

## Solomon Islands

### Business Conditions Snapshot

- Solomon Islands' population is small (approximately 720,000) and spread across more than 300 islands. About 74 per cent of the population lives in rural areas, creating challenges for infrastructure and service delivery.
- Solomon Islands' economy is heavily weighted towards natural resources, particularly the export of round logs.
- COVID-19 has had a moderate impact on the economy, with the Central Bank currently forecasting a contraction of around four per cent for 2020 (the Asian Development Bank (ADB) has forecast a contraction of six per cent) and growth of approximately one per cent for 2021.
- Mining could provide Solomon Islands with significant revenue, but governance issues remain a barrier to investment and the sector remains under-developed.
- Tourism has significant potential, but COVID-19 has hit the sector hard and it will require substantial investment before it can make a significant contribution to Solomon Islands' economy.
- Australia and Solomon Islands are both parties to the Pacific Agreement on Closer Economic Relations Plus (PACER Plus).
- Solomon Islands is the third largest recipient of Australian official development assistance (ODA) after PNG and Indonesia. In 2019–20 total ODA from Australia to Solomon Islands was forecasted to be \$174.4 million.

#### Key facts and figures

- Population: 720,000 (2019)
- GDP growth: 2.7 per cent (2019)
- GDP per capita: US\$2,246.7 (2018)
- Political system: constitutional monarchy
- Two-way trade: A\$345 million (2018-19)
- Australian Foreign Direct Investment into Solomon Islands: A\$67 million (2018)
- Aid relationship: total Australian ODA approx. A\$174.4 million in 2019–20

### Trade and Investment Opportunities

- As reflected in *Partnerships for Recovery: Australia's COVID-19 Development Response*, Australia continues to advocate and support free and open trade to stimulate a shared economic recovery across the Indo-Pacific.
- PACER Plus is an important example of how closer economic and trade ties can foster positive development outcomes in our region. The agreement will provide commercial opportunities for Australian and Pacific island exporters and investors.
  - Australia will help Solomon Islands to take advantage of the agreement once it comes into force in December 2020.



# MARKET INSIGHTS

CONNECTING AUSTRALIAN BUSINESS TO THE WORLD

- The private sector, both in Australia and in Solomon Islands, will be an essential partner in economic recovery following the pandemic.
  - Helping the private sector to access capital and to re-establish markets and global value chains, will be vital for our region’s economic recovery, as it will be for Australian businesses who rely on regional supply chains.
  - Facilitating responsible business models, low carbon development, and greater value chain diversification will boost economic resilience in Australia and partner countries—including Solomon Islands—and help protect against future economic shocks.
- The trade relationship between Australia and Solomon Islands is relatively modest, particularly when compared to the scale and closeness of our political, development and security relationships, and our people-to-people links.
- Australia was Solomon Islands’ number one source of merchandise imports (20 per cent) worth \$128 million coming from Australia in 2018–19. In contrast, Australia was only Solomon Islands’ 13th largest merchandise export destination (0.9 per cent). Solomon Islands was Australia’s 55<sup>th</sup> largest destination for merchandise exports and ranked 78<sup>th</sup> for services exports (2018–19).
- Australian companies present in Solomon Islands are engaged in the banking, mining, shipping, logistics, tourism, legal and development sectors.
  - Key Australian companies participating in Solomon Islands include ANZ Bank, SolRais (a wholly owned subsidiary of SunRice) and Kokonut Pacific (whose local joint venture partner is Kokonut Pacific Solomon Islands).
- Solomon Islands’ goods exports are heavily concentrated in logs (70 per cent), fish (11 per cent) and palm oil and kernels (six per cent), which are vulnerable to natural disasters and external price shocks.
  - The forestry and logging sector, which has for decades relied on unsustainable harvesting practices, accounts for 13 per cent of GDP.
- Solomon Islands is widely considered to have untapped tourism potential, but this will require significant support. Generating less than five per cent of GDP at present, even a rapid growth in the tourism industry will not be sufficient to mitigate a substantial slowdown in the logging sector.
- Mining is considered a potential future driver of growth, and Solomon Islands is known to have deposits of gold, nickel and bauxite.
  - The Solomon Islands Government remains largely unprepared to manage a minerals-based economy and there is only one low-technology bauxite mine currently in operation.
  - Risks relating to mining in Solomon Islands are high and DFAT is working closely with the World Bank on mining legislative reform.



# MARKET INSIGHTS

CONNECTING AUSTRALIAN BUSINESS TO THE WORLD



- Infrastructure will be an increasing focus for Australia in Solomon Islands. Our investments will improve the availability and condition of climate resilient, inclusive and accessible infrastructure to improve economic growth for Solomon Islands.
- On 3 June 2019 Prime Minister Morrison announced a new 10 year \$250 million Solomon Islands Infrastructure Program (SIIP) to improve the quality and accessibility of economic infrastructure.
  - This will contribute to broad based, inclusive and sustainable economic growth in Solomon Islands.
  - The focus will be on economic infrastructure, including transport (land, sea and air), ICT, electricity, water and sanitation, and infrastructure that supports rural development.
  - The aim is to drive growth and help diversify the economy. SIIP should commence in early 2021.
- The Australian Infrastructure Financing Facility for the Pacific (AIFFP) is a key initiative under Australia’s Pacific Step-Up. Through a mix of loans and grants, the \$2 billion AIFFP will finance telecommunications, energy, water, transport and other priority infrastructure projects.
  - AIFFP will promote greater private sector investment through public private partnerships.
  - Australia has agreed to provide further support to develop the Tina River Hydropower Development Project transmission system through the AIFFP.
- The reliability of, and access to, affordable internet services are key constraints for private sector investment, employment generation and the delivery of government services in Solomon Islands. The majority Australian-funded Coral Sea Cable System—which links Honiara to Sydney—and the domestic telecommunications cable linking Honiara with Auki, Noro and Taro—were connected in 2020.
  - The cables were delivered to provide faster, affordable and more reliable internet to Solomon Islands.
  - Before the cable, Solomon Islands was dependent on expensive and unreliable satellite back haul for broadband communications.
- Unreliable and expensive energy supply in Solomon Islands is a key constraint for business investment and employment.
  - We are supporting construction of the Tina River Hydropower facility to improve the business-enabling environment. This facility is expected to meet around 70 per cent of Honiara’s power needs.
  - Tina River Hydro, along with other investments in renewable energy in Solomon Islands, will reduce the cost of power across Solomon Islands by up to 30 per cent.
- Foreign direct investment between Australia and Solomon Islands is limited (\$67 million from Australia to Solomon Islands, 2018).



## Trade Policy Focus

- Solomon Islands is a signatory to the PACER Plus agreement and ratified the treaty in June 2020.
- The country acceded to the interim Economic Partnership Agreement in May 2020.
- It has been a member of the World Trade Organization (WTO) (since 1996) and the General Agreement on Tariffs and Trade (GATT) (since 1994).
- Solomon Islands is a member of the South Pacific Regional Trade and Economic Cooperation Agreement.

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*Insight current as at December 2020.*

