

Issue 36 • October 2025 | www.aseanbriefing.com

Timor-Leste at the Crossroads: An Investor's Playbook for ASEAN Integration

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Introduction



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Timor-Leste is entering a decisive transition. Petroleum revenues, once more than 80 percent of state income, are declining as Bayu-Undan winds down and Greater Sunrise remains unresolved. At the same time, infrastructure upgrades such as Tibar Bay Port, the South Submarine Cable, and new road links are reshaping trade capacity. Foreign direct investment has risen to around 12–13 percent of GDP, while ASEAN membership, targeted for 2025, will embed Timor-Leste in regional markets and preferential trade regimes.

For investors, the appeal lies in timing. Incentives, flexible regulatory frameworks, and available land create openings that will not last once ASEAN integration raises competition and standards. Early movers can secure favorable positions in logistics, digital connectivity, renewable energy, and tourism — sectors set to drive the next phase of growth.

A collaboration between our macro team at Dezan Shira, Think Forward Consulting & TradelInvest Timor-Leste, this magazine provides a strategic outlook on how Timor-Leste's economic shift can translate into durable opportunities. It highlights where reforms, demographics, and regional integration are converging, and what conditions matter most for sustainable returns.

With an established presence across ASEAN, our team at Dezan Shira & Associates is well-equipped to assist companies in navigating Timor-Leste's investment landscape. For more information on setting up or expanding operations in Timor-Leste, please contact us at asean@dezshira.com.

With kind regards,

Alberto Vettoretti



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Credits

Publisher - Asia Briefing Media Ltd.

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Project Manager - Amanda Lam

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Preface



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Timor Leste is Asia's youngest country providing a white space opportunity. With over two decades of peaceful and democratic political process, it is soon to be the newest member of ASEAN. Together with preferential US tariff structures, Timor Leste provides a unique gateway into ASEAN, as also an option for US focused exports.

Its USD economy, 10% Income Tax rate, 2.5% Sales Tax, 2.5% Customs Duty; makes it a favorable investment destination. There are fiscal benefits such as 5-to-10-year income tax holiday, customs duty exemption on capital goods; that are available through a Declaration of Benefits approval process. TradeInvest Timor Leste is a single window which directs private sector investment for Declaration of Benefits approval. In case of special approvals other than those covered under the Private Investment Law, Trade Invest can facilitate the process of a Special Investment Agreements, provided the investment meets certain criterion.

The educated work force uses English as business language, though Bahasa and Tetum are widely spoken. Most young professionals are eager to learn, though there previous work experience may or may not be in line with specific industry requirements. Investors can provide a transition period for training and development of their local staff.

A key challenge is access to land as most land in the country is privately owned. Foreigners cannot buy land on freehold, however, can lease land either from the Government (Ministry of Justice and Directorate of Land and Property) or private owners on lease. The Private Investment Law provisioning leases from the Government for fifty plus fifty years. Electricity is sufficient from a local power station in Hera (Dili). There is no water supply from the Government and there are no restrictions on access to ground water.

While expansion into Timor-Leste presents hurdles, the right local network can ensure a seamless entry. Reach out to us to leverage that expertise.

With kind regards,

Vinay Mathur

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Understanding Timor-Leste's Market Foundations

Timor-Leste's WTO accession, ASEAN roadmap, and US\$18.3 billion Petroleum Fund underpin a shift from oil dependence to diversified growth.



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Timor-Leste is at a turning point. Petroleum revenues still dominate the economy, but reserves are running down, and diversification is now urgent. Timor-Leste's entry into the World Trade Organization in 2024 signals a firm commitment to global trade rules and modern dispute settlement. Combined with preparations for ASEAN membership, these steps shift the country away from discretionary approvals toward rules-based integration. For investors, this adds predictability and positions Timor-Leste not just as a frontier market but as a partner embedding itself into regional and global trade regimes.

Economic vision and policy direction

Timor-Leste's development path is guided by the Strategic Development Plan 2011–2030, which sets out a transition from petroleum dependence to a diversified, private sector-driven economy.

The plan identifies priority sectors including agriculture and agribusiness, tourism and cultural

industries, fisheries and aquaculture, renewable energy, and the logistics and digital economy.

These priorities are reinforced in recent policy updates and investment incentives, which link approvals and benefits to projects that create jobs and connect Timor-Leste to regional supply chains. For investors, this means sector focus is not improvised. It is anchored in long-term national policy, making approvals and incentives more predictable when projects align with the country's economic vision.

Petroleum dependence and the diversification mandate

Petroleum revenues remain the backbone of Timor-Leste's fiscal system, but the era of effortless resource income is closing fast. Oil and gas have historically provided more than 80 percent of state income and over 90 percent of exports. As of mid-2025, Timor-Leste's Petroleum Fund reported a balance of US \$18.25 billion at end-March (Q1), rising to US \$18.74 billion at end-June (Q2),

supported by investment returns of US \$221 million in Q1 and US \$736 million in Q2, alongside modest petroleum receipts of roughly US \$6 million and US \$12 million, respectively. Yet with reserves from Bayu-Undan exhausted and the Greater Sunrise project unresolved, the fund cannot insulate the economy indefinitely. At current expenditure levels, sustained withdrawals are projected later this decade. Investors must decide whether to pursue short-term gains in petroleum-linked services or align with government-backed diversification priorities that promise longer-term resilience.

Economic scale growth outlook and dollarization

Timor-Leste is a small, dollarized economy where growth swings reflect both petroleum cycles and external financing. Non-oil nominal GDP was about US\$1.9 billion in 2024, with GDP per person at roughly US\$1,343. Growth has been volatile, and the current account deficit widened to nearly 29 percent of GDP in 2024 as oil exports fell and imports rose. The use of the US dollar stabilizes prices and keeps inflation under 4 percent, but it limits policy tools and has pushed up the real effective exchange rate by about 15 percent since 2021.

For investors this means cost competitiveness is a structural challenge. Business models targeting exports must be priced for a strong-dollar baseline, while those oriented toward domestic demand must recognize the limits of local purchasing power.

ASEAN accession and regional integration

Timor-Leste's accession to the World Trade Organization in 2024 and the near completion of its ASEAN roadmap mark a decisive shift toward rules-based integration. Full ASEAN membership

is targeted for October 2025, with milestones already achieved in customs alignment, investment law reform, and dispute resolution frameworks. Membership will do more than expand market access. It anchors Timor-Leste in a system of standards, connectivity, and regional value chains that gives investors predictable rules and broader integration opportunities.

Timor-Leste enters ASEAN with several unique advantages. Its strategic maritime location between Southeast Asia and Northern Australia positions it as a natural logistics and energy corridor. The dollarized economy eliminates exchange rate volatility, giving stability to contracts and financing. A young workforce, with a median age of just 21, offers long-term labor capacity that can be trained to ASEAN skill benchmarks. These differentiators set Timor-Leste apart from earlier entrants and strengthen its case as an integration-ready economy.

The experience of Cambodia and Laos still offers a useful benchmark. Both countries saw foreign investment jump by more than thirty percent within the first five years of ASEAN membership, and exports more than doubled in the following decade. Timor-Leste may follow a similar trajectory, but its maritime position, currency stability, and labor force give it advantages that can accelerate integration. For early movers, the opportunity lies in structuring operations now around ASEAN standards so that projects expand smoothly once tariff-free access and harmonized procedures are fully in force.

Workforce demographics and skills development

Timor-Leste's population is just over 1.3 million with a median age of about 21, ensuring a steady flow

Timor-Leste Foreign Direct Investment Composition by Sector, 2023

Sector	Inflows (US\$ million)	Share of total
Construction	67.2	~33%
Wholesale & Retail	56.3	~27%
Financial & Insurance	28.3	~14%
Information & Communication	28.0	~14%
Manufacturing	11.6	~6%
Others	14.2	~7%
Total	205.5	100%

Note: Percentages may not add up to 100 due to rounding

of labor for decades. Yet labor force participation is below 60 percent and youth unemployment remain elevated by regional standards, with estimates ranging around 10 percent in recent ILO data and higher in earlier national surveys. Average salaried wages are around US\$250 per month, with lower pay in agriculture and basic services. Education attainment is improving, with primary enrollment above 90 percent but secondary and tertiary completion still low.

Government programs, including vocational institutes supported by development partners, aim to close skills gaps, but results are uneven. For investors the decision is whether to budget for in-house training and skills transfer or rely on expatriate expertise in the early years.

Those who integrate workforce development into their operating model will likely enjoy stronger government backing and community acceptance, while those who do not may face higher turnover and regulatory pressure.

From market foundations to investment choices

Timor-Leste's fundamentals are neither a green light nor a red light — they are a filter. The country's scale, reliance on petroleum, and emerging enablers demand that investors approach it with structured entry and carefully chosen vehicles. The fundamentals outlined in this chapter matter because they shape the thresholds of viability: what capital commitments are realistic, how long returns may take, and which sectors can sustain foreign ownership without policy reversals.

The next step for decision-makers is to move from context to execution. Chapter 2 addresses the structures through which investors can enter, operate, and protect their capital in Timor-Leste. Understanding the legal forms, ownership rules, and compliance requirements is what turns a promising market profile into a bankable investment plan. 🇹🇱



Choosing the Right Entry Structure and Tax Strategy

Investors weigh entry structures and incentives, with TradeInvest Timor-Leste streamlining approvals under ASEAN-aligned rules.



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For foreign investors, the first decision in Timor-Leste is not which sector to target but how to enter legally and fiscally. The structure chosen at the outset determines control, exposure to licensing delays, access to incentives, and the ease of profit repatriation. Taxation is equally central. A low corporate rate offers little comfort if withholding rules or indirect tax mechanics erode margins. These are not procedural details but strategic levers that separate sustainable investment from projects that stall under regulatory or fiscal pressure.

Subsidiary control versus partnership leverage

A limited liability company, known as Sociedade por Quotas or Lda, is the standard model for investors seeking full control. It allows up to 100 percent foreign ownership in most sectors, subject only to concessions or licenses in strategic industries such as natural resources, utilities, or telecommunications. Once registered with the business registry, SERVE, and approved by sector

ministries, a subsidiary can hire, import, access incentives, and repatriate profits. Choosing a subsidiary means accepting higher compliance obligations in exchange for predictable access to benefits and repatriation rights.

Joint ventures are a pragmatic choice when access is more valuable than control. Domestic partners can provide land aggregation, local networks, or alignment that would take years for a foreign investor to replicate. These structures are common in agriculture, tourism, and infrastructure, but they require tight governance to manage diluted decision-making power. An investor choosing a joint venture gains quicker entry but accepts a narrower margin of autonomy.

Representative offices serve a transitional role. They provide a presence for research, donor-funded projects, or pre-sales activity without committing capital to full incorporation. Yet their limits are stark. They cannot generate revenue or claim fiscal incentives. The investor choosing a representative

office is betting on a low risk learning phase, knowing that conversion to a subsidiary will be mandatory before commercial operations can scale.

Together, these options capture the balance foreign investors must strike. Subsidiaries deliver control and access to incentives, joint ventures trade equity for local reach, and representative offices reduce risk but cannot sustain operations.

Licensing, ownership, and concessions

Foreign ownership in Timor-Leste is broadly open, but operating rights are only secured once the appropriate registrations, licenses, and concessions are in place. Incorporation through SERVE creates the company, while sector ministries issue the licenses or concessions that authorize activity.

Licenses apply to regulated markets such as energy, telecommunications, and transport services. Concessions govern longer-term and higher-value projects such as ports, extractives, or major utilities, with performance standards attached. Tibar Bay Port is the best example. It is a long-term private concession to finance, build, and operate the country's modern container terminal under clear service and investment obligations.

These approvals often embed land and utility rights so that tenure and operations align with the economic life of the project. They also unlock fiscal support, since tax incentives and customs relief are conditional on valid sector approval. Ongoing customs modernization is streamlining procedures and improving predictability for traders.

Licensing and concessions are therefore not administrative hurdles but structural foundations that determine whether an investment is bankable and how durable it will be over time.

Reforms under ASEAN accession

Building on its accession to the World Trade Organization in 2024, Timor-Leste has accelerated reforms to align with ASEAN standards. Customs modernization now shortens clearance times and reduces the unpredictability that once slowed cross-border trade, and investment approvals are increasingly structured around transparent, rules-based procedures.

Company registration and investor certification have also been streamlined through SERVE and TradeInvest. As the national investment and export promotion agency, TradeInvest acts not just as a certificate issuer but as a facilitator and long-term partner. It coordinates with ministries, ensures alignment with ASEAN standards, and provides investors with a single point of contact throughout the life of the project.

Dispute resolution is another area of reform. The government has adopted stronger recognition of international arbitration and has modernized court procedures, narrowing the risk that contractual disagreements block project execution. Concession agreements are now drafted with clearer performance obligations and protections for investors, reflecting ASEAN's preference for balanced risk allocation in public-private partnerships.

These reforms matter because they define the practical pathway for investors. Approval risk is lower when applications are structured around ASEAN priorities such as diversification, job creation, and regional integration. For foreign companies, this shift means less dependence on discretionary decision-making and greater confidence that once approvals are secured, they will remain durable through political and regulatory cycles.

The tax architecture that drives outcomes

Once approvals are secured, the fiscal framework determines whether those rights translate into sustainable returns. The corporate income tax rate is ten percent, with limited treaty coverage. Non-resident dividends, interest, and royalties are generally subject to ten percent withholding. This comparison underscores how Timor-Leste's ten percent rate is regionally competitive, especially when combined with incentives and dollar stability.

Indirect taxes and working capital

Timor-Leste does not yet operate a VAT system. Instead, imported goods are subject to customs duty of 2.5 percent and a sales tax of 2.5 percent, calculated on the customs value of goods plus customs duty and excise if applicable. Specified services are taxed at 5 percent under the Services Tax regime. This matters for models dependent on imported inputs and for pricing at the border. An investor choosing an import-heavy business model must factor in customs duty, sales tax and excise if applicable, to assess whether incentives or exemptions will neutralize the cost.

Priority incentives and tax holidays

Timor-Leste offers a structured incentive regime to channel investment toward priority sectors and underdeveloped regions. Qualifying projects can receive full exemptions from income tax and customs duties for extended periods tied to project location. Investors in Dili typically secure 5 years of relief, those in other districts up to 8 years, and those in Ataúro or Oe-Cusse as much as 10 years. These terms are set out in an Declaration of Benefits issued by the Coordinating Minister of Economic Affairs and Minister of Tourism and Environment,

who is also the current Vice Prime Minister. Investors may also receive a minimum quota of work visas for skilled expatriates and may lease state land for up to 50 years, renewable to a maximum of 100 years. A project must typically start within 1 year of approval to keep the benefits.

The application process is structured and time bound. TradeInvest coordinates technical opinions and the issuance of Declaration of Benefits. In practice this has created clearer timelines for approvals relative to earlier regimes.

Profit repatriation rules

The Private Investment Law guarantees investors the right to freely transfer funds abroad arising from an investment. This includes dividends, proceeds from sale or liquidation, loan repayments, royalties, and payments from dispute settlement, subject to standard legal requirements. Timor-Leste is a dollarized economy, and it has accepted IMF Article Eight obligations on current international transactions, reinforcing predictability for remittances.

In practice, companies finalize accounts, obtain tax clearance, ensure any applicable 10 percent withholding has been applied, and instruct their bank to execute the transfer with normal compliance checks. Unlike some frontier markets where profit remittances face delays or ad hoc restrictions, Timor-Leste's framework is clear and anchored in international commitments. The decision signal is straightforward. An investor choosing to prioritize profit repatriation can expect funds to move out cleanly provided compliance obligations are respected.

Timing against ASEAN accession

The broader significance of ASEAN membership was set out in the first chapter. At the level of entry

Comparative Corporate Tax Rates in ASEAN in 2025

Country	Corporate Income Tax Rate	Notes
 Timor-Leste	10%	Among the lowest, economy is dollarized
 Vietnam	20%	Standard rate, incentives available
 Indonesia	22%	Standard rate, minimum tax applies to very large MNEs
 Malaysia	24%	Standard rate
 Thailand	20%	Standard rate, BOI incentives widely used
 Philippines	25% domestic / 20% SMEs	Under CREATE reforms
 Singapore	17%	Low headline, relies on targeted schemes
 Cambodia	20%	Standard rate, QIP incentives
 Laos	20%	Standard rate, holidays for promoted industries
 Myanmar	25%	Standard rate

structure and tax planning, the impact is more immediate. ASEAN leaders have signaled a target for Timor-Leste's full membership around the October 2025 summit, with final steps still in process. The direction of travel is clear, but dates should be treated as targets rather than guarantees.

Capital is already moving. FDI net inflows reached about US\$227million - USD\$232million in 2024. This is an unusually high ratio for the region and a sign that early movers are positioning ahead of accession. Entering now can secure incentives and operating rights under relatively low competition. Entering later will mean navigating stricter compliance and sharper rivalry for the same assets.

For example, if a company in the coffee and horticulture sector establishes a subsidiary tied to the correct licenses, it can qualify for customs duty relief and sales-tax treatment at import,

improving margins by several percentage points. A representative office would be unable to access these benefits, and a joint venture would only create value if the local partner contributed genuine aggregation capacity. This demonstrates how structural choice directly shapes financial viability.

From structure to resilience

The entry structure and tax strategy chosen at the outset define how capital is protected, how incentives are captured, and how profits can be repatriated. Subsidiaries provide control and fiscal benefits, joint ventures trade equity for access, and representative offices offer low-risk exploration but no sustainable operating capacity. Once chosen, the structure sets the trajectory of the investment and frames how it will withstand the pressures of ASEAN integration and domestic regulatory change. 🇲🇲



Managing Risks and Building Resilience in Timor-Leste

Approvals, infrastructure, and workforce gaps remain execution risks, but resilience planning and ASEAN alignment improve long-term viability.



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The fundamentals of Timor-Leste's economy and the mechanics of its entry structures are clear from the earlier chapters. The question for investors is how projects retain value once incentives end, institutions change, or logistics are tested. The answer lies in structuring capital so that shocks remain manageable, and equity returns stay above target as ASEAN accession reshapes the operating environment.

Governance weaknesses as execution risk

SERVE has reduced incorporation times to weeks, but sector approvals still determine whether capital can operate. Institutional capacity is still developing, but Timor-Leste is partnering with development agencies and ASEAN peers to strengthen systems. Transparency International placed Timor-Leste 80th of 180 countries in 2024, which is better than some frontier peers but still signals exposure. The Tibar Bay Port concession, at US\$490 million, shows that long-term approvals can be bankable when utility rights, performance

obligations, and arbitration recognition are drafted in. Outside Dili, approvals can still face delays. Agriculture concessions have slowed due to land aggregation and environmental clearances, while fisheries pilots required stronger ministry coordination. New frameworks now embed performance obligations and escalation pathways, which help approvals remain stable even when institutions change. Investors who secure these protections early build resilience that others may lack.

Fiscal tightening and life after incentives

Petroleum income still covers more than four fifths of the state budget. Without new production, the Ministry of Finance projects that Petroleum Fund withdrawals will accelerate in the late 2030s. Dollarization keeps inflation below four percent but forces fiscal tightening when oil money slows.

For boards, this is not about memorizing statutory rates. It is about knowing what happens to equity

returns once incentives expire. Take a project that generates a US\$10 million annual gross margin in Dili. During a five-year holiday, the bottom line is preserved. When the holiday ends, a ten percent corporate tax and a 10 percent withholding on cross-border payments cut returns by roughly US\$2 million dollars a year. Projects that rely solely on incentives face pressure once relief ends. Investors who model at full statutory tax rates ensure their businesses remain viable and can treat incentives as upside rather than a lifeline.

Operating continuity with port as anchor not single point

Infrastructure advances are real but uneven. Installed electricity capacity is under 300 megawatts, rural electrification is incomplete, and water access remains below seventy percent of households. Road density is low by regional standards. The 2021 floods displaced more than 30,000 people and disrupted supply chains across multiple districts, proving how climate shocks magnify fragility.

Tibar Bay Port has reduced import dwell times from over a week at Dili to a few days, cutting costs for logistics-heavy businesses. Yet inland links remain weak. Companies that invest in backup power and water and that split freight routes avoid losing weeks of revenue when a single corridor fails. Firms that depend solely on state utilities or a single transport corridor are more exposed to costly downtime. By contrast, those that invest in backup utilities and diversify freight routes protect revenues and gain an edge over competitors when disruptions occur.

Turning demographics into capability rather than cost

Timor-Leste's median age is 21, and average

wages are about US\$250 per month, compared to US\$300–350 in Vietnam. Participation remains under 60 percent, and secondary school completion is below 50 percent. Vocational institutes funded by development partners are filling gaps but cannot meet demand at scale.

This is not just a labor market story. It is a strategic choice. Relying on expatriates for five years can fast-track operations but erodes margins and draws political scrutiny if skills transfer is absent. Projects that invested in local talent, such as eco-lodges on Ataúro that trained young staff in hospitality, now operate with higher retention and stronger community support. Those that train locals — as shown by eco-lodges on Ataúro Island — enjoy stronger retention, lower costs, and durable community support.

Positioning around sunrise and ASEAN timing

Greater Sunrise is still unresolved after more than two decades. That stalemate shows how politics can stall economics indefinitely. Meanwhile, ASEAN accession is targeted for October 2025. The government has aligned customs codes, investment law, and arbitration recognition to meet accession milestones. Inflows are already moving ahead of membership, with foreign direct investment around US\$227–232 million in 2024, equal to 12–13 percent of GDP.

Boards face a timing call. Enter early and you secure scarce land and incentives but manage approvals through today's uneven institutions. Wait until accession and the rules will be clearer, but competition sharper and valuations higher. Cambodia and Laos both saw foreign investment jump by more than thirty percent in the first five years after joining ASEAN. Timor-Leste may

follow that trajectory. Those who diversify their partnerships across regional and multilateral channels will be best positioned to ride the upside without being locked to a single sponsor.

Digital and financial resilience as emerging frontiers

Internet penetration was about 54 percent in 2024, and the South Submarine Cable landing in Dili will deliver up to 27 terabits per second of capacity once operational. That shift can unlock fintech, outsourcing, and e-commerce models, but only if reliability improves. Digital and financial sectors are still at an early stage, but ASEAN integration and donor-backed infrastructure upgrades provide a strong foundation. Early movers who align with regional standards can shape adoption curves and secure first-mover positions. The opportunity lies in tying digital projects to ASEAN integration so that growth rides on harmonized standards rather than domestic rollout alone.

Financial services also carry a resilience angle. Remittances are a core driver of household consumption and foreign exchange stability. Investors in banking and payments must design models that remain viable if inflows slow or regulatory capacity lags. Here, diversification of revenue streams and close alignment with central bank reforms are what turn volatility into durability.

Entry scenarios that reflect Timor-Leste conditions

A conservative entry validates the model with a single site that carries its own utilities and withstands full statutory tax. Expansion comes only after one cycle of stable operations. An accelerated entry moves ahead of ASEAN accession to capture incentives and first-mover positions,

while hardening contracts and logistics to offset institutional risk. A speculative entry bets on extended holidays and uninterrupted supply chains. That path usually unravels once benefits end or infrastructure fails. Directors can decide among these by asking three questions. (1) Does the project survive without the holiday? (2) Does it survive one month of utility interruption? (3) Does it survive a quarter of approval delay? If the answer is yes to all three, the structure is resilient. If not, redesign before committing capital.

What a durable position looks like in 2025

Durable investors enter with approvals that can withstand turnover, financial models that work without relief, redundancy for utilities and logistics beyond Dili, and workforce plans that turn demographics into skill. They align with ASEAN standards now rather than later. They avoid anchoring to one sponsor and spread partnerships to cover political shifts. They prepare for the digital cable and financial reforms to shape new sectors. These investors will see capital grow as ASEAN integration lifts the ceiling. Investors who rely only on temporary relief risk repeated renegotiation, while those who build resilient foundations now will scale smoothly as ASEAN integration raises the ceiling for growth. 🏡



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Scaling for Sustainable Growth and Future Potential

Logistics, fisheries, renewables, and digital are emerging sectors where first-mover investors can align with government priorities and regional demand.



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Timor-Leste can now be assessed for scale rather than simple entry. The domestic market is limited, but regional positioning, sectoral advantages, and financing strategies create opportunities for long-term growth. The key question for foreign investors is whether to secure assets now, while conditions are flexible, or wait and face higher costs once competition matures.

Economic position in 2025

The economy remains small, with nominal output near US\$2 billion, but recent infrastructure and connectivity shifts signal a turning point. Electricity tariffs for industrial users average US\$0.23–0.24 per kilowatt-hour, among the highest in Southeast Asia, while port dwell times have fallen from up to 10 days in Dili to 3–4 days at the new Tibar Bay Port, which can handle 350,000 containers annually.

Digital connectivity is also improving. Mobile subscriptions exceed the population, and the new subsea cable to Australia has lifted capacity to 27

Tbps, removing the bandwidth bottleneck that long constrained growth.

Early mover advantage

Recent inflows show momentum. FDI in 2023 reached US\$205.5 million, or 12 percent of GDP — one of the region's highest ratios. In 2024, inflows again equaled about 12 percent of GDP. The pattern is not unique: both Cambodia and Laos saw similar surges before ASEAN accession.

In Cambodia, the first wave of garment factories in the late 1990s secured long leases in industrial zones and tax concessions that later entrants could not match. Those firms went on to dominate exports for two decades.

In Laos, early hydropower developers negotiated 25–30 year offtake agreements with Thai utilities, giving them guaranteed markets and pricing that later investors could not access.

Timor-Leste is now in a comparable position. Land is still available, incentive structures are generous, and investors who move first will help shape the standards that define the next decade of competition.

Sustaining profitability after tax holidays

Incentives provide a powerful start but cannot substitute for competitiveness. Corporate income and withholding taxes eventually apply, and only projects that build efficiency and market linkages during the relief period remain profitable long-term. For Timor-Leste, the lesson is to model projects at post-incentive tax levels from the outset and treat the holiday as a one-time window to build durable advantages.

Positioning for regional integration

Timor-Leste's admission to ASEAN was agreed in principle in October 2025. The precise timeline for full membership is less important than preparation. Customs codes, arbitration mechanisms, and investment laws are already being aligned with ASEAN practice.

After joining ASEAN in 1995, Vietnam's exports more than doubled within five years and FDI inflows accelerated, even though many domestic reforms were still in progress. The integration effect was clear: access to regional markets amplified growth far beyond what internal reforms alone could achieve.

Timor-Leste is entering under more favorable conditions, with cleaner regulatory frameworks and fewer legacy constraints. Early movers that structure operations for cross-border trade now will be first to capture the benefits once tariff-free access and harmonized procedures are fully in force.

Priority sectors with growth potential

Timor-Leste's long-term competitiveness will be shaped by a handful of sectors where structural advantages and policy direction intersect. These industries already show the contours of how growth could scale once ASEAN accession and domestic reforms converge.

Energy and renewables

Installed power capacity remains under 300 MW, almost all from imported diesel, yet hydropower potential exceeds 400 MW and solar irradiation averages 5.5–6.0 kWh/m²/day. Tariffs for industrial users at US\$0.23–0.24 per kilowatt-hour are among the highest in Southeast Asia, creating an opportunity for renewable developers to offer cheaper alternatives.

Laos shows the possible trajectory: by securing long-term purchase agreements with Thailand, it grew hydropower exports from under 500 MW in the 1990s to over 7,000 MW by 2020. Timor-Leste, with its smaller scale, can follow a similar model if investors move early to secure offtake agreements with the state utility and regional buyers.

Digital economy and financial services

Annual remittances of US\$350–400 million — nearly 20 percent of GDP — provide a natural base for digital wallets, cross-border payments, and microfinance. Yet domestic credit penetration stands at just 34 percent of GDP, compared with over 120 percent in Vietnam and Cambodia.

Connectivity is improving rapidly. Mobile subscriptions exceed the population, and the 607 km TLSSC subsea cable has expanded capacity to 27 Tbps, ending years of bandwidth bottlenecks. The Philippines illustrates how remittance-linked mobile wallets can

scale: penetration rose from under 10 percent of households in 2015 to more than 70 percent by 2022. Timor-Leste could see a similar adoption curve once regulatory frameworks mature.

Logistics and trade infrastructure

The opening of Tibar Bay Port has transformed trade operations. Capacity now reaches 350,000 containers annually, with dwell times cut to 3–4 days compared with 7–10 previously in Dili. Over the longer term, the port is projected to handle up to 1 million TEUs annually as demand scales and regional connectivity deepens. This puts it close to Cambodia's Sihanoukville Port, which handled 391,000 TEUs in 2023.

Despite this upgrade, logistics absorb more than 40 percent of import value, roughly double the ASEAN average. In Cambodia, early movers that invested in warehousing and trucking fleets in the early 2000s secured dominant positions that lasted decades. A similar opening exists in Timor-Leste for companies that build cold-chain systems and inland logistics networks before trade volumes scale further.

Fisheries and aquaculture

The exclusive economic zone spans 75,000 km², three times the country's landmass, but annual fish landings are below 15,000 tons. Donor-funded pilots in seaweed, shrimp, and tuna show biological potential, but no large-scale commercial aquaculture has yet emerged.

Vietnam's pangasius industry grew into a US\$1.5 billion export sector once hatcheries, feed mills, and certification frameworks were put in place. The parallel is clear: Timor-Leste has the marine resource base, but investors will need to provide the missing inputs to unlock export markets.

Tourism and hospitality

Tourism is modest but yields are high. International arrivals reached 74,600 in 2018, generating around US\$78 million in receipts. By 2019, more than 80,700 visas were issued, and spending surveys showed median outlays of US\$1,087 for leisure visitors and US\$412 for business travelers. By 2024, arrivals recovered to about 80,000, with Australia, Indonesia, Portugal, and China as key sources.

The market remains small, but Timor-Leste already outperforms several regional peers in spend per visitor. Indonesia's Nihhi Sumba demonstrates how a single high-value resort can redefine a frontier market. Ataúro Island offers similar conditions for eco-lodges and niche tourism, especially once ASEAN membership improves connectivity.

Mining and extractives

Exploration is gaining traction. In 2023, the government tendered 49 concession areas. Beacon Minerals reported boulder assays averaging 4.9 percent copper and 1.5 g/t gold, while Estrella Resources identified high-grade manganese oxides. Historical samples from Manufahi included sulfide boulders with 10 percent copper, 3 g/t gold, and 170 g/t silver.

No reserves have yet been declared under international standards, but the geology is promising. Laos shows how early mining entrants shaped fiscal regimes in their favor before frameworks tightened. The same dynamic applies in Timor-Leste today: licenses are more than geological plays — they carry influence over future sector rules.

Manufacturing and export platforms

Manufacturing is almost absent, contributing less than 3 percent of GDP and employing under 5 percent of the workforce. Existing activity is limited to small-scale food and beverage processing, carpentry, textiles, and basic construction materials. Exports beyond coffee and handicrafts amount to only a few million dollars per year.

Policy shifts could alter this. ASEAN membership will open tariff-free access to regional markets, and the government is drafting industrial park regulations to create “single-window” facilities that combine land, infrastructure, and incentives. The EU’s Everything But Arms program already provides duty-free access, though U.S. GSP benefits remain suspended since 2020.

Cambodia shows the precedent: its garment sector scaled only after anchor factories established supplier clusters and training systems that endured long after. The same opportunity exists for early investors in Timor-Leste — to not just open plants but to set the framework for the sector itself.

Workforce development and local integration

Labor force participation is below 60 percent and tertiary enrollment rates under 20 percent. Average monthly wages of US\$250 place Timor-Leste mid-range regionally. Eco-lodges on Ataúro show that structured training improves retention and community support. The Investor’s Certificate allows expatriate work visa quotas, but building a pipeline of trained locals reduces costs and strengthens policy support.

Financing And capital management for growth

Timor-Leste’s dollarization removes exchange rate volatility but also removes depreciation as a shock absorber. Import-heavy businesses tie up 3–4 months of cash in inventory buffers, compared with 1–2 in Vietnam. Domestic bank credit to the private sector is about 34 percent of GDP, well below Vietnam’s 125 percent and Cambodia’s 125–170 percent, limiting debt financing.

Bank loans rarely exceed 5-year tenors, with rates at 10.4 percent as of June 30, 2025. These conditions push foreign investors to rely on equity, shareholder loans, and reinvested earnings. FDI inflows, equal to about 12 percent of GDP, show this pattern already in practice. Businesses that reinvest surpluses locally for 5–7 years, then shift to steady repatriation, have scaled fastest in comparable markets.

Scaling decisions that define competitiveness

Timor-Leste’s path to scale is not about market size but about timing, positioning, and resilience. Investors should treat the next 5 years as a window to lock in assets and align operations with ASEAN standards, while building capabilities that survive beyond incentives.

The decision is whether to commit early and shape the sectors that will define the country’s role in regional supply chains, or to wait and enter at higher cost once competition resets the terms. The advantage lies in acting while regulatory frameworks are flexible, land is available, and incentives still apply — on the understanding that durability depends on reinvestment, local integration, and disciplined financing. 🇹🇱

Energy Costs in ASEAN (US\$/kWh, Industrial Users)

Country	Industrial Tariff (US\$/kWh)	Country	Industrial Tariff (US\$/kWh)
 Timor-Leste	0.23 – 0.24	 Cambodia	0.14 – 0.18
 Vietnam	0.085	 Thailand	0.11 – 0.12
 Indonesia	0.07 – 0.08	 Philippines	0.17 – 0.19
 Laos	<0.06 (hydro export PPAs)	 Malaysia	0.09 – 0.10

Wages in ASEAN (Average Monthly, US\$)

Country	Avg. Monthly Wage (US\$)	Labor Force Participation (%)
 Timor-Leste	~250	<60
 Vietnam	320 – 350	~76
 Cambodia	200 – 220	~71
 Indonesia	280 – 300	~69
 Philippines	300 – 320	~63
 Thailand	420 – 450	~67
 Malaysia	550 – 600	~66
 Singapore	3,500 – 4,000	~68



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