SOLOMON ISLANDS

The Solomon Islands’ economic freedom score is 52.9, making its economy the 150th freest in the 2020 Index. Its overall score has decreased by 1.7 points due to a drop in the fiscal health score. The Solomon Islands is ranked 36th among 42 countries in the Asia-Pacific region, and its overall score is well below the regional and world averages.

The economy of the Solomon Islands climbed into the mostly unfree category in 2017 and has remained there ever since then. GDP growth over the past five years has been solid due to continued infrastructure development, expansion of tuna processing, and construction of the Tina River hydropower project.

To expand economic freedom in the Solomon Islands, the government would have to address the most pressing problems first, beginning with government integrity. Tackling corruption was a key electoral promise of the current government, and parliament passed an anticorruption bill in 2019.

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 2019, Manasseh Sogavare was reelected prime minister, having previously served as prime minister from 2014 to 2017. Although the islands are rich in timber and such undeveloped mineral resources as lead, zinc, nickel, and gold, much of the population continues to work in subsistence farming, fishing, and artisanal forestry. The Solomon Islands remains one of Asia’s poorest nations.
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 30.6 percent of total domestic income. Government spending has amounted to 46.8 percent of the country’s output (GDP) over the past three years, and budget deficits have averaged 3.8 percent of GDP. Public debt is equivalent to 12.1 percent of GDP.

Action to advance business freedom has been marginal. The new government is trying to formulate its priorities regarding business-friendly reforms. The formal labor market has not fully developed, and most of the population relies on agriculture, fishing, and forestry for all or part of its livelihood. Subsidies for infrastructure development projects, funded mainly by international donors, comprise about one-third of total public spending.

The total value of exports and imports of goods and services equals 98.4 percent of GDP. The average applied tariff rate is 18.5 percent, and extensive layers of nontariff barriers further constrain the freedom to trade. Investment laws are outmoded, and bureaucracy is slow and inefficient. Banking dominates the underdeveloped financial sector, and access to credit, particularly long-term credit, remains very limited.