
The Role of International Trade on Economic Growth in Somalia

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ABSTRACT

Purpose: This paper investigated the role of international trade on economic growth in Somalia, the main objective of the paper is to find out the role of export and import on economic growth in Somalia and to determine the relationship between international trade and economic growth in Somalia.

Design/methodology/approach: Somalia's major exports are livestock, bananas, skins, fish, charcoal, and scrap metal, the major export partners included the United Arab Emirates, Yemen, and Oman. The studies in 2020 indicated that Somalia was the number 173 economy in the world in terms of total exports and number 140 in total imports.

Findings: In 2021, Somalia exported a total of 482million USD, making it the number 168 exporter in the world, during the last five reported years, the exports of Somalia have changed by 149millionm USD from 631million USD in 2016 to 482million USD in 2021. Furthermore, the economy is described as a very open economy according to the ratio of imports plus exports to GDP which is 91.5 percent, the 7th highest in Sub-Saharan Africa and 45th highest in the world.

Practical implications: The major export of Somalia is livestock which is accompanied by its products i.e. hides and skins though the country deliberately depends on imports of food and non-food items. On the contrary, imports start from neighboring countries including Gulf countries, in South East Asia, and Somalia's exports for 2021 were \$1.53B, a %30.05 increase from 2020, Contribution of livestock to the national economy is estimated at %60-65.

Paper type: Literature review

Keyword: Exports, Imports, International trade, Economic growth

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I. INTRODUCTION

No country in the world today produces all the commodities it requires, every country, therefore, tries to produce those commodities and services which go through comparative advantage. It exchanges part of those goods and services with the goods and services produced by other countries comparatively more efficiently. The relative difference in factor capacity, technology, tastes, etc and among the world's countries, has greatly widened the basis of international trade (Adedeji, 2015).

International trade simply refers to the exchange of commodities and services between countries of the world, which means that at least two countries should be having in the activities, the total of activities relating to trading between merchants across countries and borders. Some countries are more endowed in these resources than others, even, many countries that are adequately blessed with good resources may not have the ability to manage and channel them to their advantage, hence, denying them the opportunity of achieving the necessary growth, development, and good standard of living for their citizenry (United Nations, 2014). The significance of international trade stems from the reality that there is no country can produce all commodities and services which people require for their use mostly owing to resource differences and challenges

As a result, this trade relationship recommends that economies require to export commodities and services in order to generate revenue to finance. Thirty-two years later, the country's Gross Domestic Product has been estimated to be \$7.628B (World Bank & Ministry of National Planning and Development 2021). Moreover, with an estimated population of 18 million, the country's GDP Per Capita Income is estimated to be \$446 in 2021 and the 2021 average based on 175 countries was 16224.73 US dollars. The largest value was in Luxembourg, \$135682.8 and the lowest value was in Burundi \$236.8. Trade plays a very vital role as export levies and import taxes play the main part of over 50 percent of the revenue in 2012.

Somalia's economy is outlined as a very open economy according to the ratio of imports plus exports to GDP which is 91.5 percent, the 7th highest in Sub-Saharan Africa and 45th highest in the world (World Bank & Ministry of National Planning and Development 2014). This ratio gives a rough estimation of economic interdependence among nations (Salvatore 2013). The country's tariff levels are similar to those in sub-Saharan Africa, said to be effective with import tariffs of 4.15 percent and export tariffs of 3.34 percent respectively. Berbera Port is the economic engine of the northern region of the country (Somaliland) and provides all import and export services (Berbera Port Authority 2016). The major reasons international trade has a getting place are differences in the presence of government policies, the presence of economies of scale, information technology, resource, and demand.

A. Objectives of the Study

The main objective is to find out the role of export and import on economic growth in Somalia and to determine the relationship between international trade and economic growth in Somalia

B. Literature Review

This will go through and provide the existing literature about the role of international trade on economic growth in Somalia, it will highlight the concepts, Ideas, and Opinions from Authors, Experts, and secondary data sources and also describes the related studies.

1. International Trade

International trade is an exchange relating goods or services between at least two different nations, the substitute can be imports and exports, and an import is goods or services brought into the local market country, while an export mentions to goods and services sold to other than the domestic market. Traders attract to economic activities for the objectives of profit maximization bring about by differentials among the international economic environment of countries (Adedeji, 2015). The theory of comparative advantage makes us get more comprehensive that nations trade with each other in commodities and services because of the idea of differentials in the financial capital, natural resources, human capital, and technical capabilities perform of countries.

2. Economic Growth

The measuring of economic growth can be used in several factors including, Growth Domestic Product and Growth National Product which are the common factors used for measuring economic growth. Gross domestic product regards the aggregate value of goods and services manufactured within a nation's borders. Gross National Product measures the entire value of goods or services made by a nation's national in their place, and these measures bring a general overview of a nation's economic growth (Tamplin, 2023).

3. Exports

A notable feature of the developing nations, especially Sub-Saharan African countries is that they mostly depend on the exports of not manufactured items including Mineral and agricultural exports (Todaro & Smith 2012). Though they have been recently shifting to exporters of manufactured goods (Krugman & Obstfeld 2009). As the local output is still weak and insignificant, Somalia's exports are primarily unmanufactured goods. Somalia mainly exports livestock with primary species of camels, cattle, sheep, and goats – and its byproducts including hides and skins together with frankincense (Ministry of National Planning and Development 2015). The country's economy heavily depends on livestock production which employs over 70 percent of the Country's population.

Livestock production also contributes 60 percent of the GDP and over 85 percent of the country's foreign export earnings (Ministry of National Planning and Development 2011). Nonetheless, the livestock trade market is vulnerable to external forces, as can be seen from the two embargoes of Somali livestock imports, by Somalia's trade partners in the Arabian Peninsula in 1997 and 2000 respectively (Academy for Peace and Development 2002). Also, it faces significant disadvantages due to high taxes, lack of a financial system, dependence on foreign markets, and fluctuations in market prices. Livestock is the main source of family and national wealth in Somalia, and the export-oriented pastoralist production system is an important source of livelihood and resilience. Many areas in Somalia provide little livelihood other than livestock production and marketing. Livestock provides a source of income, and household consumption of meat and other animal products is an important source of food

security. Pastoralist communities obtain most of their calories from milk and meat consumption, which supplement cereal and non-cereal diets, which are often financed by income from the sale of livestock and milk. Livestock also plays an important role in Somali culture, with animals exchanged to consolidate social ties and reciprocal relationships. The livestock trade considerably plays an important part in the economy, it faces a number of challenges and losses due to the absence of a strong financial system, dependency on a single foreign market, and having several taxations.

About 26 percent of the population is grouped as nomads, according to the most recent population estimates (UNFPA 2014). Many others living in both rural and urban areas derive major parts of their livelihoods from the livestock subsector, bringing the total number of people benefiting directly from the sector to 65 percent. In 2011–14, the livestock subsector accounted for about 75 percent of total exports. The figure has fluctuated, interrupted by droughts and international export bans, in the last three decades. Many traditional constraints associated with livestock production have intensified in recent decades. In the third quarter of 2020, Somalia's northern port (Berbera port) exported 595,861 heads of livestock, representing a significant 108% and 58% increase from the number exported in the second quarter and first quarter respectively. However, this was shown lower than the number exported in the same period in 2019 and 2018, 3rd quarter export in 2020 was 57% lower than the number registered at the same time in 2019 and 45% lower than in 2018, so, in between January and September 2020, Somalia exported a total of 1,064,170 heads of livestock compared to the 1,745,771 registered in the period of 2019, indicating a significant 39% decrease. This decline mostly originated from Sheep & Goat export which was specifically low in July and August with %58 and %82 in comparison to the same period in 2019, respectively. Studies showed the composition of livestock export in the first 9 months of 2020 and 2019, with Sheep and Goats accounting for %87 and %92 of total exports. There is a need to improve the technical skill levels of the country's workforce by delightful them in technical and vocational training plans in both public and private institutions of higher learning, this can indirectly increase the magnitude of exports, which then enhance the economic growth of the country.

4. Imports

Due to the less local production, consumer and manufacturer goods are mostly imported from outside countries, imports mostly through Muqdisho, Berber, Bosaso and Kismaayo Ports are classified into food items such as sugar, rice, wheat flour, wheat, cooking oil, dates, pasta, biscuits, etc. And nonfood items include petrol, diesel, clothes, cars/trucks, spare parts, cigarettes, soap, building materials, etc. (Ministry of National Planning and Development 2015). Nevertheless, other import channel is Beled-xaawo customs at Kenya Somalia border, Wajaale customs at the Ethiopia-Somalia border, and Muqdisho Airport, where food and nonfood items

Both food and nonfood items are monthly imported through Muqdisho, Berbera, Bosaso, and Kismaayo Ports. Sugar, rice, and wheat flour contribute the largest share of food items with hundreds of thousands of tons monthly while dates and biscuits account for the smallest share. On the other hand, fuel, clothes, and vehicles are constantly imported with thousands of tons, and M3.

5. Trade with the Rest of the World

International trade is defined as the exchange of goods and services across borders, growth of international trade and investment in recent decades resulted in more interdependence among nations which also gives international economic problems prominence in debates over public policy (Markusen et al. 1995).

The flow of goods, services, labor, and capital across national borders reveals this economic interdependence (Salvatore 2013). Gains from trade is regarded as mutual and according to the 19th-century British economist David Ricardo, as long as some pattern of comparative advantage exists, there will be gains from trade regardless of whether one country has an absolute advantage in all goods (Markusen et al. 1995). Although international trade has both positive and negative, economists overall trust that the benefits of trade exceed the costs. For case, even though more trade enables consumers to enjoy lower prices and greater choices, it also results in more competition for firms as well as for workers. Although there is a very strong confidence that openness to the world economy is a superior policy to closing, in accordance with historical beliefs, economic theory, and statistical evidence together, there is concrete support that open economies commonly grow rapidly and prosper more than closed ones (Gerber 2014)

According to Carbaugh (2005), trade enables firms and nations to specialize in the production of goods they have a relative advantage and spend the earnings to purchase goods they produce at higher costs; trade leads to the international competition which forces local producers to enhance the quality of their products; trade abates monopolies; and on the contrary, globalization makes the economy susceptible to external shocks. Somalia heavily depends on imports of food and non-food items as well as export earnings got about by livestock, hides and skins, frankincense, and other sorts of gums. As the ratio of imports plus exports to GDP is 91.5 percent, Somalia is regarded as a very open economy, and according to its geographical location in international markets, it can be considered as a small strategic open economy. Since nations are expected to trade more with nations with more

open economic systems (Salvatore 2013), the openness of Somalia's economy probably attracts more trade which in turn leads to growth and prosperity. The strategic geographical location of Berbera Port along the southern coast of the Gulf of Aden is an advantage to Somalia's international trade. It is a potential regional entrance particularly to the neighboring landlocked Ethiopia and to foreign investment (Azam 2010) and Ministry of National Planning and Development 2011).

6. Role of International Trade and Economic Growth

Trade is major in elevating world poverty, nations that are ready and open to international trade tend to grow faster, innovate, improve output, and provide higher income and more opportunities to their citizens. Open trade also gets benefits lower-income households by contributing to consumers' more fair low-cost commodities and services. Integrating with the world economy through trade and global value chains supports and drives economic growth and reduces poverty locally and internationally. International trade not only results in increased efficiency but also allows countries to participate in a global economy, encouraging the opportunity for foreign direct investment (FDI). In theory, economies can thus grow more efficiently and become competitive economic participants more easily.

II. METHODS

This study used secondary data, the study deploys both qualitative and quantitative methods. A notable feature of the developing nations, especially Sub-Saharan African countries is that they mostly depend on the exports of not manufactured items including Mineral and agricultural exports (Todaro & Smith 2012), though they have been recently shifting to exporters of manufactured goods (Krugman & Obstfeld 2009).

Table 1. Livestock exports through Berbera Port: 2010 – 2014 per heads

<i>Month</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>Total</i>
<i>Jan</i>	211,839	95,002	141,303	235,022	228,319	911,485
<i>Feb</i>	70,666	109,647	271,882	149,750	146,733	748,678
<i>Mar</i>	46,566	144,127	131,150	118,143	178,716	618,702
<i>Apr</i>	83,377	119,658	116,103	83,839	156,338	559,315
<i>May</i>	60,620	72,313	87,602	143,863	81,428	445,826
<i>Jun</i>	103,424	181,199	209,768	212,906	284,483	991,780
<i>Jul</i>	190,601	345,969	232,800	272,172	252,747	1,294,289
<i>Aug</i>	179,234	216,452	182,231	220,993	287,543	1,086,453
<i>Sep</i>	275,124	202,994	294,012	953,484	1,322,588	3,048,202
<i>Oct</i>	552,579	1,254,636	1,594,136	616,984	104,647	4,122,982
<i>Nov</i>	966,692	387,903	64,386	37,713	200,310	1,657,004
<i>Dec</i>	69,760	232,999	187,229	121,690	162,715	774,393

<i>Total</i>	2,810,482	3,362,899	3,512,602	3,166,559	3,406,567	16,259,109
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Table 2. Hide and skin exports through Berbera Port: 2010 – 2014 per pieces

<i>Month</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
<i>Jan</i>	505,347	862,255	314,490	227,049	108,456
<i>Feb</i>	257,850	2,368,945	223,891	340,500	106,513
<i>Mar</i>	432,847	3,127,508	249,612	66,588	256,083
<i>Apr</i>	306,555	791,100	391,854	131,415	417,436
<i>May</i>	492,864	1,918,757	329,033	82,350	254,778
<i>Jun</i>	151,222	1,143,535	115,776	211,737	328,900
<i>Jul</i>	196,950	1,796,932	181,954	56,800	426,500
<i>Aug</i>	575,235	225,400	352,180	144,715	178,700
<i>Sep</i>	124,664	604,100	1,070,058	270,257	218,736
<i>Oct</i>	563,738	242,976	199,336	245,647	283,251
<i>Nov</i>	1,005,800	244,154	269,843	257,195	384,300
<i>Dec</i>	2,290,974	316,685	278,004	145,990	231,085
<i>Total</i>	6,904,046	13,642,346	3,976,031	2,180,243	3,194,738

Due to the lack of local manufacturing, consumer and manufacturers are mostly imported from foreign countries, so imports basically through Berbera Port are classified into food items and non-food items. (Ministry of National Planning and Development 2015).

Table 3. Imports of food items through Berbera Port: 2010 – 2014 per tones

<i>Year</i>	<i>Sugar</i>	<i>Rice</i>	<i>w/flour</i>	<i>Wheat</i>	<i>c/oil</i>	<i>Pasta</i>	<i>Dates</i>	<i>Biscuits</i>
<i>2010</i>	133,500	60,270	71,650	56,052	17,949	28,589	3,749	6,064
<i>2011</i>	94,956	86,827	71,511	20,500	17,656	34,998	6,570	6,887
<i>2012</i>	118,440	83,846	75,925	64,767	19,888	34,401	4,855	10,185

2013	115,929	79,822	82,519	11,656	13,125	28,717	6,851	9,370
2014	181,227	94,296	111,579	4,985	28,101	45,054	7,552	6,641

Table 4. Imports of nonfood items through Berbera Port: 2010 – 2014 per tones and M3

Year	Petrol	Diesel	Clothes	C/trucks	s/parts	Cigarettes	Soap	O/building	Other	Total
2010	6,454	52,401	20,514	13,179	3,478	6,872	9,992	203,162	128,988	446,391
2011	7,168	56,392	10,183	10,774	2,294	7,124	9,581	45,313	147,199	296,995
2012	10,741	56,022	9,484	11,365	3,315	9,011	9,148	56,015	197,715	363,858
2013	16,162	69,408	10,684	15,077	5,232	7,528	10,925	49,751	191,828	378,071
2014	20,237	99,077	13,303	18,291	6,887	5,482	9,783	55,487	250,304	479,742

The top imports of Somalia are \$577 million in Rolled Tobacco, \$262 million in Raw Sugar, \$248 million in Other Vegetables, \$206 million in Rice, and \$150 million in Broadcasting Equipment, imported mostly from the United Arab Emirates \$1.28 Billion, \$893 million China, \$544 million India, \$294 million Ethiopia, and \$274 million Turkey

The top exports of Somalia were \$111 million from Gold, Sheep, and Goats \$35million, \$25.8million Insect Resins, \$21.1million from other Animals, and \$21.1million from other Oily Seeds, \$146million exported mostly to United Arab Emirates, \$39.2million Saudi Arabia, \$16.5million Japan, \$11.7million Bulgaria (\$11.7M), and \$7.68million from China

III. RESULTS AND DISCUSSION

As the volume of international trade has been increasing over the years and resulted in more interdependence among nations, Somalia's economy heavily depends on international trade. In 2021, Somalia exported a total of 482million USD, making it the number 168 exporter in the world, during the last five reported years, the exports of Somalia have changed by 149millionm USD from 631million USD in 2016 to 482million USD in 2021. Furthermore, the economy is described as a very open economy according to the ratio of imports plus exports to GDP which is 91.5 percent, the 7th highest in Sub-Saharan Africa and 45th highest in the world.

However, given the fact that the country's imports outweigh its exports, the trade deficit is considerable, financed by remittances and aid contributions. Livestock is the major export of Somalia accompanied by its byproducts i.e. hides and skins while the country heavily depends on imports of food, fuel, and manufactured products. Muqdisho Port is the country's main Port and Berbera Port is the second country's main seaport and Bosaso is the third Port providing both importing and exporting services.

When exports exceed imports, net exports are positive, which indicates that the nation has a trade ratio, and when exports are less than imports, net exports are negative, which indicates that the nation has a trade deficit. The government should include in its economic strategy an improvement in the imports of capital goods, which can in turn enhance the manufacturing capability of the economy and finally significantly impact the export size and economic growth. Somalia's exports primarily end up in Arabian Peninsula while its imports come from neighboring countries. Gulf countries, South East Asia, and beyond. Furthermore, Somalia's livestock trade faces substantial losses due to multiple taxations, the absence of a financial system, the dependency on a single foreign market, and market price fluctuations.

For export, the Somalia Government should have established policies to support export, such as investment incentives, and taxes incentive, and support the enterprises to set up and expand their business to the other area by creating policies and loans with the zero-interest rate.

IV. CONCLUSION

As a result, this trade relationship recommends that economies require to export commodities and services in order to generate revenue to finance. International trade between different nations plays an important role and create a very important factors in raising the country's standard of living, creating employment opportunities, and enabling consumers to enjoy a different of goods and service. Exports and imports play an important role in economic growth because together they make up the balance of national trade, which can lead to the overall health of the economy, a healthy economy, both exports and imports show continuous activity and usually stands for durable and strong of the nation's economic system.

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