SOLOMON ISLANDS

The Solomon Islands’ economic freedom score is 54.6, making its economy the 133rd freest in the 2019 Index. Its overall score has decreased by 2.9 points, the result of sharp drops in trade freedom, fiscal health, and judicial effectiveness. The Solomon Islands is ranked 33rd among 43 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

Historically, governments in the Solomon Islands have lacked enough cohesion and focus to generate and implement a long-term economic strategy. Although growth has expanded, supported by donor-funded infrastructure work, other serious deficiencies such as widespread violence, poor governance, an inefficient and bloated public sector, an underdeveloped legal framework, and inadequate physical infrastructure have stifled economic development. In spite of some attempts at reform, widespread corruption, limited protection of property rights, and weak rule of law also increase the cost of doing business and deter investment.

BACKGROUND: The scene of some of World War II’s bitterest fighting, the South Pacific archipelago of the Solomon Islands gained independence from the United Kingdom in 1976 and became a parliamentary democracy. In 2003, after years of ongoing and economically destructive ethnic violence, an Australian-led multinational force disarmed ethnic militias, restored law and order, and rebuilt government institutions. In 2017, Rick Hou was elected prime minister. Although the islands are rich in timber and such undeveloped mineral resources as lead, zinc, nickel, and gold, the bulk of the population continues to work in subsistence farming, fishing, and artisanal forestry. The Solomon Islands remains one of Asia’s poorest nations.

ECONOMIC FREEDOM SCORE

54.6
(▼ DOWN 2.9 POINTS)

REGIONAL AVERAGE (ASIA-PACIFIC REGION) 60.6
WORLD AVERAGE 60.8

RELATIVE STRENGTHS:
Fiscal Health and Monetary Freedom

HISTORICAL INDEX SCORE CHANGE (SINCE 2009):
+8.6

CONCERNS:
Investment Freedom and Financial Freedom

FREEDOM TREND

QUICK FACTS

POPULATION:
0.6 million

GDP (PPP):
$1.3 billion
3.2% growth in 2017
5-year compound annual growth 2.9%
$2,157 per capita

UNEMPLOYMENT:
2.1%

INFLATION (CPI):
–0.4%

FDI INFLOW:
$36.5 million

PUBLIC DEBT:
10.0% of GDP

2017 data unless otherwise noted. Data compiled as of September 2018
Land ownership is reserved for Solomon Islanders, and conflicts over land tenure have been a major source of civil unrest. The judiciary’s lack of resources hinders the conduct of timely trials and leads to weak enforcement of contracts. Residents of rural areas have limited access to the formal justice system. Corruption is a serious problem in the judicial, mining, and fishing sectors.

The top personal income tax rate is 40 percent, and the top corporate tax rate is 30 percent. Other taxes include property and sales taxes. The overall tax burden equals 30.8 percent of total domestic income. Over the past three years, government spending has amounted to 46.0 percent of the country’s output (GDP), and budget deficits have averaged 2.5 percent of GDP. Public debt is equivalent to 10.0 percent of GDP.

Bureaucratic bottlenecks continue to undermine the regulatory infrastructure. Despite the recognized need for business law reforms, policy action toward greater business freedom has been marginal. The formal labor market is not fully developed, and enforcement of the labor code is not effective. Subsidies for infrastructure development projects, funded mainly by international donors, account for about one-third of total public spending.

The combined value of exports and imports is equal to 98.4 percent of GDP. The average applied tariff rate is 14.1 percent. Economic dynamism and development remain stifled by a number of serious deficiencies in the trade and investment regime. Private-sector development is also undercut by the state’s outsized role in the economy. The financial sector is underdeveloped, and limited access to credit constrains entrepreneurial development.