

Timor-Leste – A Strategic Gateway for Investment

Part 1 – Investment in Timor-Leste

1.1. Introduction

Following Timor-Leste’s accession to the Association of Southeast Asian Nations (“**ASEAN**”) on 26 October 2025, Malaysian companies are anticipating expanding opportunities for trade and investment in the country. The accession is expected to strengthen regional integration, enhance investor confidence, and promote the alignment of Timor-Leste’s regulatory and commercial systems with ASEAN standards. With its link to the Community of Portuguese Speaking Countries (CPLP), Timor-Leste also serves as a gateway to African, European, and Latin American markets for Malaysian companies.

This article, jointly prepared by Skrine and Miranda Law Firm, highlights key Malaysian and Timor-Leste considerations for Malaysian outbound investment into Timor-Leste. It is not intended to constitute legal advice in any way.

1.2. Recent Trade and Investment Figures

In 2024, bilateral trade was valued at approximately USD 18.7 million. Malaysian exports to Timor-Leste accounted for USD 18.4 million, and imports from Timor-Leste totalled USD 0.35 million.

In 2023, Malaysian exports recorded USD 18.4 million, while Timor-Leste’s exports to Malaysia were approximately USD 38,000.

It was reported by the Malaysian Ministry of Foreign Affairs that the total bilateral trade in 2023 reached USD 43.7 million.

In 2022, Malaysia ranked among Timor-Leste’s key import partners, supplying approximately 5.8% of total imports, valued at about USD 54 million.

As of 2025, over 200 Malaysian small and medium-sized enterprises (“**SMEs**”) are reported to be operating in Timor-Leste. Primary focus is on the retail, food services, construction, and automotive sectors.

1.3. Examples of Malaysian Investment in Timor-Leste

1) Weststar GAP and Timor GAP – Aviation and Oil & Gas Support

In January 2025, Weststar Aviation Services (Malaysia) formed a joint venture, Weststar GAP, with Timor GAP E.P. The purpose of this venture is to provide helicopter transport services for petroleum operations conducted by Santos in Timor-Leste’s Bayu-Undan field.

2) Weststar Defence and Global Komited – Defence Procurement

Weststar’s subsidiary, Global Komited, supplied the Timor-Leste Defence Force with general-service trucks under a contract valued at approximately USD 2.6 million.

3) Malaysian SMEs – Construction, Retail, and IT Services

Public listings indicate notable activity by at least 16 Malaysian companies across construction, retail (including supermarkets and F&B), IT solutions, and automotive accessories. The individual investment sizes range from approximately USD 30,000 to USD 3.9 million.

Part 2 – Timor-Leste Legal and Regulatory Considerations for Inbound Investment

2.1. Liberal Foreign Direct Investment

Timor-Leste offers a compelling investment environment supported by a modern legal framework designed to protect and incentivize foreign capital. While the **Private Investment Law (Law No. 15/2017)** (“PIL”) is not mandatory, it provides a robust set of benefits that investors can leverage, particularly for medium to large-scale ventures aligned with national development priorities.

The PIL encompasses a wide range of investment activities, including company incorporation or acquisition, joint ventures, real estate development, hospitality, industrial and agricultural projects, and technology-driven initiatives. Investors are guaranteed key protections such as:

- Fair and equitable treatment
- Protection against expropriation
- Access to judicial remedies
- Repatriation of profits and dividends
- Secure land rights and leasing of State land
- Freedom to hire foreign talent

Further, Timor-Leste is a signatory to the ICSID Convention and the New York Convention, ensuring access to international arbitration and enforcement of foreign arbitral awards—an essential safeguard for global investors.

Fiscal Incentives

Investors focusing on priority sectors—including agriculture, forestry, fisheries, aquaculture, tourism, and manufacturing—and in targeted regions outside Dili’s urban perimeter can benefit from the PIL’s generous fiscal incentives, which include:

- Tax exemptions of up to 10 years for investments in less-developed areas (5 years within Dili).
- Customs exemptions of up to 100% on imported goods essential to the investment.

Combining these incentives with Timor-Leste’s competitive tax rates makes the country an attractive destination for strategic, long-term investment.

2.2. Favourable tax rates and ease of incorporation

Timor-Leste offers one of the most competitive tax regimes in the region, featuring a flat corporate and personal income tax rate of just 10% for all non-upstream oil sector activities. This transparent tax framework is a key driver in attracting foreign investment, offering predictability and cost-efficiency for international businesses.

Setting up operations in Timor-Leste is straightforward. The incorporation of companies and registration of foreign branches are managed through a centralised one-stop shop, SERVE, which streamlines all business registration procedures. Minimum capital requirements are low, and the process is designed to be fast and accessible.

Key advantages for foreign investors include:

- No mandatory local shareholding requirements in most sectors
- 100% foreign management permitted, with only a local representative required
- Reduced administrative burden

2.3. No restrictions on importation and repatriation of capital

Timor-Leste offers a highly favourable financial environment for investors, with no restrictions on the movement of capital into or out of the country. This open capital regime ensures that investors can freely transfer dividends, profits, and other returns to their home jurisdictions or reinvest across borders without bureaucratic hurdles.

A key advantage is Timor-Leste's adoption of the U.S. Dollar (USD) as its official currency. This substantially eliminates foreign exchange risk and provides a stable monetary foundation for international transactions and allowing businesses to plan, capitalize, and scale investments with confidence.

The banking sector is supported by well-established commercial banks from Australia, Portugal, and Indonesia. These institutions offer reliable financial services, including corporate financing, international transfers, and investment support, reinforcing trust in the local financial infrastructure.

2.4. Anti-Bribery and Compliance

Timor-Leste has taken decisive steps to strengthen its legal and institutional framework for combating corruption, reinforcing its commitment to transparency and good governance—key pillars for investor confidence.

The **Anti-Corruption Law (Law No. 7/2020)** represents a major milestone in the country's legal modernisation. It criminalises a wide range of corrupt practices, including bribery in both the public and private sectors. Further, it introduces mechanisms for asset declaration, whistleblower protection, and corporate liability, aligning Timor-Leste's practices with international standards such as the U.S. Foreign Corrupt Practices Act and the UK Bribery Act.

Timor-Leste's Anti-Corruption Commission ("**CAC**") plays a central role in investigating corruption offences in close coordination with the Public Prosecutor's Office. The CAC is empowered to conduct criminal investigations, promote public awareness, and has received international support to build capacity in financial and digital investigations, asset recovery, and inter-agency coordination.

Reinforcing its transparency credentials, Timor-Leste is a long-standing member of the Extractive Industries Transparency Initiative (EITI). As one of the first countries to achieve full EITI compliance, Timor-Leste has consistently published detailed reports on petroleum revenues, licensing, and public expenditures. The country's Transparency Portal provides real-time access to budgetary and extractive sector data, underscoring its commitment to open governance.

This institutional environment means operating in a jurisdiction that values rule of law, ethical business practices, and institutional accountability—a solid foundation for sustainable and responsible investment.

Part 3 – Malaysian Legal and Regulatory Considerations for Outbound Investment

3.1. Exchange Control Regulations and Repatriation of Profits

Under the **Financial Services Act 2013** and Foreign Exchange Policy ("**FEP**") Notices issued by Bank Negara Malaysia ("**BNM**"), Malaysian residents are generally permitted to make investments in foreign currency assets offshore, subject to specific reporting and threshold requirements.

Investment in Foreign Currency Assets Offshore Notification: Resident entities must notify or obtain prior approval from BNM if their investment in foreign currency assets exceeds RM50 million per calendar year using ringgit funds converted into foreign currency.

Funding Source: Investments financed from foreign-currency accounts or foreign borrowings are typically exempt from approval requirements.

Repatriation of Profits: Malaysian law does not mandate that profits derived from foreign operations (including those in Timor-Leste) be repatriated. Resident companies may retain profits abroad for reinvestment or working capital. When dividends, profits, or sale proceeds are remitted into Malaysia, they must be reported to BNM under the FEP framework, which may trigger Malaysian income tax liability. Companies should maintain transparent and auditable records of all offshore funds.

3.2. Tax Considerations (Effective Date of Foreign-Sourced Income Taxation & ASEAN Framework)

Malaysia traditionally operated a territorial basis of taxation, but this was revised by the **Finance Act 2021** which re-introduced taxation of foreign-sourced income.

Effective Date: From 1 January 2022, foreign-sourced income remitted into Malaysia by resident companies, LLPs and individuals is generally subject to Malaysian income tax.

Transitional Relief: The **Income Tax (Exemption) (No. 5) Order 2022**, as amended, provides relief for certain classes of income (e.g., foreign-source dividends) meeting prescribed conditions.

No Malaysia–Timor-Leste Double Taxation Agreement (“DTA”): Malaysia and Timor-Leste do not currently have a DTA; unilateral foreign tax credit relief under **Section 132B of the Income Tax Act 1967** may be available, subject to documentation and limits.

No ASEAN-Wide Tax Treaty: ASEAN does not currently have a unified tax treaty or harmonised cross-border tax framework. Cross-border tax outcomes depend on each state’s domestic laws and any bilateral DTAs.

3.3. Anti-Bribery and Compliance

The Malaysian Anti-Corruption Commission Act 2009 (“**MACC Act**”) applies extraterritorially to Malaysian companies and their associated persons. **Section 17A** imposes corporate liability for corrupt acts committed by associated persons, unless the company demonstrates that it had adequate procedures in place to prevent such conduct. Implementation of robust anti-bribery compliance measures and conducting thorough due diligence on local partners, intermediaries, and government-facing activities in Timor-Leste are strongly recommended.

3.4. Export of Capital and Sanctions

Currently, there are no Malaysian sanctions or restrictions on capital investment in Timor-Leste. All companies must comply with any UN Security Council sanctions implemented domestically, including obligations under **the Strategic Trade Act 2010** where applicable.

Conclusion

Timor-Leste's recent accession to ASEAN marks a transformative milestone, unlocking new opportunities for trade and investment across the region. As ASEAN continues to expand, Timor-Leste emerges as a natural and strategic partner for companies from member states—particularly Malaysian businesses—seeking to tap into high-growth frontier markets.

Timor-Leste offers fertile ground for expansion across multiple strategic sectors due to its business-friendly legal and regulatory framework, flexible investment procedures, and strong government support for private sector development.

Key strategic sectors include:

- Agriculture and Agribusiness
- Tourism and Hospitality
- Fisheries and Aquaculture
- Natural Resources
- Renewable Energy
- Infrastructure and Logistics
- Technology and Digital Services

Timor-Leste combines political stability, a USD-based currency, and open capital movement, to create a secure and predictable environment for international investors. Its commitment to regional integration and economic diversification makes it an ideal destination for pioneering ventures and long-term growth. It offers a compelling opportunity to grow with ASEAN's newest member.

Disclaimer

This note is provided for general information only and does not constitute legal advice. Specific professional advice should be obtained in relation to the structure and circumstances of each investment.

Authors



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About the Firms

Miranda Law Firm (Miranda & Associados) is a leading international law firm headquartered in Lisbon, Portugal, with a strong presence across Portuguese-speaking countries in Europe, Africa and Asia. Renowned for its deep expertise in cross-border transactions, private investment, energy, infrastructure, and regulatory matters, Miranda offers strategic legal solutions to multinational corporations and investors operating in complex jurisdictions. With close to 40 years of existence and a network of offices in 15 countries, the firm combines local insight with global standards, making it a trusted partner for navigating emerging markets. Miranda and its Partners have been working with Timor-Leste since 2000, and the Firm set up its local office in Dili in 2006.

Skrine (Advocates & Solicitors) is one of Malaysia's largest law firms with a global reputation. Founded on 1 May 1963, the firm is home to more than 100 lawyers across the Corporate, Dispute Resolution & Intellectual Property Division. The firm is also the exclusive member of Lex Mundi, a network of leading independent law firms in more than 160 jurisdictions.