capacity building within the revenue authority—supported by strong administrative preparation—will be important. Targeted exemptions for basic food items and strengthened social transfers can help protect vulnerable households, consistent with the 2021 Public Expenditure Review (World Bank 2021a). Recent experience demonstrates the potential for administrative gains: tax collection increased by 32 percent in 2025, reflecting both higher public sector wages and expanded transfers that boosted consumption-linked revenues, as well as improvements in revenue administration. Building on this momentum through continued investment in compliance systems and risk-based audit capacity offers scope for further gains. Over time, the strengthening of tax administration and compliance, rationalization of exemptions, and expansion of selected nontax revenues will be needed to build a more durable and diversified revenue base. Stronger domestic revenues will also enhance fiscal accountability and reduce dependence on volatile Petroleum Fund returns.

Third, it is a priority to restore fiscal sustainability through expenditure discipline—as a matter of intergenerational equity, not just macroeconomic stability. Public spending at about 100 percent of GDP, financed largely through excess Petroleum Fund withdrawals, is unsustainable and will materially reduce the resources available to future generations. Each dollar withdrawn above the ESI lowers the fund's long-term balance, and recent excess withdrawals have already had this effect. Restoring discipline honors the intergenerational compact embodied in the fund. The immediate priority is to halt the widening fiscal deficit and establish a credible medium-term framework with clear, publicly communicated spending ceilings that place the deficit on a downward trajectory. Over time, as domestic revenues strengthen and spending is reoriented toward higher-return investments, withdrawals could progressively converge toward levels consistent with long-term sustainability. Adjustment will need to be gradual, well sequenced, and clearly communicated to avoid social and economic disruption—but it needs to begin now.

Fiscal discipline, revenue reform, and private sector growth are all necessary, but they will only work if reforms are sustained and well implemented. This is why an external anchor matters. The next chapter explains how regional integration can support discipline, expand markets, and help Timor-Leste manage its post-oil transition.

Table 2.2: Priority Reform Actions

Policy pillar	Action	Expected results
1. Unlock private investment and trade	Advance land titling processes and strengthen dispute resolution mechanisms	Reduced investor risk and uncertainty
	Simplify and clarify business licensing procedures to lower regulatory costs and delays	Faster entry of private firms
	Establish the foundations for a competition authority	More level playing field for private investment
	Reduce trade clearance times through targeted customs and port reforms	Lower trade costs and improved logistics performance
	Deepen access to finance, including secured transactions and finance for small and medium enterprises	Increased private investment and firm growth
	Apply competition policy more consistently across sectors	Stronger market competition and productivity
	Upgrade quality standards, including SPS and TBT systems, and strengthen export certification capacity	Higher export competitiveness and diversification
2. Mobilize domestic revenues	Advance the VAT roadmap, including policy design and legislative preparation	Clear path toward domestic revenue diversification
	Gradually implement VAT, and integrate it with customs and income tax systems, with complementary targeted social assistance for low-income households	More predictable and sustainable revenue base
	Review and rationalize tax incentives, including reducing ineffective exemptions	Reduced revenue leakage and improved tax efficiency
	Strengthen tax administration through digital filing and risk-based audits	Improved compliance and revenue collection
	Optimize nontax revenues, including user fees and SOE dividends	Stronger fiscal accountability and state capacity
3. Restore fiscal sustainability	Establish a credible medium-term fiscal framework with clear spending ceilings to place the deficit on a downward path and gradually align withdrawals with the Petroleum Fund's long-term sustainability	Slower depletion of the Petroleum Fund
	Keep recurrent spending growth below non-oil GDP growth over the medium term	Creation of fiscal space for priority investments
	Manage public sector employment growth, while safeguarding critical service delivery	Containment of recurrent expenditure pressures
	Link SOE transfers more closely to performance and reform plans and strengthen oversight	Limits quasi-fiscal deficits crowding out priority spending
	Approve and operationalize the public investment management policy	Improved screening of new capital projects
	Operationalize secondary regulations under the Procurement Law	Reduced fiscal leakages and improved transparency
	Apply public investment management tools to screen and appraise new capital projects, with approaches proportionate to project size and complexity	Higher-return capital spending
	Apply procurement regulations consistently across line ministries	Improved value for money in public spending
	Modernize and rationalize the civil service payroll	More sustainable wage bills and improved governance

Source: Authors, based on World Bank (2021a, 2023a) and Rezza et al. (2024).
Note: The table consolidates and sequences recommendations from the Country Economic Memorandum (CEM) (World Bank 2023a), the Public Expenditure Review (PER) (World Bank 2021a), and the 2024 Timor-Leste Economic Report (Rezza et al. 2024), identifying the specific reforms that should be implemented now to unlock private-sector-led growth and jobs, mobilize sustainable revenues (domestic revenue mobilization [DRM] plus Estimated Sustainable Income [ESI] as a percentage of GDP), and protect fiscal buffers. GDP = gross domestic product; SOE = state-owned enterprise; VAT = value added tax.

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3. ASEAN Membership as a Platform for Timor-Leste's Economic Transformation

Membership of the Association of Southeast Asian Nations (ASEAN) offers Timor-Leste a high-impact platform to accelerate its economic transformation and diversification by combining regional market access with a structured reform agenda. Relative to other ASEAN countries at a comparable stage of accession, Timor-Leste has made solid progress in establishing the legal foundations for reform. The largest gains now lie in strengthening implementation systems, particularly in trade facilitation and core public service delivery. The experiences of late entrants to ASEAN—Vietnam, the Lao People's Democratic Republic, and Cambodia—show that the greatest benefits from accession come from early improvements in customs, logistics, and investor services, with reforms sustained through strong institutional coordination and systematic performance tracking. Drawing on these lessons, this chapter introduces a "Four Ds" framework—design, delivery, discipline, and development—to position ASEAN membership as a managed reform program capable of delivering measurable gains in competitiveness, diversification, and job creation.

3.1. What ASEAN Membership Actually Means

Timor-Leste's ASEAN accession, together with its recent World Trade Organization (WTO) membership, marks a strategic inflection point for economic transition. On October 26, 2025, Timor-Leste was formally admitted as the 11th ASEAN Member State (Table 3.1), having become a WTO member in February 2024. The WTO anchors the country in the multilateral trading system, primarily through goods trade disciplines, while ASEAN provides a deeper regional framework spanning services, investment, the digital economy, labor mobility, and regulatory cooperation. The two memberships are thus complementary but distinct.

Table 3.1: ASEAN members and accession dates (official)

Country	ASEAN accession date
Indonesia	Aug 8, 1967
Malaysia	Aug 8, 1967
Philippines	Aug 8, 1967
Singapore	Aug 8, 1967
Thailand	Aug 8, 1967
Brunei Darussalam	Jan 7, 1984
Vietnam	Jul 28, 1995
Lao PDR	Jul 23, 1997
Myanmar	Jul 23, 1997
Cambodia[16]	Apr 30, 1999
Timor-Leste	Oct 26, 2025

Note: ASEAN = Association of Southeast Asian Nations; Lao PDR = Lao People's Democratic Republic.
Source: ASEAN Secretariat. 2025. ASEAN Member States. https://asean.org/asean/asean-member-states/

ASEAN has evolved from a tariff-focused arrangement into a comprehensive, systems-based regional integration platform. Established in 1967 and formalized under the ASEAN Charter (2008), the association now operates through three pillars—political–security, economic, and sociocultural—supported by an extensive implementation architecture. The ASEAN Economic Community increasingly emphasizes services liberalization, investment protection, digital connectivity, and coordinated regulatory frameworks.

The ASEAN Community Vision 2045[17] sets a clear trajectory toward the creation of a "Resilient, Innovative, Dynamic, and People-Centered" region. The agenda prioritizes digital and green

[16] Cambodia's entry into ASEAN in 1999 followed internal political stabilization, marking a significant step in its economic re-engagement and integration with the region (Chhair and Ung 2016).
[17] ASEAN Community Vision 2045, adopted at the 46th ASEAN Summit on 26 May 2025, outlines the region's long-term strategy for a resilient, innovative, and people-centered ASEAN. Available at: https://asean.org/wp-content/uploads/2025/05/ASEAN-Community-Vision-2045_adopted.pdf

transformation, stronger connectivity, skilled labor mobility, and ASEAN's role as a central growth hub in the Indo-Pacific region.

ASEAN's integration agenda is shifting toward next-generation digital and services-led connectivity. Its agenda increasingly emphasizes cross-border paperless trade, interoperable single-window systems, trusted digital identity, cybersecurity and data governance, digital payments, and rules that support the digitalization of customs, licensing, and service delivery. The association's forthcoming Digital Economy Framework Agreement (DEFA) crystallizes this evolution by consolidating commitments on digital trade enablers and governance. For Timor-Leste, this raises the bar for effective membership: success will depend less on legal compliance and tariff schedules and more on interoperable systems, real-time data exchange, and institutional capability to participate fully in ASEAN's operational networks.

ASEAN compared with other trade blocs

ASEAN's framework is deeper than most regional trade arrangements, increasing both its potential gains and its implementation demands. According to the World Bank's Deep Trade Agreement database, ASEAN covers approximately 25–27 policy areas, compared with 10–12 for the Southern Common Market (MERCOSUR) and 8–11 for most South–South blocs such as the Economic Community of West African States (ECOWAS) and the Southern African Development Community (SADC). This broader coverage reflects ASEAN's binding rules and commitments not only in goods, but also in services, investment, trade facilitation, and selected regulatory areas (Table 3.2).

Table 3.2: Depth of Regional Trade Agreements: Number of Policy Areas Covered

Regional framework	Average number of policy areas covered	Typical coverage characteristics
ASEAN	25–27	Goods, services, investment, customs, SPS, TBT, trade facilitation, selected competition and regulatory cooperation disciplines
MERCOSUR	10–12	Primarily goods, limited services, weak coverage of behind-the-border disciplines
ECOWAS	8–10	Goods-focused, with limited enforceable provisions on services, investment, and standards
SADC	9–11	Goods and customs cooperation; partial SPS/TBT coverage, and weak services disciplines
WTO baseline	8–10	(General Agreement on Tariffs and Trade [GATT], General Agreement on Trade in Services [GATS], SPS, TBT) with limited depth and enforceability

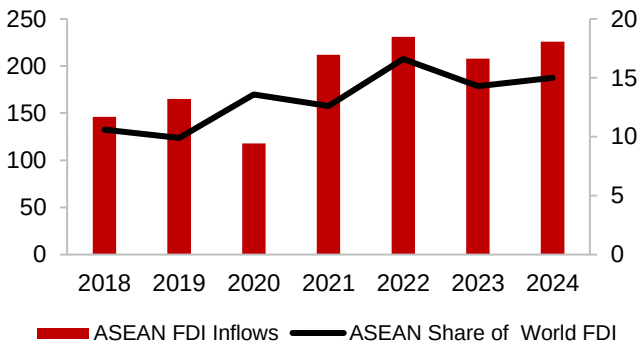
Source: World Bank 2023a; World Bank 2023b.
Note: ASEAN = Association of Southeast Asian Nations; ECOWAS = Economic Community of West African States; GATT = General Agreement on Tariffs and Trade; GATS = General Agreement on Trade in Services; MERCOSUR = Southern Common Market; SADC = Southern African Development Community; SPS = sanitary and phytosanitary; TBT = technical barriers to trade; WTO = World Trade Organization.

ASEAN's strongest areas—trade facilitation, services, and investment—directly match Timor-Leste's core development needs. ASEAN places strong emphasis on trade facilitation, including customs modernization, streamlined procedures, coordinated border management, and greater transparency on nontariff measures (ASEAN Secretariat 2024). In services and investment, ASEAN has progressively strengthened regulatory transparency, predictability, and investor protection, particularly in backbone sectors such as logistics, telecommunications, finance, and professional services. These are the reforms that reduce costs for firms, make the business environment more predictable, and attract investment. This focus also explains why the ASEAN regional bloc continues to be one of the world's top

destinations for foreign direct investment (FDI), with inflows exceeding US$200 billion annually since 2021, compared with an annual average of less than US$130 billion in the preceding decade (ASEAN Secretariat 2025) (Figure 3.1). Overall, ASEAN offers Timor-Leste a credible external framework for strengthening policy discipline and reducing uncertainty, provided implementation momentum is sustained.

Figure 3.1: ASEAN countries have seen strong and rising FDI inflows

(US$, billions [LHS]; percent [RHS])



Source: World Bank. 2025. *World Development Indicators.* https://databank.worldbank.org/source/world-development-indicators

Note: FDI = foreign direct investment.

The ASEAN framework differs from supranational models because it relies on national execution rather than centralized enforcement. Peer review and monitoring create pressure for reform, but outcomes ultimately depend on domestic institutional capacity. For Timor-Leste, the implication is clear: accession opens the door, but implementation determines the payoff.

ASEAN and WTO: Complementary but distinct

ASEAN membership builds significantly on Timor-Leste's WTO commitments. WTO accession in 2024 embedded the country in multilateral disciplines on goods trade, customs valuation, and sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) measures. ASEAN extends these commitments in both breadth and depth by introducing stronger rules—or entirely new disciplines—in services, investment, digital trade, labor mobility, and regulatory cooperation (annex 4).

Key areas where ASEAN adds value include the following:

- ***Services trade*.** The ASEAN Trade in Services Agreement (ATISA) introduces negative-list scheduling and progressive liberalization beyond the WTO General Agreement on Trade in Services (GATS).
- ***Investment*.** The ASEAN Comprehensive Investment Agreement (ACIA) provides investor protection not covered by WTO rules, including fair and equitable treatment and expropriation safeguards.
- ***Digital economy*.** The ASEAN Digital Economy Framework Agreement (DEFA) and the ASEAN Agreement on Electronic Commerce address data governance, cybersecurity, digital payments, and cross-border data flows, where multilateral disciplines remain incomplete, as WTO e-commerce negotiations are still ongoing.
- ***Labor mobility***. ASEAN Sectoral Mutual Recognition Arrangements facilitate skills portability across eight professional sectors.
- ***Competition and state-owned enterprises (SOEs)***. ASEAN introduces expectations of competitive neutrality, and regional cooperation mechanisms.
- ***Regulatory cooperation*.** An extensive working group architecture supports continuous peer review and coordinated regulatory development.

In practical terms, for firms exporting services, investing, or joining regional supply chains, ASEAN membership creates a very different operating environment than WTO membership alone. ASEAN tackles the practical barriers that constrain private sector growth in Timor-Leste—such as

unpredictable licensing, weak investor protection, limited competition enforcement, and fragmented digital systems—so the two frameworks work as complementary layers (annex 2). Precisely because ASEAN's agenda is broader in scope, deeper in obligation, and subject to active peer monitoring, it places greater demands on implementation capacity—but it also offers commensurately greater returns for a country at Timor-Leste's stage of development.

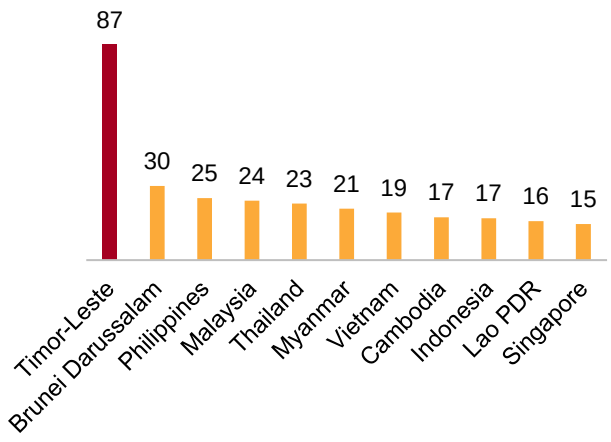
3.2. Why ASEAN Membership Matters Now for Timor-Leste

Timor-Leste requires a new growth engine, and ASEAN membership provides both the regional scale and external discipline that the country needs to implement long-delayed reforms. Since attaining independence in 2002, Timor-Leste has established core institutions and achieved political stability, but the next stage of development requires a shift away from a petroleum-financed, state-led economic model toward one driven by firms, exports, and skills.

A critical transition: Why Timor-Leste cannot wait

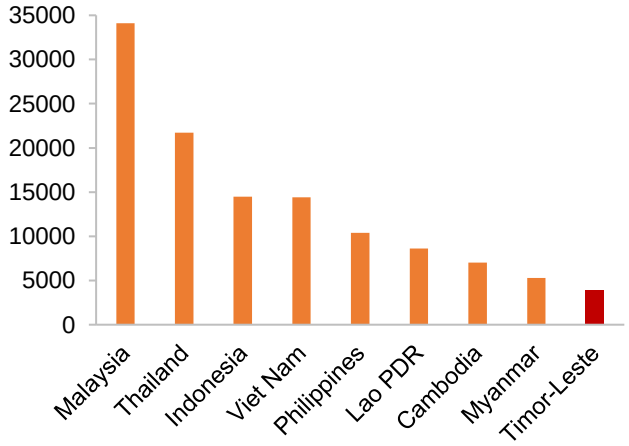
Timor-Leste's current growth model has reached its limits. Petroleum revenues once accounted for 85–90 percent of government income, more than 80 percent of exports, and the bulk of national output, enabling public spending at levels far above those of other ASEAN countries relative to gross domestic product (GDP) (Figure 3.2). With oil production ending, this model is structurally unsustainable. Growth has been maintained through Petroleum Fund withdrawals averaging 65 percent of non-oil GDP—well above the Estimated Sustainable Income (ESI) in the last five years. Moreover, non-oil purchasing power parity-adjusted GDP per capita remains the lowest among ASEAN countries, at US$3,890.9 in 2024 (Figure 3.2), highlighting both the urgency of the post-oil transition and the scope for catch-up growth.

Figure 3.2: Timor-Leste spends nearly five times the ASEAN average relative to GDP …
(government spending, percent of gross domestic product [GDP], 2024)



Source: IMF World Economic Outlook Database. https://www.imf.org/en/Publications/WEO

Figure 3.3: … but Timor-Leste's GDP per capita remains the lowest among ASEAN members
(GDP per capita, purchasing power parity [constant 2021 US$])



Source (fig. 3.3): World Bank. 2025. World Development Indicators. *https://databank.worldbank.org/source/world-development-indicators*
Note: Brunei Darussalam and Singapore are excluded from the sample for GDP per capita as outliers.

Labor market and human capital indicators reinforce the urgent need for transition. Timor-Leste's labor force participation rate is well below that of other ASEAN countries (Figure 3.4). As discussed in chapter 1, public spending has crowded out private employment, which is dominated by low-productivity informal jobs and subsistence agriculture. Timor-Leste's Human Capital Index score stands at 0.45, also

the lowest in the ASEAN regional bloc (Figure 3.5). This means that children born today in Timor-Leste are projected to achieve only 45 percent of their potential by 18 years of age, further constraining productivity through gaps in skills, health, and workforce readiness.

Figure 3.4: Timor-Leste has the lowest labor force participation rate among ASEAN members…
(percent, latest available data)

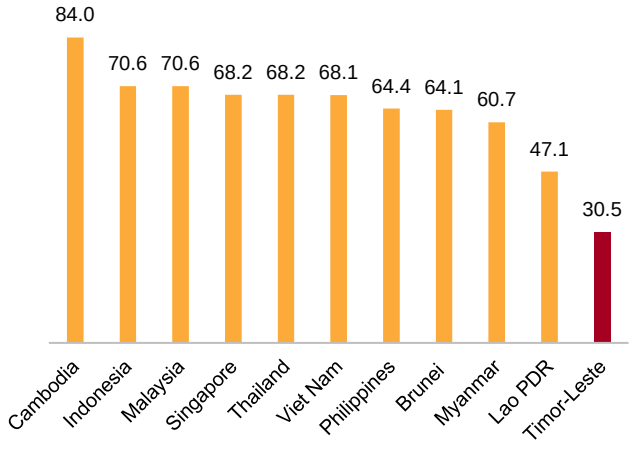
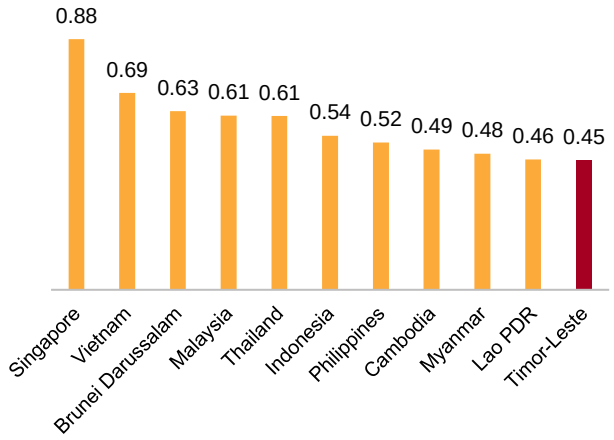


Figure 3.5: …and human capital remains among the lowest in the ASEAN regional bloc
(Human Capital Index score, 2020)



Source: ADB (Asian Development Bank). 2024. Key Indicators for Asia and the Pacific. Manila: ADB. https://kidb.adb.org [AUTHOR: confirm correct publication year and URL]
Note: Cambodia and Timor-Leste data are from 2021, Lao PDR data from 2022, and Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam data from 2024.

These constraints point to an urgent need for a reform anchor that can support three mutually reinforcing goals: (a) improved fiscal resilience through expansion of the non-oil tax base; (b) creation of private sector jobs through trade and investment; and (c) creating an enabling environment for competitive tradable activities through lower costs and more predictable regulation.

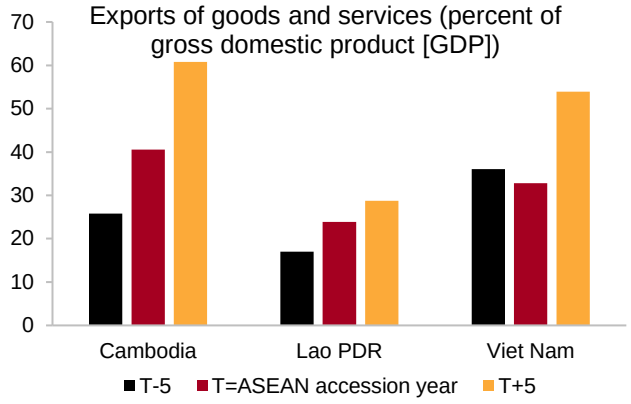
Timor-Leste's market is too small to grow alone

Timor-Leste's small domestic market and high trade costs limit the scope for diversification and productivity-led growth. With a population of 1.4 million[18], domestic demand cannot sustain competitive manufacturing, modern services, or specialized agriculture at scale, even in sectors with clear potential—coffee, fisheries, seaweed, tourism (World Bank 2023a). The ASEAN regional bloc's market of more than 680 million consumers offers the scale needed for Timor-Leste to diversify production and expand employment. The most immediate opportunities lie in the country's current export basket, particularly upgrading the quality of its coffee and expanding its tourism services—rather than venturing into entirely new export sectors, while developing other sectors in a phased and realistic manner. This includes the fisheries sector, where the objective is not to limit development, but to strengthen the foundations for sustainable growth. Priority actions include improving regulatory frameworks, meeting sanitary and quality standards, and investing in cold chain and logistics infrastructure so that export capacity can be expanded over time. Given that current fish export volumes remain relatively small and volatile, sequencing investment in this way will help ensure that market access gains from ASEAN membership are matched by domestic supply-side capacity.

[18] https://www.unfpa.org/data/worldpopulation/TL#:~:text=Table_title:%20Population%20Table_content:%20header:%20%7C%20Sector%20%7C,per%20cent%2C%202025%20%7C%20Percentage:%205%20%7C

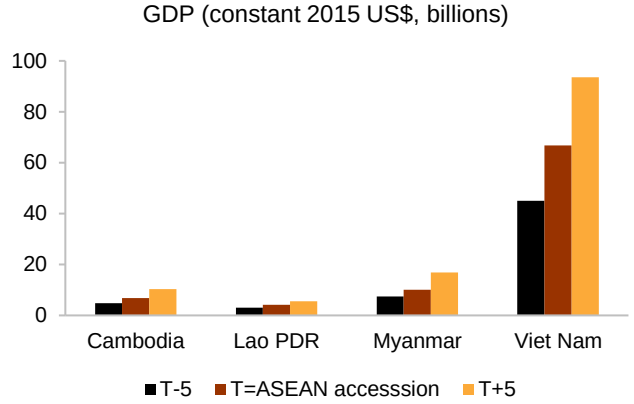
Regional experience shows that ASEAN accession is typically followed by medium-term gains for exports, GDP, and GDP per capita (Figure 3.6, Figure 3.7, and Figure 3.8, respectively). Five years after accession, GDP per capita had risen by about 40 percent in Cambodia, 21 percent in Lao PDR, 58 percent in Myanmar, and 31 percent in Vietnam. Firm-level evidence further underscores the magnitude of these gains. Data from the ADB Timor-Leste Business Mapping Survey indicate that internationally engaged micro, small, and medium enterprises experienced revenue growth that was 6.8 percentage points higher, and job creation that was 8.6 percentage points higher, than that of domestically oriented firms (ADB 2026).As discussed in more detail below, these gains reflect not only improved market access but also the credibility effects of a combination of ASEAN and domestic reforms to reduce trade costs and attract export-oriented investment.

Figure 3.6: Late entrants saw increases in exports following ASEAN accession …



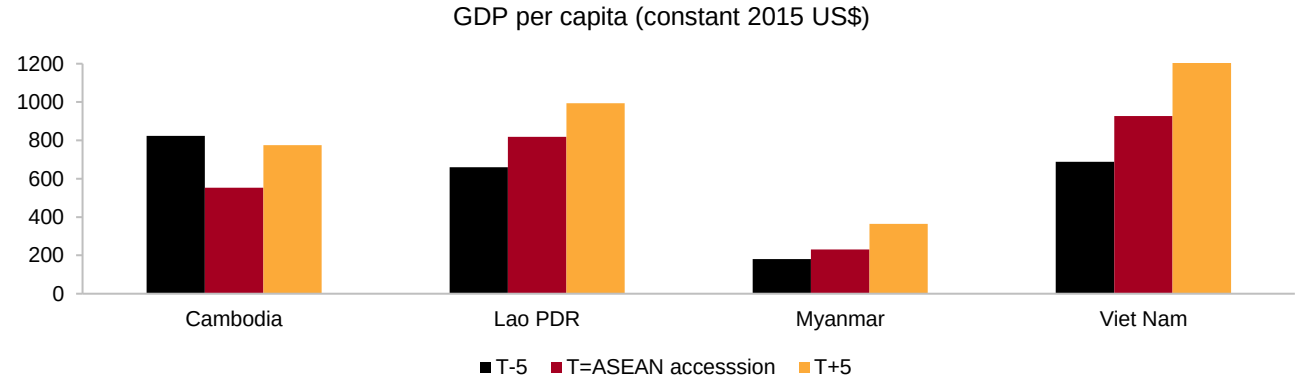
Source: World Bank. 2025. *World Development Indicators.* https://databank.worldbank.org/source/world-development-indicators

Figure 3.7: … as well as expanding GDP …



Source: World Bank. 2025. *World Development Indicators.* https://databank.worldbank.org/source/world-development-indicators

Figure 3.8: … and GDP per capita



Source: World Bank. 2025. *World Development Indicators.* https://databank.worldbank.org/source/world-development-indicators

ASEAN membership offers Timor-Leste export opportunities, while the costs of the adjustment costs associated with associated with trade integration are expected to be limited t. The country already has one of the region's most open trade regimes, with an average applied most-favored nation tariff of about 2.5 percent (WTO n.d.). Hence tariff cuts will have limited impact on domestic producers. In this context, the principal gains from ASEAN membership lie less in further tariff reductions and more in improved market access—particularly to Indonesia, Timor-Leste's largest and closest market—and in

the stability of a predictable, rules-based regional framework. Preferences under ATIGA can support the competitiveness of existing exports such as coffee and other agricultural products, but outcomes will depend primarily on firms' readiness to meet standards and regulatory requirements, especially in coffee, fisheries, and agro-processing. Over time, and with complementary domestic reforms that strengthen firm capabilities and reduce trade and logistics costs, ASEAN integration can support gradual export diversification, regional value-chain participation, and job creation, helping ensure that integration reinforces domestic production rather than displacing local firms.

ASEAN provides external discipline

ASEAN membership can strengthen the credibility of Timor-Leste's reforms by anchoring their implementation in a predictable, rules-based regional framework. Integration under the ASEAN Trade in Goods Agreement (ATIGA), ATISA, and ACIA targets the operational foundations of the economy: border clearance, licensing, service sector regulation, and investor protection. In Timor-Leste's context, many business challenges relate less to the openness of laws and more to implementation issues such as delays, uncertainty, and coordination across institutions, which can raise costs even when rules are clear on paper. By fostering peer learning, monitoring, and shared benchmarks (Annex 3), the ASEAN framework helps shift attention from individual policy changes to more consistent, system-wide implementation, supporting a more predictable environment for firms and reinforcing reform momentum over time.

Timor-Leste has strengthened its legal investment framework, but implementation remains underdeveloped. Recent reforms have improved transparency and formal openness, reflected in a score of 42.8 on the Regulatory Framework pillar of the World Bank's Business Ready (B-READY) 2025 assessment (Table 3.3). While this represents progress, it still lags the East Asia and Pacific average score (67.0) and trails regional peers like Cambodia and Lao PDR (scores in the mid-50s). Similarly, Timor-Leste's score for the Operational Efficiency pillar is 41.5, far behind those of its peers like Vietnam (53.9) and Indonesia (59.0). The gap between policy and practice is starkest for the Public Services pillar, where Timor-Leste scores just 24.2—less than half the East Asia and Pacific average score of 58.0 (World Bank 2025a). These scores point to weaknesses in customs administration, business licensing, digital systems, and interagency coordination. The challenge is thus making existing rules work effectively.

Table 3.3: B-READY 2025 Assessment: Timor-Leste

Pillar	B-READY score	Interpretation
Regulatory Framework	42.78	Laws and formal rules have improved, with progress on transparency and access to regulations
Public Services	24.20	Significant delivery gaps in customs, licensing, digital systems, and interagency coordination
Operational Efficiency	41.45	Firms face long processing times, uncertainty, and weak effectiveness of appeals and enforcement

Source: World Bank. 2025a. *Business Ready 2025.* Washington, DC: World Bank. https://www.worldbank.org/en/businessready

ASEAN's peer review and monitoring processes can help speed up reform by encouraging stronger implementation and building institutional capacity. Common ASEAN principles—such as transparency, nondiscrimination, and due process—make regulations more predictable and reduce uncertainty for investors. This matters for Timor-Leste as it seeks investment that brings not only capital but also technology and skills. ASEAN also offers a clear and time-bound structure for implementation through two complementary frameworks: the Timor-Leste ASEAN Accession Roadmap, which sets out the overall sequencing and priorities for the country's integration into ASEAN; and the Timor-Leste

ASEAN Mobilization Plan (TLAMP).[19] These frameworks turn commitments into sequenced actions in areas such as customs, services, standards, and digital systems (annex 3).

Experience from other countries shows, however, that frameworks alone are not enough; results depend on consistent domestic follow-through and accountability. Timor-Leste's planned ASEAN Chairmanship in 2029 therefore offers an incentive to accelerate reforms, but it will also place pressure on the country's limited administrative capacity, making prioritization and sequencing essential.

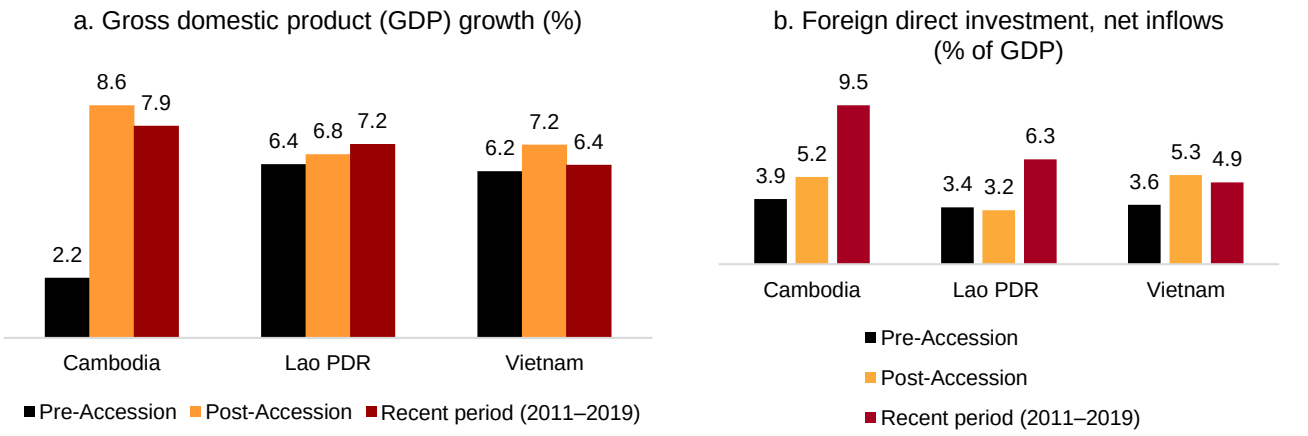
3.3. What Drives Success? Learning from ASEAN's Late Entrants and Other Regional Integration

ASEAN membership delivers real gains when countries turn regional commitments into domestic reforms. Evidence from deep trade agreements shows that accords which have stronger, enforceable provisions are associated with larger trade and investment effects because they reduce behind-the-border friction, administrative delays, regulatory uncertainty, and compliance costs (World Bank 2023b; World Bank 2023c). ASEAN's integration architecture supports implementation through peer review, agreed timetables, and monitoring mechanisms. Empirical studies consistently find that where these disciplines are reflected in operational systems—customs modernization, risk-based clearance, paperless processes, and predictable licensing—trade and investment respond more strongly (Mattoo, Rocha, and Ruta 2020; World Bank 2020c). In contrast, formalizing commitments without upgrading border management or enforcing rules leads to only limited gains.

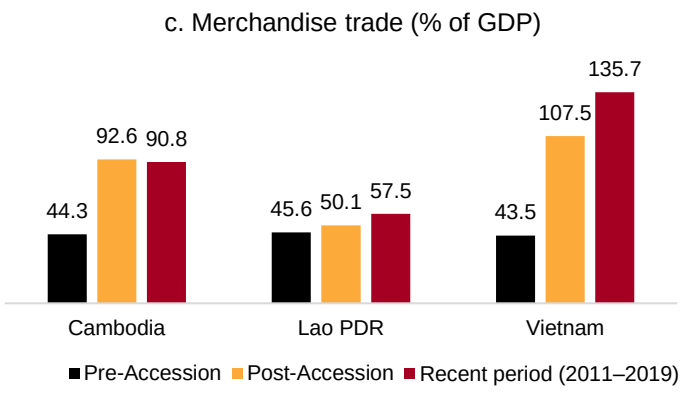
Lessons from ASEAN's late entrants

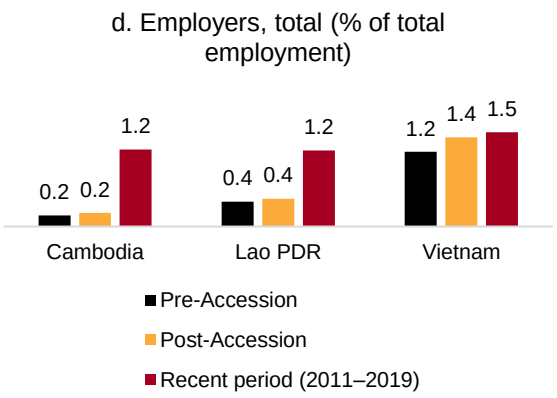
The experience of ASEAN's late entrants shows that similar starting conditions can lead to sharply different outcomes. Vietnam (1995), Lao PDR (1997), and Cambodia (1999) all entered ASEAN with low-income levels, limited export bases, and weak institutions. Their post-accession trajectories have diverged markedly (Figure 3.9), although ASEAN membership did not, by itself, trigger automatic growth breaks. Instead, success depended on domestic policy choices. Early and aggressive improvements in trade facilitation and investor services led to stronger and more sustained gains than relying solely on tariff preferences.

Figure 3.9: ASEAN late entrants experienced different pre- and post-accession outcomes



[19] The Timor-Leste ASEAN Accession Roadmap is now the primary reference framework for Timor-Leste's integration commitments. It consolidates and builds on the earlier Timor-Leste ASEAN Mobilization Plan (TLAMP) and Critical Elements of Accession (CEA), incorporating the findings of the ASEAN Fact-Finding Mission Report conducted as part of the accession process. Where this report references the TLAMP or CEA, these should be understood as foundational inputs to the roadmap.





Source: World Bank. 2025. World Development Indicators. https://databank.worldbank.org/source/world-development-indicators
Note: Comparison periods are: for Cambodia, pre-accession (1990–99), post-accession (2000–10), and recent period (2011–19); for Vietnam, pre-accession (1986–95), post-accession (1996–2007), and recent period (2007–19); and for Lao PDR, pre-accession (1990–97), post-accession (1998–2010) and recent period (2011–19). Employers, defined as individuals working for themselves with one or more partners in their own business, who hire employees, typically represent a small percentage of total employment.

Cambodia: Operational border reforms trigger rapid export growth

The case of Cambodia shows how prioritizing operational border reforms can trigger rapid export growth, even with weak institutions. Despite weak initial capacity and fragile institutions, Cambodia prioritized operational reforms that reduced trade costs and enabled integration into global value chains. Operational improvements, rather than tariff preferences alone, were decisive: customs clearance times fell from 5.9 days in 2010 to 1.4 days by 2014, while physical inspections declined from 29 percent to 17 percent of shipments, reflecting effective risk-based border management (World Bank 2016). ASEAN Single Window interoperability, achieved in 2019; customs automation through the Automated System for Customs Data (ASYCUDA) World platform; and one-stop investment facilitation at the Council for the Development of Cambodia reinforced these trends. These reforms were associated with a sharp and sustained rise in FDI, with net inflows increasing from 3.9 percent of GDP prior to accession to 5.2 percent post-accession, reaching 9.5 percent on average during 2011–19 (Figure 3.9b). FDI volumes rose from US$124 million in 1993 to US$600 million by 2007 and US$1.4 billion by 2012 as improved predictability and lower trade costs strengthened investor confidence (UNCTAD 2024).

This export- and FDI-led expansion was accompanied by a pronounced rise in new firms. The proportion of employers increased from about 0.2 percent of total employment pre-accession to roughly 1.2 percent on average during 2011–19, indicating rapid entry and scaling of formal firms in export-oriented manufacturing. As a result, the export response was large and employment-intensive but highly concentrated in a single sector. Merchandise exports expanded from 44.3 percent of GDP before accession to 92.6 percent afterwards, overwhelmingly driven by garments, textiles, footwear, and travel goods. By 2019, these sectors were generating US$9.3 billion in exports, accounted for about 70 percent of merchandise exports, and supported more than 800,000 formal jobs, largely for young women earning wages above agricultural income levels (Ministry of Industry and Handicraft, Cambodia 2020; ILO and IFC 2021).

Cambodia's growth outcomes mirrored this transformation. GDP grew by 8.6 percent per year on average during 2000–19, compared with 2.2 percent annually prior to accession. Yet Cambodia's experience also highlights a key risk: because diversification reforms lagged, the economy remained heavily reliant on a single sector—garments and textiles. This concentration increased the economy's vulnerability to external shocks. When preferential access to the European Union under the Everything but Arms scheme was partially reduced in 2020, higher tariffs on some exports placed pressure on the

garments sector. This episode illustrates how dependence on a single sector and a narrow export base can translate into economic vulnerability when external conditions change.

Vietnam: Deep domestic reforms drive shift to high-value manufacturing

Vietnam's experience demonstrates how combining trade opening with deep domestic reforms can drive a shift from commodities to high-value manufacturing. The country's merchandise trade expanded from about 40 percent of GDP in the decade before ASEAN accession to exceed 100 percent in the decade after (Figure 3.9c). Net FDI inflows increased from 3.6 percent of GDP pre-accession to 5.3 percent post-accession and then remained elevated at 4.9 percent on average during 2011–19. At the firm level, these macro gains were reinforced by a measurable expansion in employer activity. The share of employers rose from an already high base of about 1.2 percent of total employment pre-accession to nearly 1.5 percent on average during 2011–19. Vietnam's export structure shifted decisively toward manufacturing, with manufactured goods accounting for approximately 85 percent of merchandise exports by the mid-2010s. Consistent with these changes, growth performance remained stable: annual GDP growth averaged 6.2 percent before ASEAN accession (1986–95), 7.2 percent between ASEAN and WTO accession (1995–2007), and about 6.4 percent during 2007–19, despite repeated global shocks (NSO 2024).

Importantly, these outcomes were not automatic. Following ASEAN accession in 1995 and WTO membership in 2007, Vietnam implemented sustained reforms to its trade policy, investment governance, competition policy, and intellectual property to meet regional and multilateral commitments (CIEM 2013). Customs automation and port modernization reduced logistics costs and enabled deeper participation in regional production networks (OECD 2020). Progressively strengthened investment governance—through transparent procedures, time-bound approvals, and consistent application of rules—improved regulatory predictability for firms. Vietnam also expanded market access beyond the ASEAN regional bloc through bilateral and plurilateral agreements, reinforcing investor confidence and supporting large-scale expansion in garments, footwear, and electronics (WTO 2021; World Bank 2022).

Lao PDR: Implementation delays limit structural transformation

The case of Lao PDR illustrates how ASEAN accession can lead to steady growth but only limited structural transformation. Annual GDP growth averaged 6.4 percent prior to accession (1990–97) and strengthened to about 7.2 percent during 2011–19 (Figure 3.9a), as regional access improved and investment expanded, particularly in hydropower and mining (World Bank 2019; IMF 2023a). The composition of growth changed little, however. Merchandise trade increased only gradually, from about 45 percent of GDP pre-accession to roughly 50 percent post-accession, reaching about 60 percent on average during 2011–19, well below Vietnam's post-accession trajectory. FDI followed a similar pattern of increase without transformation: annual inflows averaged 6.3 percent of GDP during 2011–19 but remained concentrated in capital-intensive resource sectors. These constraints are reflected in weak firm dynamics. The share of employers in total employment rose only marginally—from about 0.4 percent pre-accession to just under 0.5 percent post-accession, before increasing in the 2011–19 period.

These outcomes reflect persistent reform implementation gaps. On trade facilitation, Lao PDR lagged its peers: the national single window was only completed in 2020, five to eight years after Cambodia while customs clearance in Lao PDR continued to take 4–5 days through the mid-2010s, compared with 1.4 days in Cambodia. As a result, trade costs remained high, imposing penalties equivalent to tariffs of 10–30 percent and undermining export competitiveness (World Bank 2020a; OECD and WTO 2022). At the same time, heavy fiscal reliance by Lao PDR on trade taxes—around one-fifth of government revenue at accession—reduced incentives for rapid liberalization. Limited administrative

capacity weakened investment predictability, constraining FDI inflows for Lao PDR to about US$1.1 billion annually during 2010–19, compared with US$2.8 billion in Cambodia, despite a similar population size. Consequently, Lao PDR's manufacturing exports remained limited at 8–12 percent of total exports, compared with about 78 percent in Cambodia and 85 percent in Vietnam, leaving the economy's growth concentrated in resource sectors with limited benefits for employment (World Bank 2023d; ILO 2019).

When regional integration fails: Lessons from MERCOSUR and SADC

Experience beyond the ASEAN membership shows that regional integration generates limited gains when legal commitments are not backed by credible enforcement and sufficient operational capacity. Outcomes among MERCOSUR and SADC countries illustrate how shallow enforcement mechanisms and weak support for implementation yield modest benefits, especially for economies with institutional constraints and narrow export bases. The examples of República Bolivariana de Venezuela (accession to MERCOSUR in 2012), Bolivia (MERCOSUR protocol signed in 2015 and completed in 2024), the Democratic Republic of Congo (accession to SADC in 1997), and Madagascar (accession to SADC in 2005), share relevant structural features. All faced high commodity dependence and required sustained institutional upgrades to translate commitments into real outcomes.

MERCOSUR: Accession without enforcement

República Bolivariana de Venezuela's accession to MERCOSUR demonstrates how weak enforcement can undermine integration. In the period before accession (2000–12), República Bolivariana de Venezuela grew by 4.8 percent per year on average (WDI). Yet, after joining, its real GDP contracted by 3.9 percent per year from 2013 to 2019, with cumulative output losses exceeding 60 percent by 2020 (IMF 2020; World Bank 2023d). Non-oil exports fell by about 70 percent over the same period and FDI inflows collapsed (UNCTAD 2016; UNCTAD 2020). These results largely reflect sustained noncompliance with MERCOSUR rules—including price controls, foreign exchange restrictions, import licensing, and deviations from the common external tariff. MERCOSUR's institutional weaknesses—notably, limited monitoring and the absence of credible sanctions—failed to prevent divergence, culminating in República Bolivariana de Venezuela's suspension from the trade bloc in 2016 (MERCOSUR Council 2016; Bouzas and Zelicovich 2017).

Bolivia's accession process shows how indefinite timelines weaken the ability of accession to act as a reform anchor. Although Bolivia signed its accession protocol in 2015, the process only concluded in 2024. Tariff and regulatory convergence remained partial throughout, with ongoing issues including continued import bans, export restrictions, and slow alignment of customs, sanitary and phytosanitary (SPS) standards, and technical regulations (WTO TPR 2017). This aligns with global evidence showing that without strong monitoring, countries implement only about half of binding commitments within five years (Hofmann, Osnago, and Ruta 2017; World Bank 2023a). Intra-MERCOSUR trade remained less than 15 percent of Bolivia's total trade as of 2023—essentially unchanged from pre-accession levels (UN Comtrade 2023; IDB 2022).

SADC: Limited economic returns under shallow integration and weak enforcement

The experience of SADC shows that trade protocols deliver limited gains when enforcement is voluntary and support for implementation is limited. The SADC Protocol on Trade came into force in 2000 with the aim of eliminating tariffs and creating a free trade area by 2018, but progress has been slow and uneven owing to weak supranational authority, limited monitoring, and large capacity disparities (Qualmann 2000; SADC 2018a; Byiers and all, 2016). Implementation has slipped more than a decade because of weak monitoring and limited support for customs modernization (SADC Secretariat 2018).

With few instruments to address non-implementation, customs reforms and regulatory convergence have advanced only slowly.

The example of the Democratic Republic of Congo illustrates how limited administrative capacity reduces the benefits of accession. The Democratic Republic of Congo joined SADC in 1997 in a state of conflict and institutional collapse—its GDP had contracted 39 percent during 1990–97 and export capacity had deteriorated sharply (World Bank 2023d). Although annual GDP growth averaged 4.7 percent post accession (1998–2019), improvements in trade facilitation during this period were minimal. Customs clearance times remained eight to 12 days through the mid-2010s, far above the East African Community average of three to four days. Intra-SADC exports remained less than 10 percent of the Democratic Republic of Congo's total trade (UNCTAD 2019).

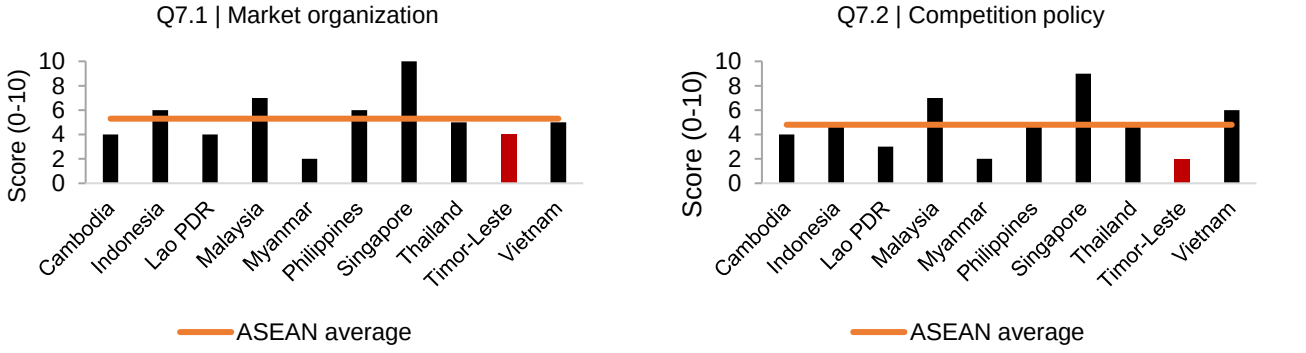
Madagascar's experience illustrates the limited role of shallow integration frameworks during political shocks. After the country joined SADC in 2005, the 2009 Madagascar crisis led to its suspension and it also lost African Growth and Opportunity Act eligibility, contributing to a GDP contraction of 3.7 percent and a 70 percent fall in textile exports (SADC 2009; World Bank 2023d). Manufacturing remained stagnant, at about 10–11 percent of GDP (IMF 2019). As with those of MERCOSUR, SADC review mechanisms had no authority to enforce compliance or prevent reversals, offering little impetus to fully implement reforms (SADC 2023).

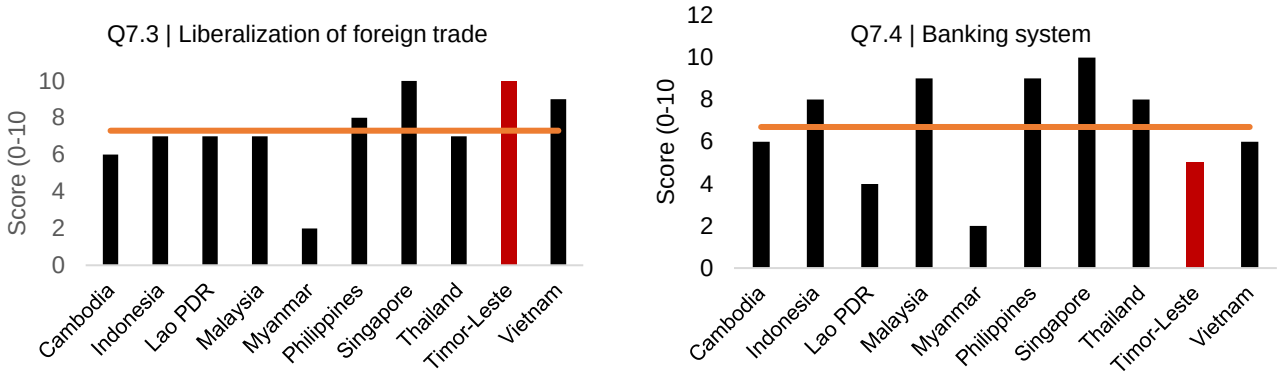
Region-wide indicators confirm this pattern. Intra-SADC trade remains about 20 percent of the trade bloc's total exports, and is heavily concentrated within the Southern African Customs Union, with limited spillovers to lower-income members (World Bank 2020b; SADC Secretariat 2019). Border inefficiencies, logistics bottlenecks, and regulatory fragmentation continue to generate trade costs equivalent to tariffs of 10–30 percent ad valorem, frequently offsetting tariff preferences (OECD and WTO 2022; UNCTAD 2023). Progress depends largely on national political will and donor-funded projects rather than binding regional mechanisms.

3.4. How Ready Is Timor-Leste for ASEAN Integration?

Assessed against the benchmark established in section 3.2, Timor-Leste enters ASEAN with strong legal and policy foundations, positioning it for a faster transition from commitments to outcomes. Over the past decade, it has broadly aligned its core laws, strategies, and policy commitments with ASEAN disciplines. In contrast, Cambodia, Vietnam, and Lao PDR only established many of these well after their accession.

Figure 3.10: Timor-Leste lags its ASEAN economic peers in trade facilitation measures
(Bertelsmann Transformation Index)





Source: BTI (Bertelsmann Transformation Index). 2024. The 2025 BTI Transformation Index. Gütersloh: Bertelsmann Stiftung. https://bti-project.org/en/
Note: The Bertelsmann Transformation Index measures the quality of governance, policy frameworks, and institutional capacity supporting market-based development. Scores are inverted so that higher institutional performance corresponds to a larger distance from the center. Timor-Leste is highlighted in red.

Key trade facilitation systems are in place, but the regional frontier has moved. Timor-Leste deployed ASYCUDA World in 2021 and launched the Timor-Leste Trade Information Portal in 2024, ahead of other late entrants when at this stage. Cambodia operationalized its national single window only in 2014–17, more than 15 years after accession in 1999; Lao PDR's national single window became functional around 2020. Systems such as ASYCUDA, once considered cutting edge, are now considered baseline infrastructure, however. ASEAN's current agenda has shifted toward next-generation integration, including the forthcoming DEFA, cross-border paperless trade, application programming interface-based data exchange, real-time risk management, interoperable digital payments, and trusted digital identity. Accordingly, the strategic task for Timor-Leste is not to replicate earlier reform paths but to leapfrog to ASEAN's digital standards for the 2020s, particularly full interoperability with the ASEAN Single Window and more data-driven border management. This gap remains material: Timor-Leste scored only 27.8 percent on the cross-border paperless trade sub-index in the United Nations (UN) Global Survey on Digital and Sustainable Trade Facilitation (ESCAP 2025**)** well below most of its ASEAN peers.

The same shift applies to services, investment, and regulation of standards. Cambodia, Vietnam, and Lao PDR acceded before ASEAN's modern frameworks were established—ATISA came into force only in 2021—requiring prolonged post-accession adjustment. Timor-Leste enters ASEAN with these frameworks already in place, but implementation now hinges on digital-ready delivery systems rather than legal alignment alone. This will involve electronic licensing, digital investor services, online verification of professional qualifications, and automated standards compliance. Similarly, Timor-Leste aligned its legal framework on SPS with WTO and ASEAN standards in 2025—an alignment that Cambodia and Lao PDR achieved only gradually during the 2000s. Yet current ASEAN practice increasingly relies on digital SPS certificates, electronic traceability, and real-time data sharing.

Despite this progress, implementation gaps could remain the main constraint to Timor-Leste capturing ASEAN integration benefits. Firms continue to face slow, fragmented, and sometimes unpredictable public services at the border, in licensing, and across regulatory processes. Evidence from the Bertelsmann Transformation Index (BTI) indicates that Timor-Leste lags most ASEAN peers in market-enabling institutions—particularly in market organization, competition policy, and the banking system—which are central to trade facilitation and investor confidence (Figure 3.10).

Institutional performance is therefore uneven across domains. Timor-Leste performs relatively strongly on core state functions, with BTI 2024 scores of 9.0 for political stability and 8.3 for state authority. Yet the areas that determine how markets function in practice—regulatory quality, rule of law,

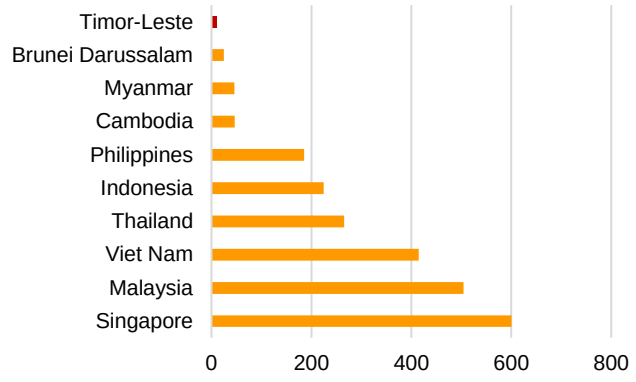
property rights protection, service delivery, and dispute resolution—remain weaker. The largest gaps are concentrated in implementation-intensive functions, notably market organization, competition policy, and financial intermediation (Figure 3.10). This pattern closely mirrors the institutional profile of other late entrants to ASEAN at the time of their accession. Cambodia's governance score in 1996 was 35.4 out of 100, while that of Lao PDR in 1998 was 32.4 out of 100—both comparable to, or weaker than, Timor-Leste's current standing. Both of these countries proceeded with ASEAN membership while treating institutional strengthening as a central reform priority.

In summary, Timor-Leste has largely completed the legal groundwork for ASEAN membership but now enters the more demanding phase of institutional delivery. As the experiences of Cambodia, Vietnam, and Lao PDR suggest, this is where the largest gains from ASEAN membership are realized—and where reform momentum needs to be sustained. This section identifies the core reform pillars that can help translate ASEAN commitments into measurable competitiveness gains. Annex 4 provides further details.

Trade facilitation and border performance: The priority for immediate returns

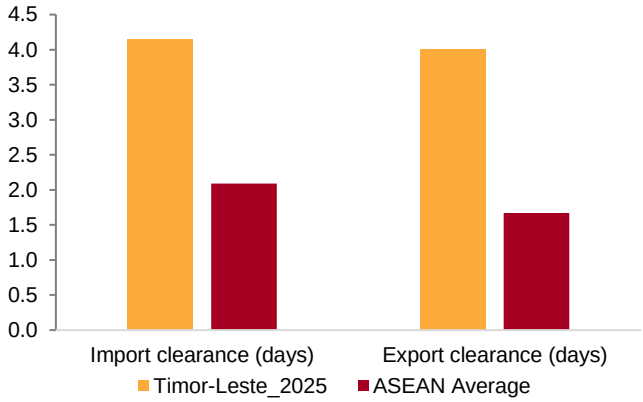
Border performance is the area where ASEAN accession offers the most immediate and highest returns. Timor-Leste has made tangible progress in trade facilitation, cutting the average time needed to clear imports through customs to 4.15 days, as noted above. The improvements do not extend across all border agencies, however, and coordination gaps persist.

Figure 3.11: Timor-Leste remains poorly integrated into global shipping networks
(Liner Shipping Connectivity Index)



Source: UNCTAD (United Nations Conference on Trade and Development). 2024. Liner Shipping Connectivity Index. Geneva: UNCTAD.
Note: The Liner Shipping Connectivity Index score from the United Nations Conference on Trade and Development (UNCTAD) measures a country's integration into global shipping networks. A higher index score means easier, cheaper trade; a lower score suggests less connectivity, potentially higher costs, and reliance on transshipment.

Figure 3.12: Import and export clearance times remain above ASEAN benchmarks



Source: Time Release Study country reports (2019–2023) Singapore (2022), Malysia (2021), Thailand (2022), Vietnam (2022); Philippines (2023), Indonesia (2022), Cambodia (2019), Lao PDR (2019) World Bank Group, Trade Facilitation Support Program Annual Report FY24; Timor-Leste Customs, Time Release Study – Tibar Port (2025)

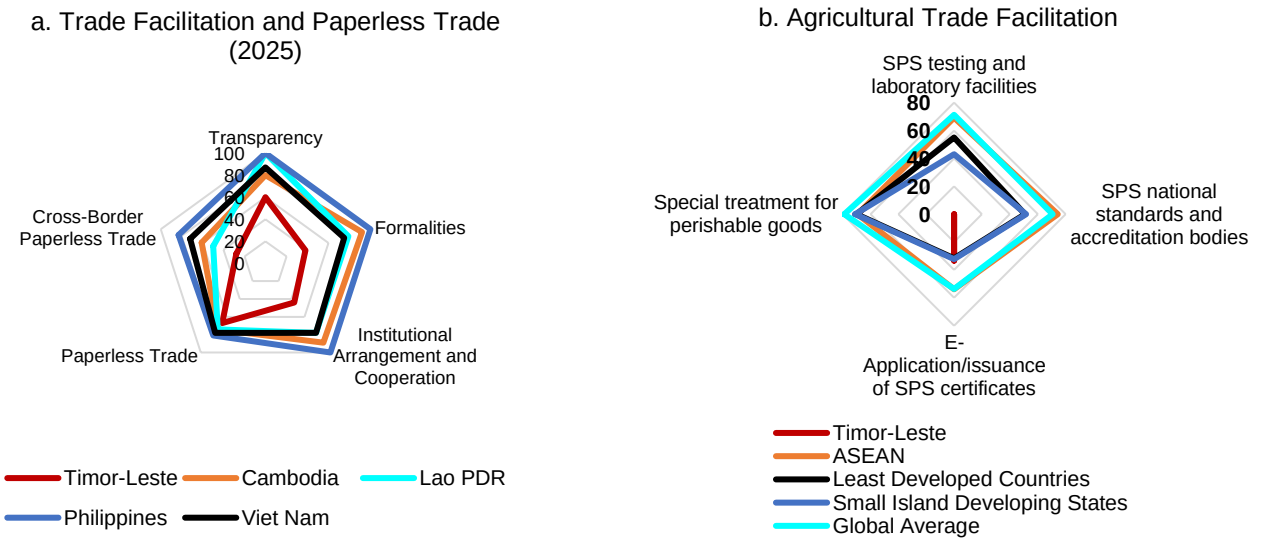
Note: Time Release Studies follow the World Customs Organization methodology and measure actual clearance performance at selected ports, airports, and border posts. While the study data are not perfectly harmonized across countries, they provide the most operationally meaningful comparison of customs efficiency within the Association of Southeast Asian Nations (ASEAN) regional bloc.

Sustaining and extending recent improvements will require continued attention to institutional capacity and interagency coordination. In particular, the country will need to mitigate risks to the Timor-Leste Trade Information Portal related to staff turnover and the scheduled end of external hosting

(MCI 2025; World Bank 2025b). Key WTO Trade Facilitation Agreement measures such as risk management and post-clearance audit will also need to be operationalized (ESCAP 2025). The ongoing transition of the National Trade Facilitation Committee toward more effective, higher-level coordination would benefit from further consolidation to strengthen implementation and inter-agency coherence (World Bank 2025b).

High trade and logistics costs continue to reduce competitiveness. Despite improvements, import and export clearance times remain well above ASEAN norms (Figure 3.12) reflecting gaps in customs automation, risk-based inspections, and prearrival and electronic processing systems. These constraints limit firms' ability to integrate into regional value chains and participate in time-sensitive markets. Global evidence shows that trade facilitation reforms can cut clearance times by several days and reduce trade costs by 10–15 percent or more; full implementation of the WTO Trade Facilitation Agreement[20] is estimated to lower trade costs by about 14 percent for low-income countries (WTO 2015; OECD 2018).

Figure 3.13: Timor-Leste lags its ASEAN peers on digital and agricultural trade facilitation measures



Source: ESCAP 2025.
Note: SPS = sanitary and phytosanitary. Scores range from 0 to 100, where 100 represents full implementation of the relevant trade facilitation measure. Higher scores indicate stronger performance. SPS = sanitary and phytosanitary. Lao PDR = Lao People's Democratic Republic.

Infrastructure upgrades alone will not generate trade. Despite major investments in port capacity, trade volumes remain modest, indicating that the most binding constraints now lie behind the border, particularly in product quality, standards compliance, market intelligence, and firm capabilities. Evidence from small and remote economies shows that maritime connectivity largely responds to export scale rather than acting as an independent engine of trade growth (Fugazza and Hoffmann 2017; UNCTAD 2019). Consistent with this pattern, Timor-Leste ranks lowest among ASEAN members on the Liner Shipping Connectivity Index (Figure 3.13 a) reflecting limited liner services and continued reliance on transshipment. Comparative indicators show that Timor-Leste's main gaps lie in paperless trade, cross-border data exchange, and coordinated border management (Figure 3.13 b) with relatively low scores in cross-border formalities (37.5 percent) and the cross-border paperless trade sub-index (27.8 percent) in the UN Global Survey on Digital and Sustainable Trade Facilitation.[21] Closing these behind-the-border

[20] https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2013/December/WTO-Trade-Facilitation
[21] The UN Global Survey on Digital and Sustainable Trade Facilitation is jointly conducted by the UN Regional Commissions and UNCTAD—assesses the implementation of 62 trade facilitation measures across more than 180 economies worldwide. The Survey benchmarks progress in reducing the time and cost of cross-border trade, covering measures under the WTO Trade Facilitation Agreement as well as emerging

gaps offers Timor-Leste some of the highest-return opportunities to reduce trade costs and improve reliability.

The reform focus now needs to shift from infrastructure provision to export readiness. Strengthening coordinated border management, expanding paperless trade and cross-border data exchange, and deepening firm-level export readiness would help reduce logistics costs and improve reliability. Focused improvements in these operational areas—where the remaining gaps are widest—could generate relatively quick wins and enable Timor-Leste to maximize the benefit from its upgraded trade gateway and progressively integrate into regional value chains.

Standards and digital systems: Unlocking market access in practice

Standards and digital systems determine whether improvements in border processes translate into export growth and investment. Firms cannot compete in ASEAN markets unless they can demonstrate compliance with SPS and TBT requirements and transact through credible digital channels.[22] Under ASEAN SPS/TBT and digital economy frameworks, market access is driven less by tariff preferences and more by the availability of accredited laboratories, inspection and certification services, electronic documentation, and secure data exchange (ASEAN Secretariat 2024; World Bank 2020c).

Timor-Leste has made progress in strengthening its legal SPS framework but lacks operational capacity. Ministerial Diploma Nos. 41/2025 and 42/2025—regulating the import and transit of animals and plants—completed the alignment of the legal SPS framework with WTO and ASEAN standards in late 2025. Internationally recognized testing and certification facilities remain limited (Rezza et al. 2024), however, preventing businesses in priority sectors such as coffee, fisheries, seaweed, and higher-value agriculture from scaling up exports beyond niche markets (European Union 2025). In the UN Global Survey on Digital and Sustainable Trade Facilitation (ESCAP, 2025)Timor-Leste scored zero for both SPS testing and laboratory facilities, and SPS national standards and accreditation bodies, against an average of 69.2 among ASEAN members (Figure 3.13. b).

A lack of digital readiness compounds these constraints. ASEAN's digital economy agenda has advanced significantly, and the forthcoming DEFA—which builds on the e-ASEAN Framework Agreement and the 2021 ASEAN Agreement on Electronic Commerce—requires legal recognition of electronic transactions; data protection; cybersecurity; and cross-border paperless trade systems. Timor-Leste's performance on cross-border paperless trade stands at just 27.7 percent well below the average of 63.2 percent of ASEAN members. average of 63.2 percent (Figure 3.13. a). Gaps relate primarily to electronic documentation, data exchange, and integrated border processes that are essential for the ASEAN Single Window and modern trade facilitation (ESCAP 2025). Digital adoption at the firm level is equally limited, narrowing the pipeline of export-ready enterprises. According to the Asian Development Bank Annual Survey of Micro, Small, and Medium Enterprises (ADB, 2026), only 8.0 percent of firms operate through e-commerce and just 10.2 percent participate in international trade—a small base that constrains Timor-Leste's ability to capture the full-scale benefits of ASEAN market integration.

Ongoing reforms provide a credible platform to address these constraints, but their payoff will depend on focused and sustained implementation. Initiatives such as Timor Digital 2032, the national e-commerce agenda, the rollout of the ASYCUDA World platform, and the planned national single window are broadly aligned with ASEAN's operational requirements. Translating this alignment into tangible progress will require disciplined execution—particularly targeted investment in SPS/TBT

regional and global initiatives on paperless and digital trade, including the Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific.

[22] Appendix 2: milestones for Timor-Leste's accession to the ASEAN economic agreements and instruments.

infrastructure for priority value chains, completion of the legal and technical framework for electronic transactions and data protection, and stronger interoperability across border agencies. Timor-Leste's planned ASEAN Chairmanship in 2029 increases the urgency of closing these gaps, even as it adds to capacity pressures. Accelerating digital trade reforms—especially in paperless trade, cross-border data exchange, and cybersecurity—will be essential, with careful sequencing needed to balance Chairmanship preparations against the demands of broader integration commitments.

Services and investment governance: Predictability and competitive neutrality

Despite improvements in transparency, Timor-Leste's weak implementation of investment climate reforms remains a barrier to attracting diversified investment and creating jobs. Progress in one-stop shops for investors, the Timor-Leste Trade Information Portal (launched in April 2024), and Tibar Bay Port operationalization have yet to translate into predictable, low-cost services for firms. Business registration and licensing remain largely manual; post-investment aftercare is limited; competition law and enforcement are absent; land tenure disputes delay projects; and commercial and tax disputes often take years to resolve (U.S. State Department 2025). Major investments have faced prolonged waits for approvals, discouraging time-sensitive ventures. The widest gaps are in institution-intensive areas: competition policy (B-READY score: 15.28), financial services (29.65), taxation (27.42), and dispute resolution (34.20)—leaving Timor-Leste 20–45 points below its regional peers (Table 3.4). As a result, firms face slow, manual, and unpredictable processes, generating costs that easily cancel out the advantages of open market access.

Table 3.4: Investment Climate Distance-to-Frontier—Timor-Leste versus ASEAN

Dimension	Timor-Leste	ASEAN average*	ASEAN compliance priority
Overall B-READY score	36.19	61.85	Comprehensive reform anchor
Regulatory Framework	42.78	66.20	ACIA/ATISA legal alignment
Public Services	24.20	55.88	Digital government; trade infrastructure
Operational Efficiency	41.58	63.48	Predictable implementation
Critical gaps:			
Market Competition	15.28	50.47	ACIA competitive neutrality; SOE disciplines
Financial Services	29.65	74.30	ATISA liberalization; payment systems
Taxation	27.42	59.05	Digital filing; e-commerce VAT
Dispute Resolution	34.20	54.56	ACIA investor protection; contract enforcement
International Trade	40.35	60.56	ATIGA customs automation; single window

Source: World Bank. 2025a. Business Ready 2025. Washington, DC: World Bank. https://www.worldbank.org/en/businessready
Note: * ASEAN average excludes Timor-Leste and is calculated across the ten other ASEAN member states for which B-READY data are available. ACIA = ASEAN Comprehensive Investment Agreement; ATIGA = ASEAN Trade in Goods Agreement; ATISA = ASEAN Trade in Services Agreement; SOE = state-owned enterprise; VAT = value added tax.

Lack of competitive neutrality and credible dispute resolution remain binding constraints. Market dominance by SOEs,[23] inadequate regulatory frameworks, and the lack of enforcement of competition frameworks are all barriers to private sector entry and expansion. These constraints are reinforced by weak dispute resolution, where Timor-Leste scored 34.2 on the B-READY assessment—well below the ASEAN average of 54.6 (Table 3.4). Businesses in Timor-Leste face long case resolution times, limited commercial court specialization, weak enforcement, slow and uncertain appeals, and limited use of alternative dispute resolution. Gaps in digital case management and transparency further increase transaction costs and legal uncertainty.

[23] US State Department (2024, 2025). Most SOEs operate as monopolies in their respective sectors.

ASEAN commitments could help Timor-Leste provide credible, consistent regulatory delivery for investors. ATISA (services) and ACIA demand transparent procedures, nondiscrimination, predictable licensing, and credible investor protection, which require reliable institutions and enforceable decisions (ASEAN Secretariat 2024). As such, the commitments that come with ASEAN accession could help drive improvements by providing discipline over competitive neutrality, and anchoring reform to regional requirements.

Labor mobility: Building skills for regional integration

Labor mobility through ASEAN accession can support jobs and skills, but only if Timor-Leste builds domestic institutions to enable such mobility. In this context, labor mobility is best understood not as a strategy for exporting labor, but as a reform aimed at building domestic growth and human capital that can strengthen the economy if implemented carefully. Well-managed regional mobility can ease domestic labor market pressures, increase returns to education and skills, and generate learning, remittances, and skills transfers that will translate into improved productivity and service quality at home. For Timor-Leste—where private sector job creation remains limited and skills mismatches persist—regional mobility can offer workers opportunities to acquire experience and technical skills they would currently struggle to gain at home, while reducing underemployment in the short term. These gains are not, however, automatic: ASEAN labor mobility frameworks are institution-intensive, relying on robust national systems for qualifications, competency assessment, professional licensing, and worker protection (ASEAN Secretariat 2015a; ADB and MPI 2017).

Labor mobility therefore needs to be positioned as a second-wave reform that complements domestic job creation. Initial efforts can focus on a small number of occupations aligned with existing migration pathways and clear regional demand, where standards and governance can be established quickly. Priority actions include defining minimum competency standards aligned with ASEAN benchmarks, strengthening transparent and rules-based licensing procedures (ILO and IOM 2025), and building credible worker protection and grievance mechanisms (World Bank 2023 a); ILO 2022). As these systems mature, Timor-Leste will find itself better placed to engage in bilateral or ASEAN-compatible labor arrangements that support skills portability, certification recognition, and worker safeguards—allowing labor mobility to reinforce human capital accumulation, service quality, and long-term domestic growth.

Institutional coordination and sequencing: The first-mile enabler

Strong institutional coordination will be key to accelerating Timor-Leste's ASEAN integration. ASEAN integration relies on coordinated, cross-agency delivery systems rather than isolated legal reforms, requiring progress to be synchronized across customs, services regulation, standards, digital systems, and labor mobility in line with ASEAN timetables and peer review mechanisms. UN indicators show that Timor-Leste scores 60 percent on the institutional trade cooperation sub-index of the UN Global Survey on Digital and Sustainable Trade Facilitation (ESCAP 2025) At the same time, full ASEAN participation will substantially increase coordination demands, raising the volume, technical complexity, and interdependence of reforms. In the case of Cambodia, ASEAN's complex and multilayered regional integration processes increased the coordination challenges for the country at the time of its accession (European Commission 2017).

Timor-Leste has established initial arrangements to support ASEAN coordination, which can be further strengthened as implementation deepens. The Council of Ministers' approval of Government Resolution No. 15/2024 on the Coordination Mechanism for ASEAN Accession—reflected in the draft National Roadmap for the Implementation of Timor-Leste's ASEAN Economic Community Commitments, 2026–2030— provides an important institutional foundation for coordinating ASEAN-related reforms. As

Timor-Leste transitions from accession preparation to post-accession implementation, these arrangements are increasingly being integrated into the government's broader ASEAN implementation framework, Experience from other regional integration processes suggests that as implementation advances, coordination arrangements tend to be more effective when institutionalized gradually and supported by dedicated technical capacity. In several ASEAN member states, including Cambodia and Vietnam, this approach has involved the use of small coordination teams, clear tracking of commitments, and structured reporting to senior levels of government, helping to maintain continuity across reform cycles (ASEAN Secretariat 2015a; World Bank 2023a). Further strengthening of Timor-Leste's existing coordination arrangements—through clearer focal points, enhanced technical support, and senior-level oversight—could support more consistent sequencing and follow-through.

3.5. How Timor-Leste Can Manage the Risks of Integration

The benefits of ASEAN integration will only be felt if adjustment risks are actively managed. As the examples discussed above show, this is especially the case for late-entry, lower-capacity economies. For Timor-Leste, the key policy challenge will be managing the institutional and political–economy risks that accompany deep integration. These risks can be divided into three categories, detailed below.

Risk 1: Domestic firms may face competition before they are ready

Because Timor-Leste already has a very open trade regime, the main ASEAN risk is competitiveness, not tariffs. As its average applied most-favored nation tariff is about 2.5 percent, ATIGA will only marginally increase import competition, leaving domestic firms with limited additional exposure. The greater pressure will come from higher regional benchmarks: domestic services and other non-tradable sectors will face stronger competition; higher-quality imports may gain market share in selected products; and lower trade costs could displace low-productivity suppliers.

The policy implication is clear: the reform agenda needs to prioritize domestic supply-side strengthening rather than tariff management. Building firm capabilities, improving logistics connectivity, and expanding access to finance for sectors with credible export potential will be central to improving competitiveness. Experience from other late ASEAN entrants confirms this pattern. Where liberalization was paired with improvements in border efficiency, investor services, and firm-level support, countries such as Cambodia and Vietnam attracted FDI and expanded exports; where complementary reforms lagged, supply responses remained weak (World Bank 2016; ILO 2019).

Timor-Leste can manage adjustment risks by using existing policy tools to strengthen domestic firms ahead of deeper integration. Targeted support for small and medium enterprises—focused on access to finance, business services, and technology adoption—can raise productivity in sectors such as coffee, fisheries, and agro-processing. Stronger linkages between foreign investors and local suppliers can further support skills transfer and market access. At the same time, simpler business registration, lower compliance costs, and vocational training aligned with priority value chains can help firms upgrade and compete. Given Timor-Leste's already low average applied tariff of about 2.5 percent, the main adjustment challenge is not tariff exposure but supply-side readiness. The priority is to ensure that domestic firms can meet regional standards, access export markets, and compete on quality and reliability.

Policy efforts would therefore benefit from greater emphasis on building firm capabilities and reducing behind-the-border costs. Sequencing these measures before, or alongside, the most sensitive tariff changes—while continuing reforms in customs, logistics, and investor services—will

increase the likelihood that ASEAN integration supports stronger domestic production, export growth, and job creation, rather than firm displacement.

Risk 2: Tariff cuts could create fiscal pressures

Heavy reliance on tariff revenue can slow trade liberalization, but this risk is limited in Timor-Leste. When Lao PDR joined ASEAN, tariffs accounted for about 20 percent of government revenue, creating incentives to maintain border frictions and delay reforms (IMF 2008). In Timor-Leste, the exposure is much smaller: ATIGA would have directly affected import duties of about US$22.5 million as at 2024, roughly 10 percent of domestic central government revenue. By contrast, excise duties and sales taxes collected at the border, which will remain in place under trade liberalization, account for a much larger share of revenue—about US$85 million or 35 percent of revenue as of 2024. Hence the fiscal revenue at risk from ATIGA is modest. Moreover, ASEAN and WTO commitments can support fiscal discipline by encouraging a shift toward consumption-based taxation. With the planned rollout of a value added tax (VAT), revenues are projected to increase from US$77.8 million in 2027 to US$91.9 million by 2030, suggesting that tariff reductions, tax reform, and stronger compliance can be sequenced so that trade integration is fiscally neutral—or potentially positive—over time.

For Timor-Leste, the policy priority is sequencing. Phasing ATIGA tariff reductions alongside the VAT rollout, compliance strengthening, and improved revenue administration would contain short-term losses while expanding the non-oil tax base. Under plausible elasticity assumptions, even partial gains in VAT compliance could offset the full value of current import duty revenues within a few years, turning trade integration into a net fiscal gain (IMF 2023b).

Risk 3: and infrastructure gaps overload the country's capacity for reform

ASEAN integration creates major opportunities, but late entrants only reap the full benefit when their foundations are strong enough to absorb the new market opportunities. Early gains tend to concentrate in sectors and locations with better connectivity and capabilities. Cambodia's export-driven growth generated large employment gains in the garments sector, but these gains remained highly concentrated, while Vietnam's stronger investments in skills, infrastructure, and regulatory preparation helped to spread productivity gains across more sectors (World Bank 2016; ILO 2019). Uneven outcomes are therefore not inherent to integration; they reflect differences in domestic preparedness.

Timor-Leste faces wider challenges in this area than skills gaps alone. Its binding constraints include limited human capital, infrastructure deficits, regulatory bottlenecks, and a constrained business environment. Targeted investments in skills and retraining, infrastructure, regulatory readiness, and social protection will help firms and workers adapt. Strengthening these foundations in parallel with ASEAN commitments can ensure that the growth resulting from integration is more geographically balanced, employment-intensive, and resilient.

Across all three risks, a common success factor emerges: delivery. ASEAN late entrants that aligned trade, fiscal, competition, and human capital reforms under a coordinated implementation platform were better able to adjust, sustain reform momentum, and capture the gains of regional integration.

3.6. A Delivery Framework for Timor-Leste: The Four Ds

Timor-Leste enters ASEAN with solid legal foundations and having made progress in regulatory frameworks. For the next phase, it will need to transform these frameworks into reliable, high-quality services. Recent investments—such as Tibar Bay Port and ASYCUDA World—demonstrate the Timor-

Leste government's ability to deliver operational improvements, with measurable early gains. ASEAN membership offers additional external support and peer learning to accelerate this transition.

To support such a shift, this report proposes a "**Four Ds**" reform framework—encompassing **design, delivery, discipline, and development**—that sets out the concrete steps needed to turn ASEAN membership into growth, jobs, and stronger public finances.

D1: Design—Rules need to be simple, transparent, and usable

Clear, predictable regulations attract significantly more investment than complex, opaque systems. International evidence shows that transparent licensing with published timelines can attract 10–30 percent more FDI (Harding and Javorcik 2013; World Bank 2020c). Cambodia's example illustrates this: a one-stop investment service with a 45-day approval timeline proved highly effective in drawing in investors**.**

Timor-Leste has made good progress on regulatory transparency, especially with the 2024 launch of the Timor-Leste Trade Information Portal. The next step is to ensure that the system works smoothly across the main points where businesses interact with government, such as customs, business licensing, service regulations, product standards, and digital transactions. Over the next two years, the government can consolidate this progress by ensuring that all trade and licensing procedures are clearly published on the Trade Information Portal, with simple step-by-step guidance and firm processing timelines. A focused review of business licenses and required documents, starting with high-impact areas like business registration, import permits, and key sector approvals, would help remove unnecessary steps that currently burden small and medium enterprises. Improving these practical processes will be essential to translate ASEAN integration into lower costs and real opportunities for firms.

D2: Delivery—Faster processes generate the earliest credibility gains

Quick wins in service delivery build confidence and momentum. Across developing countries, faster and more reliable government services tend to improve investor confidence and support quicker economic gains. Measures such as customs automation, risk-based inspections, and electronic prearrival processing typically reduce trade costs by about 10–15 percent (OECD 2020; World Bank 2020a). Evidence also shows that each day saved in trade processing can increase exports by roughly 1–2 percent (Hummels and Schaur 2013; World Bank 2020c). At Tibar Bay Port, digital tools introduced at opening reduced average cargo release times by nearly 18 hours, demonstrating that meaningful gains are achievable in the Timor-Leste context (World Bank 2024).

With the legal and institutional foundations largely in place, the next phase is to translate these reforms into consistent, user-facing improvements that firms can see and use. The priority now is to build on this base by expanding prearrival processing, strengthening risk-based inspections and post-clearance audit, and making paperless trade and digital services work reliably in practice. Improvements in border efficiency and high-volume business services are likely to deliver some of the fastest and most visible gains of competitiveness.

D3: Discipline—Track progress and hold agencies accountable

Regular monitoring and peer learning help to sustain progress. Governments can more easily maintain momentum when milestones are clear and reporting transparent. ASEAN's quarterly working groups, annual peer reviews, and detailed scorecards provide practical tools for oversight and accountability.

Effective use of ASEAN's monitoring and peer-review mechanisms can help anchor reforms, sustain momentum, and signal credibility. By aligning national reform milestones with these regional processes, the Government of Timor-Leste can draw on peer experience, access targeted technical support, and demonstrate progress to domestic and international stakeholders. Regular public reporting can further reinforce reform momentum. Publishing quarterly cabinet progress updates on priority reforms would strengthen transparency and maintain political focus. At the agency level, service delivery targets need to be clearly linked to measurable performance indicators to strengthen accountability.

D4: Development—Invest in the systems that make reforms work

Targeted capacity building and infrastructure investment help late entrants to achieve regional standards within realistic time frames. Late entrants need targeted investment in skills, systems, and infrastructure to meet regional standards. ASEAN's Initiative for ASEAN Integration provides dedicated support to newer members, including Timor-Leste (ASEAN Secretariat 2024).

Timor-Leste can use development partnership resources most effectively by concentrating on specific operational priorities. These include building accredited testing and certification capacity, starting with a central facility serving priority export sectors (coffee, fisheries, and seaweed) before expanding coverage as demand grows; establishing automated digital customs systems, building on existing ASYCUDA investments; making port infrastructure improvements to complement the recent Tibar Bay Port developments; and implementing certification programs to help small and medium enterprises meet regional standards. Such a focused approach can deliver faster, more visible results that build confidence and create momentum for growth.

Implementing the Four Ds framework: Sequencing and coordination across government

Strategic sequencing aligns reform ambition with capacity. Cambodia and Vietnam made early gains by prioritizing trade facilitation and investor services first, then deepening reforms in standards, services regulation, competition policy, and workforce development (World Bank 2019; OECD 2020). For Timor-Leste, the initial phase of reform can focus on strengthening trade facilitation and investor services—building on the Tibar Bay Port and ASYCUDA World progress—before expanding its focus to encompass broader regulatory and institutional reforms.

Effective coordination across government is equally essential. ASEAN integration cuts across many ministries and cannot be managed through silos. The National Council for ASEAN Chairmanship Preparations, established in February 2026, provides a solid structural foundation. The immediate priority is for Timor-Leste to deploy this structure for implementation, not only to meet its coordination commitments. Concretely, this means making the ASEAN National Secretariat a permanent reform-tracking unit, assigning clear ministerial focal points for each reform area, and operating a shared monitoring system aligned with ASEAN scorecards.

The Four Ds framework is best understood as a domestic reform agenda, not an ASEAN compliance exercise. ASEAN obligations provide structure and external discipline, but the reforms that drive economic impact remain largely under national control. Annex 5 distinguishes between measures required to meet ASEAN commitments and complementary domestic reforms that fall outside ASEAN's legal framework but are essential for results. Progress on both tracks is necessary if ASEAN membership is to deliver sustained gains in competitiveness, investment, and productivity. This distinction also shapes how Timor-Leste can approach its most immediate regional responsibility: chairing ASEAN in 2029.

3.7. Chairing ASEAN in 2029: Opportunity, Risk, and Sequencing Implications

The Four Ds framework gains additional urgency from Timor-Leste's decision to assume the ASEAN Chairmanship in 2029, four years after accession. This effectively sets an implementation deadline that heightens the urgency of reforms. By exercising this right under the ASEAN Charter, Timor-Leste is placing itself on an accelerated regional leadership trajectory. If managed well, the chairmanship can raise the country's visibility internationally, strengthen its agenda-setting influence, and help anchor its time-bound domestic reforms.

Regional experience underscores the importance of early preparation. Vietnam's 1998 ASEAN Chairmanship—held three years after accession—built on more than a decade of Doi Moi reforms and delivered the Hanoi Plan of Action at the Sixth ASEAN Summit (ASEAN Secretariat 1998a; ASEAN Secretariat 1998b). Cambodia's 2002 chairmanship also achieved a major diplomatic milestone, in the Declaration on the Conduct of Parties in the South China Sea, though weaknesses in the country's investment climate and customs persisted (ASEAN Secretariat 2002; World Bank 2008). Myanmar relinquished its scheduled 2006 chairmanship under sustained international pressure and assumed the role only in 2014 following political reforms, demonstrating that chairmanship credibility cannot be separated from the domestic reform record (Renshaw 2013). Lao PDR's 2016 chairmanship produced the ASEAN Economic Community Blueprint 2025 but simultaneously exposed persistent gaps in customs automation and regulatory capacity (ASEAN Secretariat 2016; ASEAN Secretariat 2021). The pattern is clear: when reforms prior to chairmanship deliver visible progress, the role reinforces credibility; when they lag, it magnifies underlying weaknesses.

Timor-Leste has shown strong political commitment to ASEAN, and the next phase will require careful management of implementation capacity. In February 2026, the Council of Ministers established a national council to oversee chairmanship preparations, supported by an executive committee and a permanent ASEAN National Secretariat with sector coordinators (Government of Timor-Leste 2026). Even so, ASEAN Chairmanships typically involve hosting about 500 meetings annually across all levels (TATOLI 2025), which will place significant demands on Timor-Leste's limited administrative resources during the critical 2026–29 window. Managing this workload while sustaining momentum on core economic reforms will be important.

More broadly, accession marks the beginning of an intensive implementation phase. While the legal foundations for integration are largely in place, the economic gains from ASEAN membership will depend on steady, credible delivery. The Four Ds framework offers a practical road map for the country to translate commitments into gains in competitiveness, investment, and jobs. With clear prioritization and strong coordination, Timor-Leste is well positioned to use the 2026–29 window to secure early wins and approach its ASEAN Chairmanship from a position of demonstrable progress.

ANNEXES

Annex 1. Key Indicators

	2020	2021	2022	2023	2024	2025E	2026F	2027F	2028F
Real sector	**(annual percentage change, constant)**								
Gross domestic product (GDP) (non-oil)	-8.5	3.0	4.0	2.4	4.3	4.5	4.1	4.0	4.0
Final consumption expenditure	1.3	0.1	7.0	1.5	3.0	3.6	6.1	7.1	7.3
Gross fixed capital formation	-46.9	-6.1	27.0	11.5	43.7	8.4	8.8	4.7	5.1
Consumer Price Index, period average	0.5	3.8	7.0	8.4	2.1	0.5	2.3	2.1	2.0
Fiscal sector	**(percentage of non-oil GDP)**								
Total revenue	46.4	45.4	43.6	40.7	40.5	43.9	43.0	41.3	38.3
Domestic revenue	12.0	10.3	10.5	13.5	12.9	15.1	16.0	17.0	16.9
Estimated Sustainable Income	34.4	35.1	33.1	27.2	27.7	28.9	27.0	24.3	21.4
Total expenditure	71.5	91.8	103.1	82.1	86.7	93.0	99.7	97.6	93.9
Recurrent expenditure	61.4	82.9	90.9	68.9	68.2	75.3	81.2	79.1	75.9
Capital expenditure	10.1	8.9	12.1	13.1	18.4	17.7	18.4	18.5	18.1
Fiscal balance	-25.1	-46.4	-59.5	-41.4	-46.1	-49.0	-56.7	-56.3	-55.6
Monetary and financial sector	**(as stated)**								
Credit to the private sector (percent growth)	11.2	5.8	33.0	22.0	31.0	14.1			
Lending interest rate (percent)	11.2	10.9	10.7	10.5	10.4	10.4			
Nominal effective exchange rate (index)	103.6	100.8	105.3	107.3	110.0	110.0*			
Real effective exchange rate (index)	120.3	120.3	130.1	140.4	144.0	143.0*			
External sector	**(percentage of non-oil GDP)**								
Current account	30.8	127.0	29.1	-10.7	-31.1	-38.8	-47.0	-52.6	-55.6
Goods and services	17.1	110.5	34.1	-25.9	-52.6	-56.6	-64.3	-70.4	-73.3
Primary and secondary income	13.7	16.5	-5.0	15.3	21.5	17.9	17.3	17.9	17.7
Capital account	0.8	0.8	1.0	0.2	0.1	0.0	0.5	0.4	0.3
Financial account	10.6	10.4	14.0	-29.2	-43.4	-13.1	31.5	32.3	31.3
Direct investment	20.5	14.8	-2.2	-10.6	-11.2	-13.2	-4.0	-4.1	-4.0
Portfolio investment	-10.0	-4.4	16.2	-18.6	-32.2	0.2	36.9	38.2	37.3
Other investment	0.0	0.0	0.0	0.0	0.0	0.0	-1.4	-1.8	-1.9
Net errors and omissions	-21.1	-99.6	-22.2	-21.4	-14.7	29.2	0.0	0.0	0.0
Change in reserves	0.0	17.8	-6.1	-2.7	-2.3	3.5	-1.3	-2.3	-1.8
Memorandum items	**(as stated)**								
Oil production (million barrels of oil equivalent)	36	37	11.7	7	1				
Petroleum Fund, closing balance (US$, billions)	18.99	19.65	17.41	18.25	18.74	18.61			

Source: Ministry of Finance, Timor-Leste. 2025, Ministry of Finance. BCTL (Banco Central de Timor-Leste). World Bank Staff calculations.
Note: Starting from 2019, the balance of payments (BOP) figures include the export and import value from oil activities.
*) data is for Quarter 3 2025

Annex 2. World Trade Organization versus Association of Southeast Asian Nations Commitments

Policy area	World Trade Organization (WTO) baseline	Association of Southeast Asian Nations (ASEAN) additionality
Services trade	General Agreement on Trade in Services (GATS): Positive-list scheduling; limited sectoral coverage	ASEAN Trade in Services Agreement (ATISA): Negative-list scheduling; progressive liberalization; telecommunications, finance, logistics, professional services
Investment	Trade-Related Investment Measures (TRIMs) only: Prohibits local content requirements; no protections	ASEAN Comprehensive Investment Agreement (ACIA): Fair and equitable treatment; expropriation protection; investor–state dispute settlement; competitive neutrality for state-owned enterprises (SOEs)
Digital economy	No binding framework; e-commerce work program incomplete	ASEAN Digital Economy Framework Agreement and ASEAN Agreement on Electronic Commerce: E-transactions; data protection; cybersecurity; cross-border data flows; digital payments; paperless trade
Trade facilitation	WTO Trade Facilitation Agreement: Procedural disciplines (advanced rulings, risk management)	ASEAN Single Window: Operational interoperability; real-time data exchange; application programming interface integration; coordinated border management
Standards: Sanitary and Phytosanitary (SPS)/technical barriers to trade (TBT)	Transparency; science-based measures; equivalence principles	Harmonization road maps; mutual recognition; regional laboratories; joint capacity building
Labor mobility	GATS Mode 4: Limited temporary movement with restrictions	Sectoral Mutual Recognition Arrangements: Eight professional sectors; qualification frameworks; skills portability
Competition policy	No binding WTO disciplines	SOE competitive neutrality; national competition law requirements; regional cooperation
Government procurement	Government Procurement Agreement (GPA) (plurilateral): 21 members; Timor-Leste not signatory	Transparency requirements; progressive liberalization discussions
Regulatory cooperation	Limited: SPS/TBT committees, no binding cooperation	30+ working groups; binding work programs; peer review; coordinated regulatory development; technical assistance

Source: ASEAN Secretariat. 2024. *ASEAN Economic Community Chartbook.* Jakarta: ASEAN Secretariat; World Bank. 2023b. *[AUTHOR: add full title].* Washington, DC: World Bank.

Annex 3. Association of Southeast Asian Nations Monitoring and Accountability Mechanisms

Mechanism	Frequency	Coverage	Timor-Leste obligations	Enforcement/ accountability
Association of Southeast Asian Nations (ASEAN) Economic Community (AEC)	Annual	All AEC commitments across goods, services, investment, and skilled labor	Report implementation progress on critical economic agreements; participate in peer review	Public reporting; peer pressure
ASEAN Coordinating Committee on Investment	Semi-annual	Investment liberalization and protection under the ASEAN Comprehensive Investment Agreement	Report changes to the investment regime; participate in monitoring reviews	Committee review; recommendations
ASEAN Trade Facilitation Working Group	Quarterly	Customs modernization; ASEAN Single Window; nontariff measure transparency	Report on trade facilitation reforms; align domestic systems with ASEAN standards	Technical peer review
ASEAN Secretariat Country Missions	Annual or as needed	Cross-cutting implementation issues	Host review missions; provide data and access to officials	Mission reports to ministers
ASEAN Economic Ministers Meeting	Annual	Strategic oversight and political commitment	Ministerial participation; commitment to agreed action plans	High-level political accountability
Critical Economic Agreement Framework	Ongoing	Priority agreements for new members	Implement 38 identified priority agreements within agreed timelines	Progress tracked in the AEC scorecard
ASEAN Integration Monitoring Office	Continuous	Data collection and analysis on integration progress	Provide statistical data on trade, foreign direct investment, services, and movement of persons	Analytical reports to inform policy making

Source: ASEAN Secretariat. 2024. Critical Economic Agreements Framework for Timor-Leste. Jakarta: ASEAN Secretariat

Annex 4. Timor-Leste Integration to Association of Southeast Asian Nations: Progress at Accession and Remaining Gaps

Integration area	What effective membership requires	Status at accession (Oct 2025)	Remaining gaps	Priority actions 2026–29
1. Trade facilitation and border management: Association of Southeast Asian Nations (ASEAN) Trade in Goods Agreement [ATIGA]/ /ASEAN Single Window (ASW)	Risk-based clearance; pre-arrival processing; electronic payments; coordinated border management; ASEAN Single Window interoperability	Automated System for Customs Data (ASYCUDA) World is operational; measurable port and customs improvements; Timor-Leste Trade Information Portal launched	Paperless trade remains limited; weak inter-agency interoperability at the border; risk management and post-clearance audit not fully operational; performance uneven beyond the main	**Quick wins:** Expand prearrival processing and risk-based inspections; operationalize post-clearance audit **Systems:** Strengthen coordinated border management (customs–sanitary and phytosanitary [SPS]–port); advance ASEAN Single Window interoperability and cross-border data exchange
2. Standards, SPS/technical barriers to trade (TBT) and quality infrastructure (ATIGA ASEAN Consultative Committee on Standards and Quality(ACCSQ)	Accredited laboratories; certification and inspection capacity; traceability and e-certification; predictable SPS/TBT procedures aligned with ASEAN practice	Legal alignment is strong; operational capacity is weak: SPS legal framework strengthened (including 2025 decrees)	Limited accredited testing and certification capacity; weak national quality infrastructure; inadequate SPS/TBT services for priority exports (coffee, fisheries, seaweed); high compliance costs	**Quick wins:** Define a minimum SPS/TBT service package for priority value chains; launch a laboratory and certification road map **Systems:** Upgrade laboratories, build accreditation pathways, and strengthen inspection and certification systems
3. Digital economy and paperless trade (ASEAN Digital Economy Framework Agreement [DEFA]/E-Commerce framework)	Legal recognition of e-transactions; data protection; cybersecurity; cross-border paperless trade systems; interoperable digital services	Early stage: Strategic initiatives under way (Timor Digital 2032, e-commerce agenda); partial customs digitalization	Gaps in e-transactions backbone; weak cross-border paperless trade performance; cybersecurity and data governance are immature; limited system interoperability	**Quick wins:** Finalize legal and technical backbone for e-transactions and data protection; establish a cybersecurity baseline **Systems:** Integrate border agency data exchange; pilot e-payments and e-licensing; scale cross-border paperless trade including document exchange and application programming interfaces
4. Services integration and regulatory delivery: ASEAN Trade in Services Agreement (ATISA)	Transparent, rules-based licensing; nondiscrimination; digital approvals; predictable procedures in backbone services	Partly achieved: Transparency improving in some areas; legal frameworks broadly in place but delivery uneven	Licensing largely manual and discretionary; weak digital service delivery; limited regulatory certainty and aftercare for service investors	**Quick wins:** Publish licensing steps, timelines, and fees for priority service sectors; reduce discretion points **Systems:** Digitize high-volume licenses; strengthen appeals and grievance channels; implement targeted reforms in logistics,

				telecommunications, and finance
5. Investment governance and investor services: ASEAN Comprehensive Investment Agreement (ACIA)	Predictable approvals; investor protection and aftercare; transparent procedures; dispute prevention mechanisms; competitive-neutrality signals	Improving framework, weak delivery: One-stop functions expanding; transparency improving	Approval processes inconsistent; limited investor aftercare; state-owned enterprise (SOE) footprint and competition constraints deter entry; dispute resolution slow and uncertain	**Quick wins:** Introduce time-bound approval standards and published service-level agreements; strengthen investor aftercare **Systems:** Establish an investment grievance mechanism with interagency escalation; advance competitive-neutrality reforms including SOE-related predictability measures
6. Institutional coordination and monitoring (cross-cutting)	Stable focal points; whole-of-government tracking; reporting aligned with ASEAN cycles; bottleneck resolution; performance dashboard	Foundations in place but not institutionalized: Timor-Leste ASEAN Mobilization Plan and critical economic agreements provide an initial platform	Fragmented ownership; staff turnover risk; no consolidated view of obligations; limited performance tracking	**Quick wins:** Establish a central ASEAN implementation unit and dashboard; designate focal points and set reporting cadence **Systems:** Embed cross-government working groups (trade facilitation, SPS/TBT, digital, services/investment); link implementation to budget processes, human resource training plans, and key performance indicators

Source: World Bank staff assessment based on ASEAN Secretariat (2024), ESCAP (2025), and World Bank (2025a).
Note: "Status at accession" refers to the shift from legal alignment to operational readiness. "Priority actions" are sequenced to deliver early credibility gains while building systems needed for "full and effective" membership, including ASEAN Chairmanship readiness.

Annex 5. Association of Southeast Asian Nations Obligations and Complementary Domestic Reforms

Reform area	Within Association for Southeast Asian Nations (ASEAN) obligations	Complementary domestic reforms (national actions)
Customs and trade facilitation	ASEAN Single Window interoperability; risk-based clearance; ASEAN Trade in Goods Agreement (ATIGA) tariff commitments	Interagency coordination at the border; port and logistics infrastructure; Trade Repository System institutionalization; post-clearance audit capacity
Services and investment	ASEAN Trade in Services Agreement (ATISA) commitments; ASEAN Comprehensive Investment Agreement (ACIA) investor protections; nondiscrimination rules	Land tenure reform; commercial courts and dispute resolution; state-owned enterprise reform; competition law and enforcement
Standards and quality	Sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) legal alignment; mutual recognition arrangements	Accredited testing laboratories; national accreditation body; industry certification programs; export quality upgrade support
Digital economy	ASEAN Digital Economy Framework Agreement (DEFA) commitments; e-ASEAN obligations; legal recognition of electronic transactions	National broadband rollout; digital skills programs; firm-level digital adoption support; core e-government systems
Fiscal and tax policy	Tariff liberalization schedules; value added tax (VAT) on e-commerce under ATISA (services)	VAT implementation and administration; non-oil tax base expansion; Petroleum Fund fiscal framework
Labor and human capital	Sectoral Mutual Recognition Arrangements; ASEAN Qualifications Reference Framework alignment	National qualifications framework; technical and vocational education and training reform; worker protection and remittance frameworks; trade adjustment safety nets
Institutional capacity	Timor-Leste ASEAN Mobilization Plan implementation; ASEAN Economic Community reporting; Initiative for ASEAN Integration (IAI) Work Plan commitments	Permanent ASEAN technical unit; commitment-tracking system; dedicated ASEAN budget line; civil service capacity in technical areas

Source: World Bank staff assessment based on ASEAN Secretariat (2024) and World Bank (2025a).

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