2025 Palau Investment Climate Statement

Executive Summary

The Republic of Palau is a small island nation of about 350 islands in the western Pacific Ocean, with an estimated population of about 18,000 people. The government is the country's largest employer, with approximately 30 percent of the workforce, and the tourism sector was Palau's biggest economic driver, contributing an estimated 40 percent to GDP. In 2023, GDP was $282 million, approximately $16,014 per capita. Palau's official currency is the U.S. dollar, and the country has three U.S.-headquartered banks. Apart from tourism, commercial industries include wholesale/retail trade, business services, local commercial fisheries, and construction. Fish, coconuts, breadfruit, bananas, and taro cultivation constitute the subsistence sector, though the country's agricultural base is small. Palau has a limited export base and production capacity, making it highly vulnerable to external shocks. Already limited exports hit bottom with the implementation of the Palau National Marine Sanctuary in 2020, as foreign companies were prohibited from fishing in the Palau Exclusive Economic Zone. U.S. military exercises have supported the economy through the purchase of fuel, hotel rooms, car and boat rentals, and scuba diving activities. The country continues to rely heavily on imports and continues to run trade deficits. In 2024, Palau's exports to the United States were $2.2 million compared to imports from the United States of $21 million.

The government is reshaping its priorities, plans, and policies for investment in infrastructure affecting the economy, education, health, environment, and human resources. Limited resources require public and private collaboration and partnership to improve standards of living and the business environment. A series of executive orders direct Palau's National Security Coordinator to screen certain visa, work permit, and foreign investment applications.

Palau's economy remains dependent on donor funding. Since independence in 1994, Palau has operated under a Compact of Free Association (COFA) with the United States. A new COFA review agreement entered into force March 2024 and provides $890 million in economic

assistance over 20 years. U.S. government agencies also provide direct technical and grant assistance through the Federal Programs and Services Agreement, which was also renegotiated in 2024. Palau receives additional aid from Australia, Japan, Taiwan, and other countries with which it has diplomatic relations. It also receives funding from international organizations such as the World Bank and the Asian Development Bank (ADB). The Japan International Cooperation Agency (JICA) is assisting the Palau Public Utilities Company upgrade the national electricity grid and Australia will fund the installation of batteries to the Independent Power Producer (IPP), which had built a solar photovoltaic facility to advance Palau's goal of becoming net zero by 2032.

According to the ADB, Palau's GDP grew 6.6 percent in fiscal year 2024, driven by continued recovery in tourism.

The Foreign Investment Act (Palau National Code Title 28, Chapter 1) guides the foreign investment process in Palau, and Foreign Investment Regulations restrict some sectors to Palauan citizens, including wholesale or retail sale of goods, all land and water transportation, travel and tour agencies, and commercial fishing, and "any such other businesses as the Board may determine." Other sectors are semi-restricted, requiring a Palauan partner.

While the government welcomes foreign investors, Palau's investment climate poses challenges. Some U.S. investors have made allegations of corrupt practices when seeking government permits, doing business with local partners, and in public procurement processes. Foreigners cannot own land in Palau, but they can lease land and own buildings on leased land. Leased land cannot be released or transferred from the lessee to another. Leased land must be returned to the state government unless it was with a private landowner. Establishing secure land title may be complicated due to the complexity of Palau's traditional land ownership system and occasional overlapping claims.

Palau is not a member of the World Intellectual Property Organization (WIPO), the World Trade Organization (WTO), or any other organization or convention protecting intellectual property rights. Palau has no bilateral investment protection agreements and is not a member of any free trade association. Human resource constraints are a challenge for foreign investors and,

third country nationals from Bangladesh and the Philippines comprise a large proportion of the labor force.

An overview by the World Bank indicated that Foreign Direct Investment is directed towards the tourism and real estate sectors. Main investment partners include China, Taiwan, Japan, and the United States.

Section 1. Openness to, and Restrictions upon, Foreign Investment

Policies Towards Foreign Direct Investment

The government actively seeks foreign direct investment, and the country's Foreign Investment Board (FIB) is responsible for approving and regulating foreign investment. Palau extends no specific financial incentives to foreign investors.

Limits on Foreign Control and Right to Private Ownership and Establishment

The Foreign Investment Act lists a significant number of restricted and semi-restricted sectors. The full text of the Foreign Investment Act is available online.

- Restricted businesses do not allow non-Palauan ownership or partners. Semi-restricted businesses can include foreign ownership, as long as a Palauan citizen also has an ownership interest. Unrestricted businesses eligible for full non-Palauan ownership are not explicitly named in the Act.

The Foreign Investment Board may, however, amend the semi-restricted sector list for "any such other businesses as the Board may determine."

The FIB must approve all foreign direct investment and has 90 days to review applications. The review process entails circulating applications to other government entities for comments. In addition to the sector in which the investment will flow, the Board requires a statement of the level of investment (in U.S. dollar amounts), the length of time the investment will be in Palau, the nationality of the investors, and the percent ownership of each investor. The Board may

request additional documentation from investors if it has questions about the details of the investment. Presidential Directives 24-65 and 25-66 instruct the National Security Coordinator to review certain visa, work permit, and foreign investment applications to strengthen immigration controls. The government is working towards streamlining and digitizing the application process to support more comprehensive and faster reviews.

Other Investment Policy Reviews

The Economic Advisory Group for Palau issues an annual report required under the U.S.-Palau Compact of Free Association (COFA) with recommendations for economic reforms that affect investments.

Business Facilitation

Palau has taken significant steps to improve the ease of starting and operating a business, most notably with the January 20, 2025, implementation of a new Corporations Act and online business entity registry. This system, managed by the Financial Institutions Commission (FIC), replaces the older paper-based process, enabling incorporation and maintenance filings through standardized online forms. Palau is a member of the WTO Investment Facilitation for Development Agreement, reflecting its support for improving global investment processes.

In addition to corporate registration, foreign-owned businesses must obtain a Foreign Investment Approval Certificate (FIAC) from the Palau Foreign Investment Board, which decides on complete applications within 90 days. Companies must also register with the Palau Tax Service for a Tax Identification Number (TIN), and some sectors require additional licenses or permits from national or state-level authorities.

Outward Investment

The government neither incentivizes nor restricts outward investment.

Section 2. Investment and Taxation Treaties

Palau has no bilateral investment protection agreements and is not a member of any free trade associations.

Palau does not have a bilateral taxation treaty with the United States. The European Union in 2024 moved Palau from its list of non-cooperative tax jurisdictions to its gray list.

Palau is a signatory to the Samoa Agreement of 2023, which provides the legal framework for relations between the EU and the 77 OACPS member states (replacing the Cotonou Agreement which Palau signed in 2020).

Section 3. Legal Regime

Transparency of the Regulatory System

Regulatory and accounting systems are largely consistent with international norms. Bureaucratic procedures (e.g., permitting processes, approvals) may lack transparency and be influenced by cronyism, partly due to the country's small size and extensive family networks. Proposed laws and regulations must be made available in draft form for public comment pursuant to the Administrative Procedures Act, Title 6 of the Palau National Code, but the drafts are not posted online. Generally, tax, labor, environment, health and safety, and other laws and policies do not impede investment. There are no informal regulatory processes managed by nongovernmental organizations or private sector associations, but the government requests their input when considering foreign investment applications.

Executive Order No. 460 of 2021 established a policy for public private partnership governance and transparency.

International Regulatory Considerations

The Pacific Island Forum, of which Palau is a member, has a model regulatory and policy framework focused on:

- competition,
- fair trading, and
- consumer protections

Palau is not a WTO member.

Legal System and Judicial Independence

The legal system in Palau is a mix of civil, common, and customary law. The legal system is patterned on common law proceedings as they exist in the United States. The judiciary comprises a four-member Supreme Court, a Court of Common Pleas, and a Land Court. The Supreme Court of Palau has a trial division and an appellate division. Its website contains court rulings, legal codes, and public law.

Laws and Regulations on Foreign Direct Investment

The Foreign Investment Act codified by Chapter 1 of Title 28 of the Palau National Code is the implementing registration for all foreign investment. Non-citizens wishing to invest in the Republic of Palau must obtain a Foreign Investment Business License (FIBL). The Foreign Investment Board reviews FIAC applications and enforces foreign investment laws and regulations.

The Palau Goods and Services Tax (PGST), a 10 percent surcharge on all goods and services purchased in Palau, came into effect on January 1, 2023, replacing the Gross Revenue Tax (GRT) for businesses that have annual gross revenues greater than $50,000. The government continues to refine the PGST as the public and Palauan policymakers have raised concerns about its implementation. Concurrently, the government also introduced a 12 percent Business Profits Tax on net income, paid quarterly, which replaced the Gross Revenue Tax (GRT). Businesses with less than $50,000 in annual gross income are not subject to GRT or PGST but pay a business license fee.

Competition and Antitrust Laws

Palau does not currently have any antitrust legislation, although the Foreign Investment Board considers competition-related concerns in its review process.

Expropriation and Compensation

Although the Palauan constitution provides for the right of the government to condemn land for national interest ("eminent domain"), there are no reported property-expropriation cases. Most of the land is owned by state governments and private Palauan citizens through complex family lineages.

Dispute Settlement

ICSID Convention and New York Convention

Palau is not a party to the International Centre for Settlement of Investment Disputes (ICSID) Convention.

Investor-State Dispute Settlement

There are no ongoing investment disputes involving the Government of the Republic of Palau and foreign investors. There is a very limited record of foreign investment disputes in Palau due to the small size of foreign investment in the country. The most common type of business disputes is with landowners over land use, and land rights issues, and as there is currently no official dispute resolution procedure. Land disputes are frequently resolved informally or after protracted court proceedings.

International Commercial Arbitration and Foreign Courts

The Republic of Palau does not have any alternative dispute resolution (ADR) mechanisms or domestic arbitration bodies available as a means for setting disputes between two private parties.

Bankruptcy/Insolvency Regulations

There is no legal provision for bankruptcy in the Republic of Palau.

Section 4. Industrial Policies

Investment Incentives

The Government of Palau does not offer incentives to domestic or foreign investors.

Foreign Trade Zones/Free Ports/Trade Facilitation

The Free Trade Zone Act of 2003 that established the Ngardmau Free Trade Zone Authority was repealed and no longer in effect. Another "Tax Free Zone" was established in 2009 in the state of Melekeok, covering a one-mile radius from the Capitol of Palau.

Performance and Data Localization Requirements

Palau does not currently have laws or regulations on domestic storage or localization requirements.

Section 5. Protection of Property Rights

Other than the foreign-ownership restrictions for certain business sectors, private entities may engage in all other forms of legal remunerative activity.

Real Property

Establishing secure land title is complicated due to the complexity of the traditional land ownership system and occasional overlapping claims. Banks offer mortgages, but rarely do so with land as collateral, and the recording system is reliable. The Land Court has primary responsibility to adjudicate disputes over land ownership. Non-Palauans may not purchase land, although they are able to lease for up to 99 years. Non-citizen investors must negotiate lease agreements directly with private owners or the state government.

Intellectual Property

Palau is not a member of the WIPO or the WTO, but it participates in the Asia-Pacific Economic Cooperation (APEC) Intellectual Property Experts Group. Palau does not have intellectual property rights laws. Senate Bill No. 12-36, the "Trademark Act," is currently under legislative review and seeks to establish Palau's first comprehensive trademark law.

For a list of lawyers in Palau, please see the U.S. Embassy website.

For additional information about national laws and points of contact at local IP offices, please see WIPO's country profiles.

Section 6. Financial Sector

Capital Markets and Portfolio Investment

Palau has no stock exchange.

Money and Banking System

The Palau Financial Institutions Commission is the regulatory body responsible for establishing and maintaining the financial supervisory system in Palau. Palau uses the U.S. dollar and has no central bank. The country has three U.S.-headquartered banks: Bank of Hawaii, Bank of Guam, and BankPacific. All three are publicly owned U.S. companies with headquarters in Honolulu and Guam. Under COFA these U.S. Banks extend deposit insurance through FDIC to their branches in Palau. Two local banks are registered with the FIC: the Asia Pacific Commercial Bank, and Palau Investment Bank. The National Development Bank of Palau is a state-owned bank.

Foreign Exchange and Remittances

Foreign Exchange

The government does not impose any restrictions on converting or transferring funds

associated with an investment. There have been no reported difficulties in obtaining foreign exchange as most funds are in U.S. dollars. Other than best practices to review suspicious money transfers (e.g., money laundering), there are no restrictions on converting or transferring funds associated with an investment.

Remittance Policies

While the government encourages reinvestment of profits locally, there are no laws restricting repatriation of profits, dividends, or other investment capital acquired in Palau. A 4 percent remittance tax is assessed on non-citizens transferring money out of the country.

Sovereign Wealth Funds

Palau has no sovereign wealth fund (SWF). The Compact of Free Association established a Trust Fund for Palau that is independently overseen by the COFA Trust Fund Board composed of five members who are appointed by the President of Palau and confirmed by the Senate.

Section 7. State-owned Enterprises

Palau has four state-owned or quasi-state enterprises. These include the:

- Palau Public Utilities Corporation, which produces and distributes water and electricity;
- Palau National Communications Corporation, the country's main telecommunications provider;
- Belau Submarine Cable Corporation; and
- National Development Bank of Palau

Though there have been some reforms, state-owned enterprises (SOEs) continue to require substantial government financial support.

Privatization Program

Palau has no ongoing privatization program. The government is deeply involved in some

sectors either because of the role of an SOE, such as in water and electrical utilities and telecommunications, or because the government leads development efforts such as in the agricultural sector.

Section 8. Corruption

Corruption remains a challenge to doing business in Palau, despite a robust legal mechanism to detect and prosecute corruption. The Code of Ethics regulates transactions by national and state public employees, officials, and elected officials, as well as anyone making campaign contributions. The law prohibits personal gain through governmental transactions, prohibits conflict of interest, restricts incompatible outside employment, prohibits solicitation of gifts, and severely restricts the size of campaign contributions, limiting such contributions to Palauan citizens.

The key institutions involved in preventing corruption and recovering assets include the:

- Office of the Attorney General,
- Office of the Special Prosecutor,
- Office of the Public Auditor,
- Ethics Commission,
- Office of the Ombudsman (created by executive order in 2017 but has been vacant since 2018),
- Bureau of Public Safety (BPS),
- Bureau of the Public Service System,
- Financial Intelligence Unit, and
- Financial Institutions Commission

Positions with authority to investigate corruption are often difficult to fill because the small and close-knit population often leads to potential conflicts of interest. Trust in BPS was undermined

by uncertainty regarding the qualifications and whereabouts of the former BPS Director and reports that police officers who tested positive for drugs remained on the force.

The Special Prosecutor Act established the Office of the Special Prosecutor (OSP) to investigate and prosecute the national and state governments, and its officials, for violations of the Constitution and laws of the Republic or for failure to implement such laws. OSP works closely with the Palau Ethics Commission (established by law), which reviews financial disclosures for national and state elected officials and other public officials required to file annually. OSP and Ethics Commission also coordinate with the Office of the Public Auditor (established by law) who audit national, state governments, and semi-government agencies. Local media often report on alleged corruption cases and serve as an informal watchdog. Palau does not appear in Transparency International's Index of Corruption. No formal anti-corruption NGOs or international watchdogs are based in Palau.

Palau acceded to the United Nations Convention Against Corruption (UNCAC) in March 2009. It has been a member of the Asian Pacific Group on Money Laundering (APGML) since 2002. Palau's UNCAC Country Review Report is publicly available and covers preventive measures and asset recovery. Palau has a National Anti-Corruption Plan (NACP) and has initiated discussions to develop a National Anti-Corruption Strategy.

Resources to Report Corruption

- **Office of the Special Prosecutor**

  Telephone: +680-767-3291 / +680-767-3293

- **Office of the Attorney General**

  Ernestine Rengiil, Attorney General
  Telephone: +680-488-2481

Section 9. Political and Security Environment

Palau is stable and not prone to political violence. The World Bank placed Palau in the 98th percentile in its 2023 country rating for political stability and absence of violence/terrorism.

Section 10. Labor Policies and Practices

With an estimated total of 18,000 Palauan nationals in country (including non-working individuals, such as children and elderly) and 6,000 estimated foreign workers (though the actual figure could be more than 7,000), foreign labor comprises a large proportion of Palau's labor force. Palau has a fairly low unemployment rate across all age categories. The regulation governing private sector employment is the Division of Labor Rules and Regulations of 2019 which is based on Title 13 of the Palau National Code, "Citizenship, Immigration & Labor." Under the Foreign Investment Act, FIAC holders must pay an annual fee of $500 per non-citizen employed.

Under the Compact of Free Association, Palauan citizens are entitled to live, attend school, and work in the United States visa-free as "nonimmigrant residents." Palauans also enjoy in-state tuition rates at U.S. public higher education institutions. Accordingly, many skilled and professional workers migrate to the U.S. for its higher wages and standards of living. Professional, medical, management, and other special labor skills are in high demand in Palau.

Given the scarcity of resident qualified workers, Palau allows investors to employ non-resident workers who are between the ages of 21 and 60. Before hiring a foreign worker, an employer must file an application with the Division of Labor and first attempt, for 30 days, to fill job vacancies with a Palauan citizen or permanent resident. Foreign workers are generally hired on a contract basis with opportunities for annual renewals. Palau requires employers of nonresidents to:

- present an employment contract,
- cover the cost of repatriation,
- provide "safe and healthy working conditions,"
- cover employment-related medical expenses,
- limit food and housing deductions to 25 percent of wages,
- provide transportation to worksites, and

- allow the employee one day off per week

Applications must include a police report and health certificate prior to arrival to Palau and a medical report within ten days of arrival in Palau.

U.S. citizens do not require a visa to enter Palau and can work in Palau on condition that they obtain a work permit or a work visa, which are both free of charge for U.S. citizens.

The minimum hourly wage is $4.25 as of October 1, 2024, and it will increase to $5.00 on October 1, 2025.

Section 11. U.S. International Development Finance Corporation (DFC) and Other Investment Insurance or Development Finance Programs

Palau is a member of the Multilateral Investment Guarantee Agency of the World Bank Group.

Section 12. Contact for More Information

U.S. Embassy Koror

Republic of Palau

Telephone: +680-587-2920 x 2002

Contact U.S. Embassy Koror