



Foreign Direct Investment Inflows 2023: A Catalyst for Timor-Leste's Economic Diversification

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TITLE

**Foreign Direct Investment Inflows 2023: A Catalyst for Timor-Leste's Economic
Diversification**

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Foreword

It is with a great pleasure and pride that I present the study findings on Foreign Direct Investment (FDI) in Timor-Leste. This report offers crucial insights into FDI inflows by country and industry for 2023.

The primary objectives of this publication are to produce essential FDI statistics to support policymakers and to help meet one of the statistical requirements for Timor-Leste's accession to ASEAN.

This groundbreaking work was conducted by the Department of Economics and Statistics of the Central Bank of Timor-Leste (BCTL) in collaboration with the National Institute of Statistics of Timor-Leste (INE-TL, IP). We also received technical support from the Australian Bureau of Statistics, which, in turn, received financial support from the Australian Department of Foreign Affairs and Trade. We are deeply grateful for the assistance provided by these institutions in developing FDI statistics for Timor-Leste. Additionally, we acknowledge the valuable contributions of the Business Registration and Verification Services (SERVE, IP) and the Tax Authority of Timor-Leste (AATL).

The study was based on the top 300 companies in Timor-Leste, classified through the Business Activity Survey (BAS) conducted by INE-TL. Data collection and cleaning processes relied on the BAS, with FDI-specific questions incorporated into the survey to complement the existing FDI-related questions. The BCTL received the finalized, company-level data to produce this comprehensive FDI report.

The findings reveal the inflows of FDI into Timor-Leste and serve as a foundational resource for the government to assess the economic impact of FDI. This data helps quantify direct investment liabilities in the country. By presenting FDI inflows by country and industry, this publication provides the detailed information necessary for planning a diversified and growing domestic economy.

Finally, we extend our sincere gratitude to all participating institutions, partners and the business communities for their invaluable contributions and collaboration.

Helder Lopes
Governor

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Acronym

AATL	Tax Authority of Timor-Leste
ABS	Australian Bureau of Statistics
ASEAN	Association of Southeast Asian Nations
BAS	Business Activity Survey
BCTL	Central Bank of Timor-Leste
BoP	Balance of Payments
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IIP	International Investment Position
INETL, IP	National Institute of Statistics of Timor-Leste, Public Institution
SERVE, IP	Business Registration and Verification Services, Public Institution

1. Introduction

Timor-Leste, a developing country situated in Southeast Asia, gained full independence in 2002. Despite being a young and small nation with abundant potential and significant natural resources, it heavily relies on its petroleum fund to finance government budgets and depends extensively on imports for both domestic consumption and investments.

The country's non-oil economy is predominantly driven by the public sector, primarily financed through the Petroleum Fund. In real terms, the private sector's share to non-oil GDP in 2023 is insignificant – more than three times lower than the public investment¹ (National Accounts 2023)². This public-dominant economy weakens both resilience and sustainability, emphasizing the urgent need to boost private investments in productive sectors such as tourism, agriculture, and manufacturing. One way to achieve this transformation is to promote FDI as it can help strengthen private investment and drive economic diversification.

FDI plays a vital role in socio-economic development by promoting economic diversification and fostering higher economic growth. It helps create employment opportunities, reduce poverty, and facilitates transfers of knowledge and technology, serving as a catalyst for long-term growth. FDI can also lead to economic transformation from being public-driven to private-driven, establishing a solid foundation for long-term development through sustainable investments in diverse industries.

The scope of this report is the total inflows of FDI in the non-oil economy in 2023. This covers total reinvested earnings, new equity inflows, and debt inflows³. Of the top 300 Timor-Leste companies surveyed for this publication, 141 businesses qualified as foreign direct investment enterprises as they contain at least 10% equity from a single foreign shareholder (company or individual). This represents 47% of the top companies operating in Timor-Leste which are in the BAS framework.

Producing reliable FDI statistics is essential for policymakers to monitor and evaluate the industry specific and overall impacts of foreign direct investment on the domestic economy. These statistics provide insights to support private sector development and

¹ Consisting of capital development and minor capital expenditures

² https://inetl-ip.gov.tl/wp-content/uploads/2024/09/TL-NA_2004-2023_PUBLICATION_26092024_1030am-1.pdf

³ Direct investment debt inflows

guide the Timorese government in shaping investment policies that are both attractive to investors and aligned with national development goals.

Another key objective is to fulfil one of the requirements from ASEAN as part of Timor-Leste's accession to the region. Additionally, it offers valuable insights for foreign investors considering opportunities in the country's potential industries. Lastly, it supports the compilation of direct investments in BoP and IIP. The report highlights key indicators including the geographic location of FDI inflows and their industry distribution in Timor-Leste.

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2. Main findings and Analyses

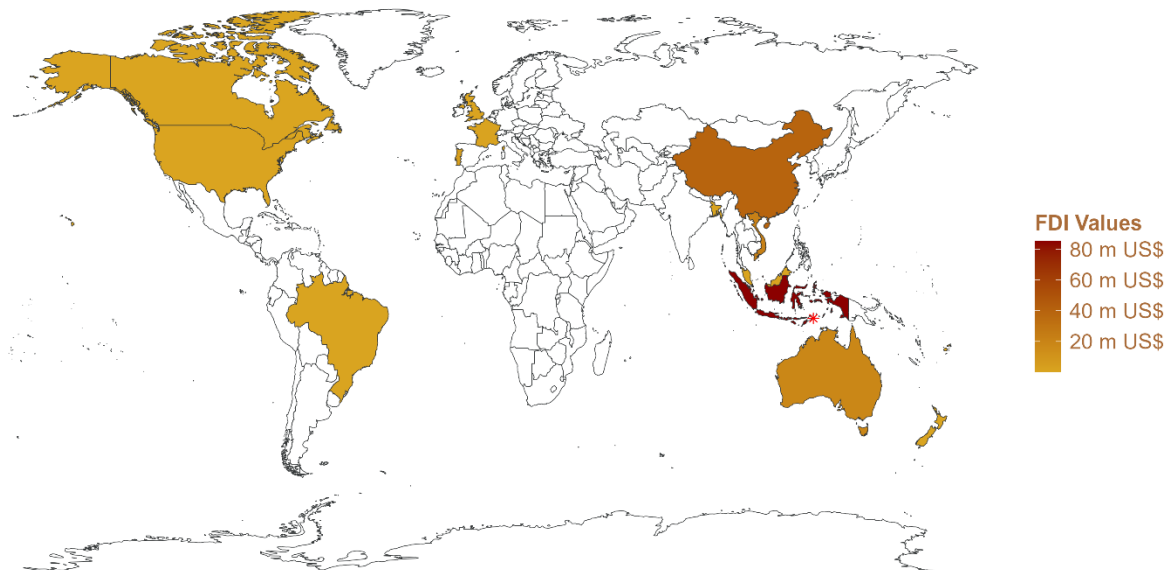
In 2023, total FDI inflows to Timor-Leste amounted to US\$ 205.5 million⁴. These inflows were primarily driven by the reinvested earnings, followed by equity and debt inflows.

2.1. Worldwide distribution of FDI inflows into Timor-Leste

The majority of foreign direct investment originated from Asia, particularly from ASEAN member countries, as well as Oceania (Figure 1). Asia accounted for more than 85% of the total inflows, with over 65% coming from ASEAN countries, while Oceania and the rest of the world collectively contributed the remaining 15%.

The map in Figure 1 also shows that relatively few countries outside ASEAN have sourced FDI into Timor-Leste in 2023. Specifically, countries from of the Oceania, Europe, and the Americas together contributed a combined inflows of less than US\$ 30 million, which is significantly lower compared to the flows from ASEAN. Although inflows from Other Asia constituted nearly 20%, they were primarily from China.

Figure 1. Worldwide Distribution of FDI Inflows into Timor-Leste in 2023



This indicates that although Timor-Leste has experienced considerable FDI inflows from some ASEAN countries, the country has not yet fully maximised its potential to attract

⁴ BCTL acknowledges that the total FDI inflow value in this report differs from the total FDI inflow value published in the BoP publication 2023. This discrepancy is due to the methodology and revision policy. The BoP team is currently revising all the total FDI inflow values in the BoP to align with the methodology used in this report, and the updated figures will be republished in the coming quarters.

foreign direct investors. However, this could represent a significant opportunity for Timor-Leste to diversify its sources of FDI.

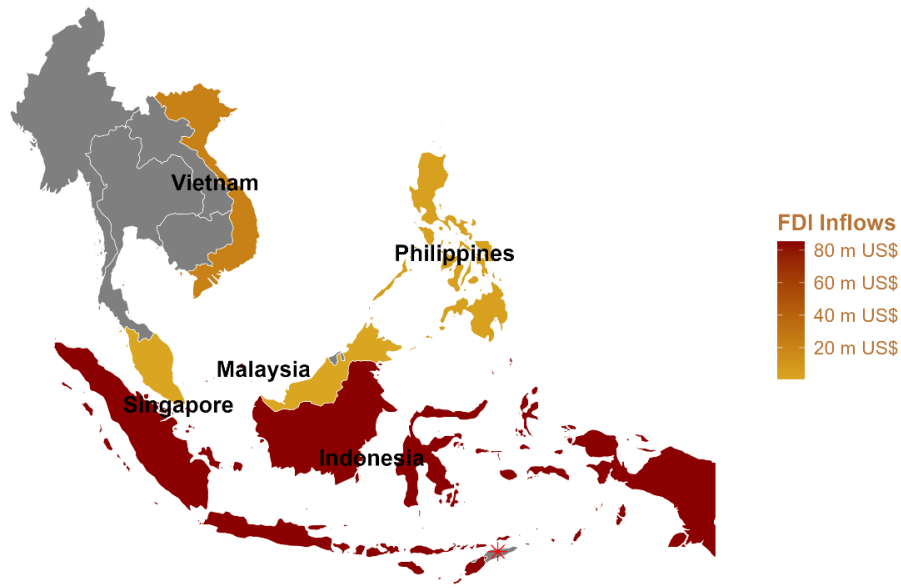
2.2. Distribution of inflows from ASEAN countries

Despite ASEAN constituting a significant portion of the total FDI inflows in 2023, only half of the ASEAN member countries reported investment inflows in Timor-Leste, as shown from Figure 2. Among the region's FDI sources, Indonesia was the largest contributor, with a total inflow of US\$ 85.3 million, significantly higher than the next largest contributors, Vietnam and Singapore. While Malaysia and Philippines contributed smaller amounts; there were no direct investment flows from the remaining ASEAN members.

This uneven distribution of FDI from ASEAN highlights the untapped potential for Timor-Leste to attract more investments from ASEAN countries, such as Thailand, Brunei, Myanmar, Laos, and Cambodia. Timor-Leste's integration into ASEAN will not only enhance opportunities to expand the FDI inflows from the existing investors but also unlock potential sources of investment from the remaining five member countries. Attracting greater investment inflows from ASEAN is crucial for Timor-Leste to fully leverage regional integration, boost private investment, and promote long-term economic growth.

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Figure 2. Distribution of Inflows from ASEAN Countries in 2023



2.3. FDI Inflows by countries⁵

Figures 3 and 4 display FDI inflows and proportion by top five countries in 2023. The left chart shows the total value of inflows, while the right chart presents the proportional share of each country. Indonesia was the largest source of the inflows, accounting for 42% of the total, followed by China which made up 19%. This shows that the inflow from Indonesia was more than double the inflow from any other country.

Most of the inflow from Indonesia was concentrated in the wholesale and retail trades, financial and insurance services, and construction industries. Similarly, the construction industry was also the primary destination for the inflow from China. The next three countries were Vietnam, Singapore, and Australia with US\$ 22.4 million (10.9%), US\$ 22 million (10.7%), and US\$ 18.6 million (9.1%), respectively. Meanwhile, the Rest of the World contributed US\$ 17.2 million (8.4%).

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⁵ At the country level, no single company contributes more than 90% of FDI inflows.

Figure 3. FDI Inflows by Top Five Countries in Timor-Leste in 2023

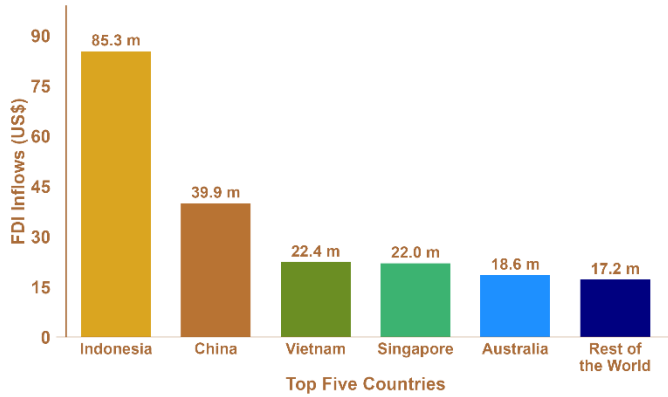
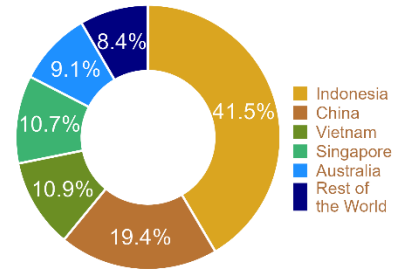


Figure 4. FDI Proportion by Top Five Countries in Timor-Leste in 2023



The dominant contribution from Indonesia shows that the two neighbouring countries have greater trade and investment relation compared to Timor-Leste with other nations. In terms of annual trade^{6,7} in 2023, Timor-Leste’s trade with Indonesia was also higher than with any other country. Additionally, China was not only the second largest FDI source into Timor-Leste but also the second largest trade partner of Timor-Leste. Interestingly, the other three principal sources of FDI – Vietnam, Singapore, and Australia – were among Timor-Leste’s top ten trade partners. This suggests that Timor-Leste’s regional integration could enhance its regional trading and attract more direct investment inflows, ultimately increasing the diversification of its FDI sources.

2.4. FDI inflows by industries

The construction industry attracted US\$ 67 million of FDI inflows in 2023, accounting for nearly 33% of the total. This industry held a significant share in Timor-Leste’s non-oil GDP, making up nearly one-tenth of the country’s GDP in 2023, as shown in Figure 7⁸. This highlights the critical role the construction sector plays in the economy. The industry’s attractiveness to foreign investors is mostly driven by the government’s priorities in addressing infrastructure gaps, such as road, bridge, ports, and buildings, creating significant investment opportunities in the construction.

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⁶ Non-oil sector

⁷ <https://inetl-ip.gov.tl/wp-content/uploads/2024/10/Anual-Trade-2023.pdf>

⁸ These shares are calculated by dividing the value-added of non-oil industries by non-oil GDP (using the production approach)

Figure 5. FDI Inflows by Top Five Industries in Timor-Leste in 2023

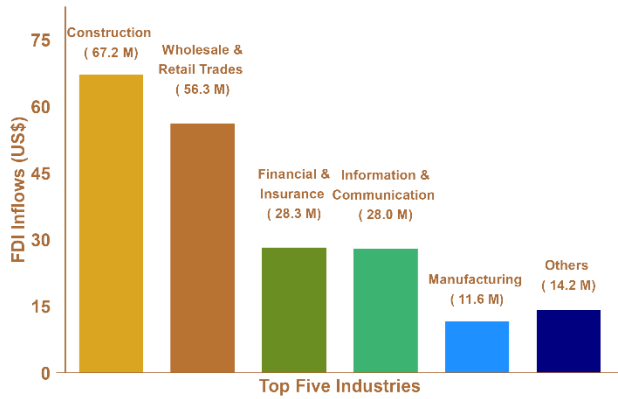
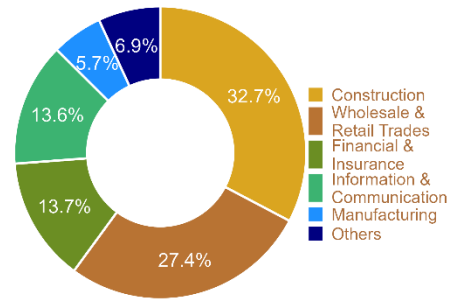


Figure 6. FDI Proportion by Top Five Industries in Timor-Leste in 2023



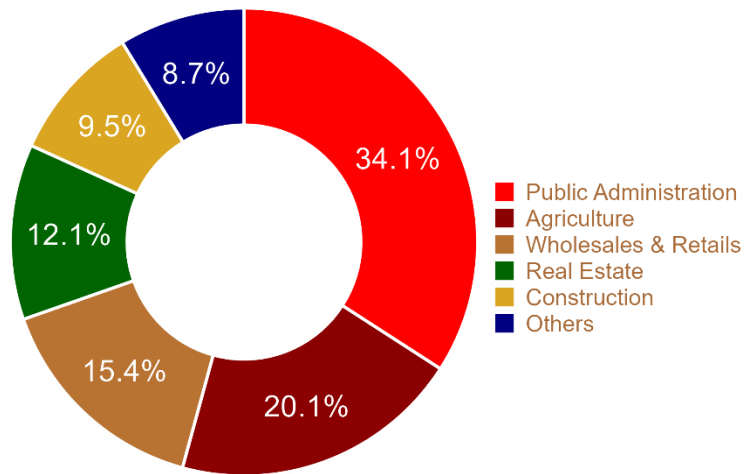
However, this industry remains heavily reliant on public-driven projects, which depend on state budgets and the government’s capacity for execution and oversight. This dependency makes the industry vulnerable to political dynamics, raising concerns about its long-term resilience and sustainability.

Wholesale and retail trades was the second-largest recipient of FDI inflows, receiving US\$ 56 million, which constituted over 27% of the total inflows. As shown in Figure 7, compared to the construction industry, the wholesale and retail trades had a higher share in the economy, making it the third-largest industry in the non-oil GDP in 2023.

Together, the construction and wholesale and retail trades industries attracted approximately two-thirds of the total FDI inflows, and their combined value-added contributed nearly a quarter to the non-oil GDP, making them the largest industries in the non-oil economy after public administration.

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Figure 7. Shares of industries' Valued-added in the Non-Oil GDP of Timor-Leste in 2023



Source: National Account, 2023⁹

The third industry receiving the largest FDI inflows in 2023 was financial and insurance services (13.7%). This sector, which covers banking and other financial services, was mainly driven by inflows into both depository and non-depository banking institutions. This industry has potential to drive private investment in other sectors of the economy, acting as both financial intermediary and service provider. Increased inflows into this industry can accelerate economic diversification and stimulate economic growth. However, at present, the share of this sector in the non-oil GDP is still limited.

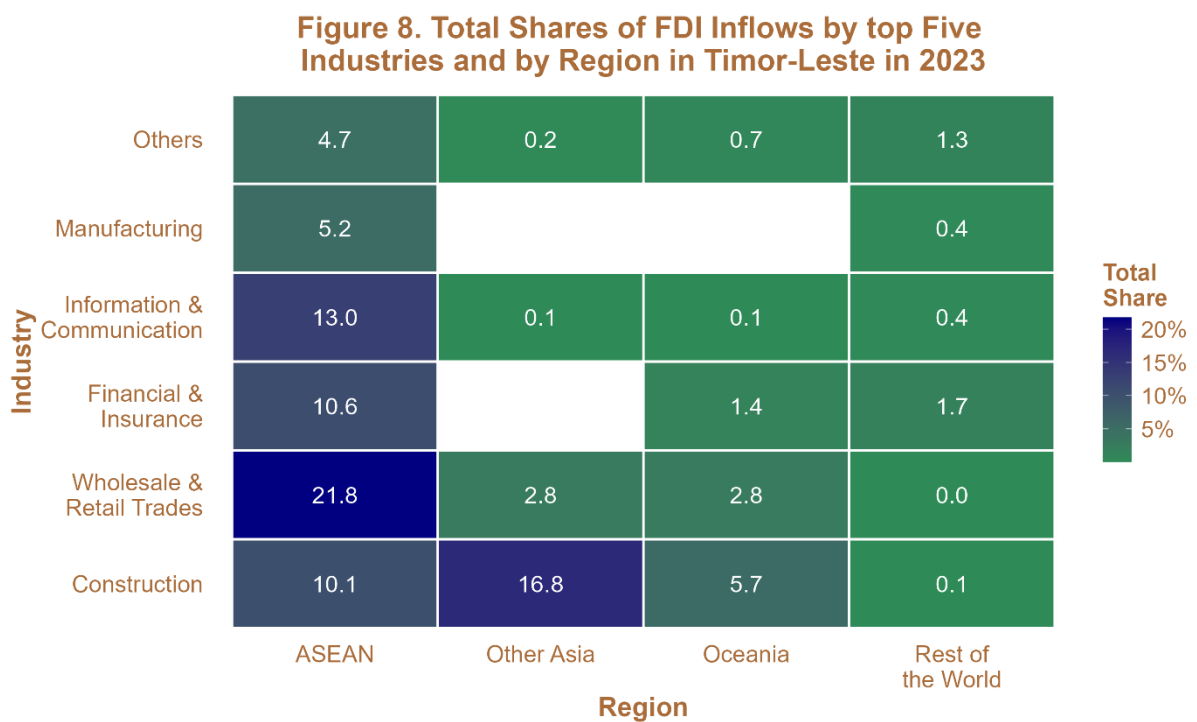
The fourth industry absorbing the FDI inflows was information and communication (13.6%). A significant portion of this was driven by inflows into the telecommunication and internet facilities. Similar to the financial and insurance industry, this industry's contribution to the non-oil economy is still insignificant.

The fifth industry attracting FDI inflow was manufacturing, with an inflow of US\$ 11.6 million, representing 5.7% of the total inflows. Despite securing a portion of FDI, this industry's contribution to the non-oil economy remains minor compared to the first two industries – construction and wholesale and retail trades. However, manufacturing holds significant potential to stimulate growth in other key sectors, such as agriculture. For example, improvements in local manufacturing can enhance the packaging of agriculture products, preserving the quality and freshness while increasing their values.

⁹ https://inetl-ip.gov.tl/wp-content/uploads/2024/09/TL-NA_2004-2023_PUBLICATION_26092024_1030am-1.pdf

An increased direct investment in the manufacturing industry can boost production capacity and efficiency, leading to higher quality and more competitive locally produced goods. This can also contribute to a reduction in the trade imbalance by decreasing the need for imports and increasing export potential.

The following chart illustrates the regional shares of FDI inflows for the top five industries. The majority of inflows into the construction sector came from countries in Other Asia, with a significant portion also originating from ASEAN and Oceania (Figure 8). In contrast, the other four industries saw most of their FDI inflows coming from ASEAN countries. The FDI flows from the rest of the world were insignificant across all industries.



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3. Summary

Total FDI inflows into Timor-Leste reached US\$ 205.5 million in 2023, with reinvested earning being the primary contributor. Regionally, ASEAN, Other Asia, and Oceania were the main sources of these inflows.

At the country level, the top five countries contributing to the FDI inflows in Timor-Leste were Indonesia, China, Vietnam, Singapore, and Australia. Together, these countries accounted for nearly 92% of the total FDI inflows.

In terms of industry distribution, the construction industry attracted the most FDI inflows, followed by wholesale and retail trades. Collectively, these two industries constituted over 60 percent of the total inflows in 2023. The next three leading industries attracting the FDI inflows were financial and insurance services, information and communications, and manufacturing. Combined, the top five industries accounted for more than 93% of the total FDI inflows.

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4. Technical Note

4.1. Coverage

To measure FDI in 2023, the BCTL collaborated closely with the INE-TL for data collection through the BAS. The 2023 BAS sample included 3,200 businesses, consisting of the top 300 companies based on turnover in 2023, while the remaining samples were drawn from businesses with lower turnovers. However, the FDI data is derived exclusively within the top 300 companies in BAS sample. Notably, the BAS sample design excluded multinational enterprises (MNEs) operating within the agricultural, public administration, and oil sector. For further details on the BAS methodologies and data collection process, please visit the official report on <https://inetl-ip.gov.tl/2024/09/27/timor-leste-business-activity-survey-2023/>.

4.2. Data Validation

The FDI calculation involved a detailed selection and analysis process, beginning with a close review of the top 300 companies in the BAS to identify those with foreign owners and shareholders, which were then classified as FDI enterprises. To be included in the FDI analysis, an ownership criterion of 10 percent or more of voting shares is applied, following the definition in the Balance of Payments Manual Sixth Edition (BPM6)¹⁰ by IMF. Following thorough data validation, 141 companies, representing 47 percent of the top companies, were identified as FDI enterprises, with some or all foreign ownership based outside Timor-Leste and comply with the voting power threshold.

To ensure data accuracy, a rigorous data validation process was applied, including imputation methods for non-respondent companies, those that had relocated, and under-coverage adjustments. This process undertaken by confronting BAS data with the business registration data from SERVE, IP and tax data from AATL of the Ministry of Finance. These validation techniques were essential in refining the FDI inflow data, enhancing reliability, and supporting the accuracy of economic indicators used to guide policy decisions in Timor-Leste.

¹⁰ <https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf>

4.3. Industry classification

For the analysis purpose, the selected enterprises were classified according to the activities they carry out during their operations based on International Standard Industrial Classification of All Economic Activities ¹¹(ISIC Re. 4) Revision 4 by United Nations Statistics Division (UNSD).

To assist analytical interoperability the FDI inflows were then aggregated into the top five industries based on their respective size. These were construction, wholesale and retail trades, financial and insurance, information and communication, and manufacturing. All remaining industries were classified as other industries.

4.4. Inflows of FDI

The FDI inflows were measured based on the information collected from selected enterprises that meet criteria for FDI companies during the BAS. Following the breakdown calculation of FDI inflows:

- The Total FDI is calculated by adding equity flow and other capital flow.
- Equity flow consists of two components: direct equity injection and reinvested earnings. Direct equity injection represents the capital directly invested into the company, while reinvestment earnings reflect profits that are reinvested within the business rather than distributed as dividends.
- Reinvested earnings is calculated by subtracting the profit distributed as dividends from the net operating profit within the reference period.
- Other capital direct investment flows include debts, such as loans, received from companies' foreign shareholders, while excluding loans from other entities outside of an existing direct investment relationship. Loans from unrelated enterprises, such as a foreign bank, are a part of the BOP and International Investment Position however they do not qualify as foreign direct investment.

¹¹ ISIC Rev. 4: https://unstats.un.org/unsd/publication/seriesm/seriesm_4rev4e.pdf

5. Glossary

ASEAN: A regional intergovernmental organization consisting of ten Southeast Asian countries (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) that promotes economic, political, and cultural cooperation. Timor-Leste is currently an observer and is on the path to full membership in ASEAN.

BoP: The Balance of Payments is a statistical record of all economic transactions between a country and the rest of the world over a specific period of time. It provides a systematic overview of the country's financial flows, including trade in goods and services, capital flows, and financial transactions.

Construction Industry: The construction industry encompasses the building, alteration, maintenance, repair, and demolition of structures and civil engineering works. This includes activities like building construction, civil engineering, and specialized construction activities.

Debt inflows (Other capital): Form of borrowing or lending between direct investors and their foreign subsidiaries, branches, and associated enterprises. This includes debt securities, supplier credits, non-participating preferred shares, loans, trade credits, and financial leases. Essentially, it encompasses any form of debt-based financing between these entities.

Direct Equity: Various forms of investment, including equity investments in foreign branches, shares in foreign subsidiaries and associated companies, and other capital contributions.

Direct Investment Enterprise: A company in which a foreign investor owns at least 10% of the voting shares or equivalent ownership. This ownership level signifies a significant degree of influence or control over the company, thereby establishing a direct investment relationship between the foreign investor and the direct investment enterprise.

Direct investment: A type of international investment where a company in one country (direct investor) establishes a long-term relationship and gains significant influence over a company in another country (direct investment enterprise). This is typically achieved by owning at least 10% of the voting power of the foreign company. The 10% threshold is

used as a standard measure to determine if a relationship constitutes FDI. Direct investment flows encompass both the initial investment and subsequent capital transactions between the two entities and their affiliates.

Direct investor: An entity, whether an individual, a corporation, a government, or a group of entities, that invests in a foreign enterprise with the intention of establishing a long-term relationship and exercising significant influence over its management. This is typically achieved by owning at least 10% of the voting power of the foreign enterprise.

Dividend: Distribution of earnings made by a company to its shareholders, distributing a portion of its profits.

Economic Growth: A sustained increase in a nation's production of goods and services over time, typically measured by changes in GDP.

Enterprise: An organizational unit engaged in production. It can be a corporation, a non-profit organization, or an unincorporated entity like a sole proprietorship or partnership.

Equity inflows: The investment of capital into a foreign enterprise in the form of equity shares or other capital contributions. This includes equity investments in branches, subsidiaries, and associated companies.

Financial and Insurance Activities Industry: This industry provides financial and insurance services to individuals and businesses. It includes activities like banking, insurance, and financial intermediation.

Income: The earnings derived from investments, labour, and other economic activities. In the context of FDI, income refers to the financial gains that local and foreign investors achieve from their investment activities in Timor-Leste.

Information and Communication Industry: This industry provides information and communication services to individuals and businesses. It includes activities like telecommunications, internet service providers, broadcasting, and publishing.

IIP: A comprehensive statistical statement that records the stock of a country's external financial assets and liabilities at a specific point in time. It reflects the value of financial assets held by residents that are claims on non-residents, including gold bullion held as reserve assets, and the liabilities of residents to non-residents.

Manufacturing Industry: The manufacturing industry involves the processing of raw materials and the assembly of components to produce finished goods. It includes activities like food manufacturing, textile manufacturing, metal products manufacturing, and machinery manufacturing.

Operating Profit: The profit earned from a company's core business operations, excluding expenses like interest and taxes. For FDI analysis, operating profit measures the success and viability of foreign investments.

Other Asia: A term used in this report to describe countries in Asia continent excluding members of ASEAN namely Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

Other Industries: Encompasses industries not classified under top five industries. This includes mining and quarrying; electricity, gas, steam and air-conditioning supply; water supply, sewerage, waste management and remediation activities; transportation and storage; accommodation and food services; real estate's activities; professional, scientific and technical activities; administrative and support service activities; education, human health and social work activities; arts, entertainment

Public Investment: Government expenditure on minor capital and capital development appropriation category.

Reinvested earnings: Refers to the portion of profits that is not distributed as dividends (profit returns) but rather retained and reinvested back into the business.

Wholesale and Retail Trades Industry: This industry involves the purchase, sale, and distribution of goods to businesses (wholesale) and consumers (retail). It includes activities like wholesale trade, retail trade, and repair of motor vehicles and motorcycles.

6. Appendices

The following tables represent the published data on FDI inflows, which are made available as an excel dataset. These tables will be extended annually as the FDI data for the respective year becomes available.

Appendix A: FDI inflows by top five countries

Table 1. FDI inflows by top five countries (US\$ million) in 2023





Country	2023	2024	2025	2026	2027
Indonesia	85.3	NA	NA	NA	NA
China	39.9	NA	NA	NA	NA
Vietnam	22.4	NA	NA	NA	NA
Singapore	22.0	NA	NA	NA	NA
Australia	18.6	NA	NA	NA	NA
Rest of the World	17.2	NA	NA	NA	NA
Total Inflows	205.5	NA	NA	NA	NA

Appendix B: FDI inflows by top five industries

Table 2. FDI inflows by top five industries (US\$ million) in 2023

Industry	2023	2024	2025	2026	2027
Construction	67.2	NA	NA	NA	NA
Wholesale and Retail Trades	56.3	NA	NA	NA	NA
Financial and Insurance Service	28.3	NA	NA	NA	NA
Information and Communication	28.0	NA	NA	NA	NA
Manufacturing	11.6	NA	NA	NA	NA
Others	14.2	NA	NA	NA	NA
Total Inflows	205.5	NA	NA	NA	NA

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