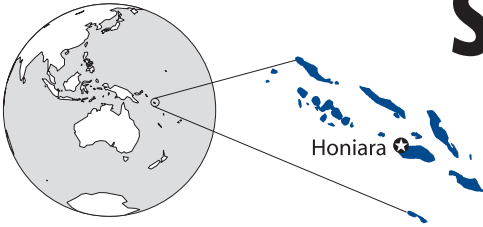


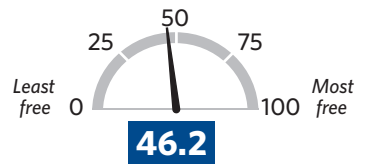
SOLOMON ISLANDS



World Rank: **162**

Regional Rank: **36**

Economic Freedom Score



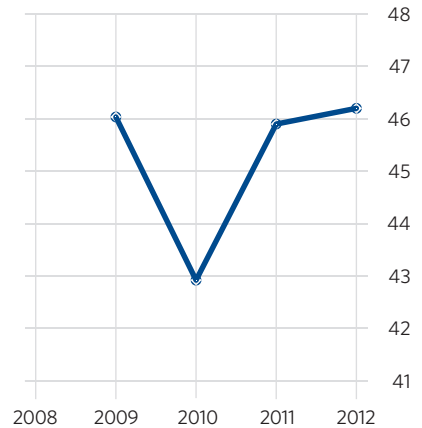
The Solomon Islands' economic freedom score is 46.2, making its economy the 162nd freest in the 2012 *Index*. Its score is 0.3 point better than last year, with improvements in regulatory efficiency undercut by a loss of trade freedom. The Solomon Islands is ranked 36th out of 41 countries in the Asia-Pacific region, and its overall score is far below the world average.

The Solomon Islands' economic dynamism and development remain stifled by a number of serious deficiencies that include poor governance and an inefficient public sector. Underdeveloped legal and physical infrastructure, combined with political instability, continue to undermine the emergence of a vibrant private sector. The government's outsized role in the economy further reduces opportunities for private-sector development, and a lack of political will for reforms leaves businesses struggling within a poor regulatory framework.

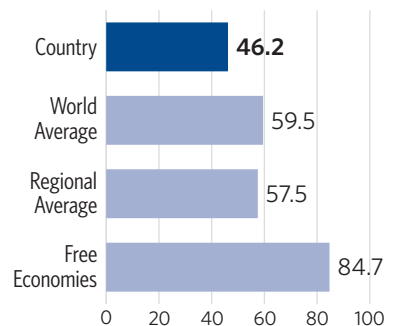
The island economy's limited protection of property rights is a further drag on entrepreneurial activity. Despite attempts at reform, widespread corruption increases the cost of doing business and deters much-needed long-term investment. With few new enterprises to generate jobs, most employment remains in the agricultural sector.

BACKGROUND: The Solomon Islands is a parliamentary democracy and one of Asia's poorest nations. The election of Danny Philip as prime minister in 2010 appears to have stabilized a chaotic political environment. Australia has had to intervene several times in recent years to defuse ethnic conflict, and civil war has held back the islands' economic development. Australia, the European Union, Japan, New Zealand, and the Republic of China provide significant financial aid. Most of the population lives in rural communities, and three-fourths of the workforce is engaged in subsistence farming and fishing. Economic growth depends largely on logging and exports of timber. The islands suffer frequently from earthquakes and tsunamis.

Freedom Trend



Country Comparisons



Quick Facts

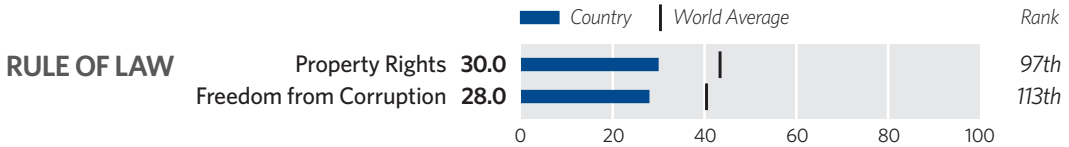
Population: 0.5 million
GDP (PPP): \$1.6 billion
 5.6% growth in 2010
 5-year compound annual growth 5.8%
 \$3,063 per capita
Unemployment: n/a
Inflation (CPI): 1.0%
FDI Inflow: \$237.8 million
Public Debt: 25.7% of GDP

How Do We Measure Economic Freedom?

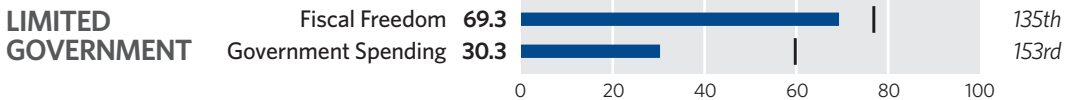
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

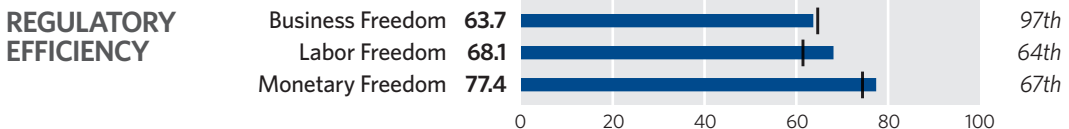
THE TEN ECONOMIC FREEDOMS



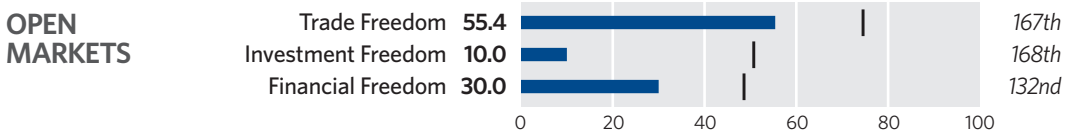
An effectively functioning modern legal framework has not emerged. Land ownership is reserved for Solomon Islanders. Generally, land is still held on a family or village basis and may be handed down from the mother or father according to local custom. Islanders are reluctant to provide land for nontraditional economic undertakings, and there are continuous disputes over land ownership. Corruption continues to erode the rule of law.



The top income tax rate is 40 percent, and the top corporate tax rate is 30 percent. Other taxes include a property tax and a sales tax, with the overall tax burden amounting to 23.8 percent of total domestic income. Government spending has reached a level equivalent to 48.2 percent of GDP, and the budget balance has been in small surplus. Public debt amounts to about 25 percent of total domestic output.



The business environment has been improved only marginally by the implementation of a simplified registration process. The regulatory process continues to be undermined by uneven enforcement of existing laws. Completing licensing requirements still costs over three times the level of average annual income. The labor market is underdeveloped, and informal labor activity remains substantial. Monetary stability is weak.



The trade weighted average tariff is prohibitively high at 17.3 percent, and extensive layers of non-tariff barriers constrain freedom to trade even further. Investment laws are outmoded, and bureaucracy is slow and inefficient. Inadequate infrastructure and political uncertainty also discourage investment. Banking dominates the underdeveloped financial sector, and access to credit, particularly long-term credit, remains very limited.

Score Changes

RULE OF LAW	LIMITED GOVERNMENT	REGULATORY EFFICIENCY	OPEN MARKETS
Property Rights	Fiscal Freedom	Business Freedom	Trade Freedom
0	+0.1	+3.9	-7.0
Freedom from Corruption	Government Spending	Labor Freedom	Investment Freedom
0	-2.6	+1.5	0
		Monetary Freedom	Financial Freedom
		+7.0	0