SOLOMON ISLANDS

The Solomon Islands’ economic freedom score is 56.5, making its economy the 122nd freest in the 2021 Index. Its overall score has increased by 3.6 points, primarily because of improvements in the scores for trade freedom and government spending. The Solomon Islands is ranked 27th among 40 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

The economy of the Solomon Islands climbed higher in the ranks this year but remains mostly unfree. To continue its upward trajectory, the government would have to prioritize policy and structural reforms to correct entrenched problems affecting economic freedom and sustainable growth, beginning with government integrity. Other areas needing significant improvement include investment freedom and financial freedom.

IMPACT OF COVID-19: As of December 1, 2020, no deaths had been attributed to the pandemic in the Solomon Islands, but the economy was forecast to contract by 5.0 percent for the year.

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. Manasseh Sogavare was reelected prime minister in 2019, 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.
Property rights are uncertain. Conflicts over land tenure have been a major source of civil unrest. The judiciary is independent, but a lack of resources hinders the conduct of timely trials and leads to weak enforcement of contracts and a large case backlog. 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 individual 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 29.5 percent of total domestic income. Government spending has amounted to 38.6 percent of total output (GDP) over the past three years, and budget deficits have averaged 2.2 percent of GDP. Public debt is equivalent to 12.2 percent of GDP.

Dealing with construction permits has become more complicated and expensive. Labor force participation has increased, however, boosting labor freedom. In addition to receiving large subsidies from international donors for infrastructure development projects, the government subsidizes state-owned enterprises and exports of copra.

The Solomon Islands has three preferential trade agreements in force. The trade-weighted average tariff rate is 8.2 percent. Economic dynamism and development remain stifled by 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.