

Reality Check: The Challenges of Integrating Timor-Leste into ASEAN

By Denis Hew, Mae Chow, and Scarlet Xu Ni

Timor-Leste's accession offers market access benefits, but its structural vulnerabilities, such as depleting petroleum reserves, weak institutions, and narrow export base, raise questions about premature timing. The integration therefore tests ASEAN's capacity to achieve equitable development without widening existing disparities among member states.

Timor-Leste officially became ASEAN's eleventh member state on October 26, 2025, during the recent ASEAN Summit in Kuala Lumpur, Malaysia. This development marks a milestone for both ASEAN and Timor-Leste, carrying significant symbolic and strategic weight. Amid the celebratory rhetoric and hopeful diplomatic fanfare, a critical question remains: Is ASEAN truly ready to welcome its newest member? While Timor-Leste's accession fulfils a long-standing commitment to regional integration, ASEAN continues to grapple with persistent internal challenges, particularly its wide economic disparities, that could strain the bloc's capacity to achieve its integration agenda over the longer term.



Security challenges across the region further compound these challenges. The precarious ceasefire between Cambodia and Thailand, the ongoing political and humanitarian crisis in Myanmar, and the intensifying US-China great power rivalry have tested ASEAN's unity and effectiveness in managing disputes. Against this backdrop, Timor-Leste's accession to ASEAN can be seen as a litmus test of ASEAN's cohesiveness and leadership. ASEAN centrality—its long-cherished approach of being in the driver's seat when engaging with external partners—will also be put to the test.

Opportunities and Potential Benefits

Timor-Leste's accession to ASEAN is more than a bureaucratic enlargement; it is a mutually beneficial opportunity for both sides. For Timor-Leste, the transition from observer to full member status could jump start its economy while conferring strategic, geopolitical and institutional advantages that support its long-term development.

For ASEAN, welcoming Timor-Leste offers a timely opportunity to reaffirm its long-standing commitment to regional unity, inclusivity and shared prosperity, which are values that underpin its community-building efforts. To the broader international community, these efforts also reinforce ASEAN's relevance and credibility as a cohesive and thriving regional community.

Economically, ASEAN membership would vastly improve Timor-Leste's access to global markets and integration into regional supply chains. Under the ASEAN Trade in Goods Agreement (ATIGA), 98.6 percent of products traded among member states already enjoy **zero tariffs**. For Timor-Leste, which imports **more than 60 percent** of its products from ASEAN, membership would not only reduce import costs but also grant duty-free access for its own exports to regional markets. It will further enable Timor-Leste to leverage ASEAN's extensive network of external free trade agreements (FTAs) and to deepen partnerships with other major economies around the world. Participation in ASEAN's regional frameworks such as ATIGA and the ASEAN Comprehensive Investment Agreement (ACIA) will open new avenues for Timor-Leste to boost trade and attract foreign investments.

The enthusiasm in **supporting** Timor-Leste's transition also presents ASEAN with a valuable opportunity to re-evaluate the effectiveness of its capacity-building programs and technical cooperation initiatives. Just as how ASEAN supported Laos and Cambodia in their accession to ASEAN in

the 1990s, it can now draw on these experiences to better assist Timor-Leste in narrowing the development gap (NDG).

Beyond economics, Timor-Leste's accession carries symbolic and strategic value. As the region's youngest member state, having gained independence from Indonesia, its inclusion in ASEAN embodies reconciliation, resilience, and regional solidarity. Once divided by conflict, Indonesia and Timor-Leste have transformed their relationship into one of mutual respect and dialogue, with Jakarta emerging as a **key advocate** for Timor-Leste's membership.

Geographically, Timor-Leste occupies a strategic position in the Indo-Pacific, bordering Australia across the Timor Sea. Its close historical and cultural ties with **Australia** and **the Pacific Islands** will strategically extend ASEAN's geopolitical footprint eastward, enhancing engagement with partners such as Australia and New Zealand. Both countries have vested interests in supporting Timor-Leste's development and maintaining peace and stability in the Pacific region. At the same time, Timor-Leste's close economic and security ties with China have also **raised concerns** among some partners, like Australia, over potential economic coercion and expanding Chinese influence in the Indo-Pacific. By joining ASEAN, Timor-Leste can diversify its partnership and strengthen its diplomatic autonomy, helping to balance great power pressures while aligning its foreign policy with ASEAN's principles of strategic neutrality and openness.

Timor-Leste's Economic Challenges

With a GDP of only **1.8 billion USD** in 2024, it is ASEAN's smallest economy. Across most development indicators, Timor-Leste tracks closely with Cambodia, Laos, and Myanmar (CLM), the bloc's weakest economic performers and least developed members. Its 2023 UNDP Human Development Index (HDI) score of 0.63 places it, alongside CLM, and ranks below the lower-middle-income average. Timor-Leste's narrow export base exposes structural vulnerabilities that will likely intensify as its major resources decline over time. Oil, gas and coffee accounted for **over 99 percent** of total merchandise exports in 2021, with fuels and mining products alone comprising about **92 percent** in 2022.

Given that intra-ASEAN trade makes up about **a quarter** of ASEAN commerce, Timor-Leste's highly concentrated export structure further narrows its already limited scope for regional integration. Its export basket offers little complementarity with regional economies. Beyond petroleum and coffee, Timor-Leste lacks the manufacturing capacity at this stage to join the region's established value chains. Moreover, structural constraints characterised by legal and regulatory impediments, weak human capital, inadequate infrastructure, and a limited domestic market, pose significant challenges to investment and regional economic integration.

The depletion of petroleum reserves threatens to collapse the state-led growth model that has sustained Timor-Leste since

independence. Petroleum revenues have historically financed over **70 percent** of the government budget through the state-owned Petroleum Fund. The public sector accounts for approximately **60 percent of non-oil GDP**, creating an economy **structurally dependent on government expenditure**. However, oil and gas production from the Bayu-Undan field, Timor-Leste's major producing field, **completely ceased** in 2025. With no immediate production to replace it, the country now relies entirely on drawing down the Fund's accumulated reserves. The Greater Sunrise gas field presents a **potential fiscal lifeline**, but risks associated with its development need to be carefully managed.

Timor-Leste's weak record in implementing reforms casts doubt on its readiness for ASEAN membership obligations. Since 2013, it has received **extensive capacity development technical assistance** programmes from the Asian Development Bank (ADB) to prepare for ASEAN integration. While it has managed to join ASEAN, the underlying economic and institutional deficiencies persist. Alignment with major regional economic agreements, such as ATIGA, also remains at a preparatory stage. As Timor-Leste begins implementing its ASEAN commitments, it will continue to depend heavily on technical and financial assistance from member states, dialogue partners, and international institutions. The combination of a declining revenue base, an undiversified economy, weak institutions, and limited reform capacity underscores the country's structural fragility.

Conclusion

These concerns surrounding Timor-Leste's accession underscore a broader policy problem: ASEAN's membership enlargement risks further widening the region's stark and persistent development gaps. This remains one of ASEAN's key internal challenges, with direct implications for realising the AEC and achieving the goals set in the ASEAN Vision 2045. Before Timor-Leste, the last country to join ASEAN was Cambodia in 1999, and similar reservations were expressed back then about its capacity to undertake the required economic and institutional reforms. In the late-1990s and early 2000s, ASEAN faced the dual challenge of integrating its transitional economies of Cambodia, Laos, Myanmar, and Vietnam (CLMV), while deepening economic integration and strengthening regional connectivity (especially infrastructure development and trade facilitation). To address this, a two-track approach was adopted to allow the CLMV countries more time to catch up with their more developed members. However, more than two decades later, these development gaps persist, and the various work plans under the Initiative for ASEAN Integration (IAI), the main regional framework to narrow these gaps—have proven to be largely ineffective. The accession of Timor-Leste, whose institutional capacity and domestic economy are weaker than Cambodia at the time of its entry, will only amplify ASEAN's longer-term challenge

of achieving equitable and sustainable development. From an economic perspective, this raises legitimate questions about whether Timor-Leste's admission to ASEAN was premature.

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