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# DETERMINANTS OF EXPORT PERFORMANCE IN SOMALIA

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# ÖZET

Somali'nin ekonomisi, eski tarz sektöre ve küçük modern kentsel sanayiye göre kategorize edilerek ticaret akışını üretiyor. Tarım ekonominin önemli bir sektörüdür. Ulusal GSYİH'nın yüzde 65'inden fazlasına katkıda bulunuyor ve işgücünde birçok çalışan yaratıyor. Ancak Somali'nin ihracat sektörü çok kırılgan ve iyi işlemiyor. Çalışmanın genel amacı Somali'deki ihracat performansının belirleyicilerini keşfetmektir. Bu makale, dünya kalkınma göstergeleri ve SESRIC gibi farklı kaynaklar için 1991'den 2020'ye Kadar çeşitli dönemlerde ikincil zaman serisi verilerini kullanarak Somali'deki ihracat performansının belirleyicilerini özetlemektedir. Bu çalışmada, olağan en küçük kare yöntemine (Ols) dayalı çoklu regresyon analizi ile ekonometrik bir model uygulanmıştır. Eş zamanlı olarak, uzun vadeli bir ilişkiyi test etmek için eşbütünleşme testini kullandık. Tersine, verilerin durağanlığını kontrol etmek için kullanılan artırılmış Dickey-Fuller (ADF) ve Phillip-Perron (PP) testleri. Sonuçlar, doğrudan yabancı yatırımın (DYY) ihracat performansı üzerindeki önemli ve olumlu etkisini göstermektedir; benzer şekilde resmi kalkınma yardımı (ODA) ve gayri safi yurtiçi hasıla (GSYİH) ihracat performansı üzerinde olumlu bir etkiye sahiptir. Buna karşılık enflasyon oranı ve işgücü değişkenlerinin somali'deki ihracat performansı üzerinde önemsiz ve olumsuz bir etkisi bulunmaktadır.

**Anahtar kelimeler:** DYY, GSYİH, ihracat, Tarım, Somali.

# ABSTRACT

Somalia's economy categorized by the old-style sector and the little modern urban industry generates its trade flow. Agriculture is an important sector of the economy. It contributes more than 65 per cent of the national GDP and creates many employees in the workforce. However, Somalia's export sector is very fragile and not functioning well. The general objective of the study is to discover the determinants of export performance in Somalia. This paper summarizes the determinants of export performance in Somalia by using secondary time series data in a range of periods from 1991 to 2020 for different sources such as world development indicators and SESRIC. This study applied an econometric model through multiple regression analysis based on Ordinary Least Square method (OLS). Simultaneously, to test a long-term relationship, we used the cointegration test. Conversely, the Augmented Dickey-Fuller (ADF) and Phillip-Perron (PP) tests used to check the stationarity of the data. The results show the significant and positive effect of foreign direct investment (FDI) on export performance; similarly official development assistance (ODA) and gross domestic product (GDP) have a positive impact on export performance. In contrast, the inflation rate and labor force variables have a negligible and negative impact on export performance in Somalia.



**Keywords:** FDI**,** GDP, Export, Agriculture, Somalia.

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## LIST OF ABBREVIATIONS

Some abbreviations that we used in this study and their descriptions are shown below:

| ABBREVIATIONS | EXPLAINS |
|---|---|
| FAO | Food and Agriculture Organization |
| FDI | Foreign Direct Investment |
| ODA | Official Development Assistance |
| GATT | General Agreement on Tariffs and Trade |
| WB | World Bank |
| WTO | World Trade Organization |

# DETERMINANTS OF EXPORT PERFORMANCE IN SOMALIA

## INTRODUCTION

International trade is critical in a global economy as it generates substantial advantages from trading partners, allowing nations to become rich and wealthy. Those with excellent export performance, in particular, improved their economic well-being, as export appears to be a crucial element in the countries' economic development. Nations, on the other hand, appear to trade far too much with themselves and far too little with one another (Rauch & Marcouiller, 2001).

in general, economists have had an enormous contribution for developing trade policy, and they advocate strongly for foreign trade and the removal of trade barriers since trade contributes significantly to GDP (Muhammad Tariq Majeed, 2006). All countries aim to meet the needs of goods and services for their citizens, promoting export and trade liberalization. Additionally, countries can make friends through trade with one another. However, trade encourages nations' development because it improves productivity, increases employment, reduces poverty, and participates in rising economic growth. One of the main reasons countries makes foreign trade is that states have limited resources to produce all goods and services they need. Therefore, it must buy from other countries that produce surplus goods and services. When goods and services become available in countries, markets expand, which leads to consumers' satisfaction while the price of goods becomes cheaper for the availability of states.

Export is the state in which products produced or manufactured in one country transferred to another country (U. Mohamed, 2018). Exports are essential for the nations, and they play a crucial role in economic growth that finally leads to massive developments in the countries. Increasing export will support rising total demand and effect substantial economic change. Export raises the balance of trade, GDP, employment, and living standard. For these reasons, many states attempt to encourage and motivate and sometimes subsidize their exporters to export more (U. Mohamed, 2018). Mostly, the countries in sub-Saharan Africa decided to boost their economic growth growth in the 1960s and 1970s, which was greatest African countries to reform their economy. In the 1980s, they draw up strategy changed by sub-Saharan countries to appreciate trade liberalization and export orientation due to overwhelmed the intrinsic restrictions and adverse effects of an import substitution industrialization strategy (Karamuriro & Karukuza, 2015).

Consequently, the attention shifts to the local markets producers and targeted international markets that means they increased export products.

Somalia is an undeveloped country due to a civil war since the last three decades. It has a stable, rising economy with healthy, vital sectors like agriculture, livestock as well as service sector, which increases tremendously during last decade such as telecommunication, banking, transport, and healthcare sector. The other economic activities, like trade, take their roles in the economy. Somalia experienced a long-time trade deficit due to higher import goods from foreign countries while export products difficult to get demand in foreign markets. According to (Pyrtel, 2012) Somalia agriculture is a core sector of a nation's economy. Civil war, loosening governing system, and natural catastrophes like droughts and floods cause' massive decline in the country's agriculture sector (Yassin, 2016).

Somalia is grieving of lengthened challenges that dismiss the progress of the export. The missing of solid government institutions is a significant matter of poor export performance of the country that causes a lack of support for agriculture and livestock. In addition, there are no subsidies for the main export products due to unorganized institutions. Somalia's integration in foreign markets is weak due to a lack of operative institutions, a few commercial banks, inadequate infrastructures, and local transportations in some places. Absent of active institutions leads to the export sector's fundamental problems, which eventually caused the products to miss an international standard of quality control to check exported products, making it difficult to export products like livestock to pass on in overseas countries**.**

In Somalia, the drought caused massive damage to crop production and livestock loss, which ultimately led to food insecurity, which influenced most regions; it also affected more than 6 million people. For assistance and help from the international community, Somalia attempted to prevent an extensive famine in 2017 narrowly. Nevertheless, economic losses are estimated at $1.7 billion (World Bank, 2018). This catastrophe automatically affected the entire export sector in the country, which finally led to a trade deficit.

## Problem Statement

Continually upgrading export is one of the primary purposes of mutually advanced and unindustrialized countries. This is why export plays a crucial role in any country's economic growth and boosting trade balance. Furthermore, export is one of the aggregate demand components; therefore, a low export level means low income in terms of GDP.

In the past several years, African countries, especially Sub-Saharan countries, dramatically experienced a low share of world export market. This caused the fell in export growth moreover absolute terms. In a fair, the export sector is earning continued stagnant or declined automatically subsequently the first of 1975s in 25 out of 33 in Sub-Saharan countries. In contrast, in 1988, all Sub-Saharan countries, with further than 400 million populations, had an export lower than a country of 2.5 million people, Singapore (Svedberg, 1991). However, it reveals how Sub-Saharan countries struggled with a lack of policies to perform their export sector.

Sub-Saharan African countries experienced a massive trade deficit for a long time due to a lack of encouragement and clearness of export strategy in their reform of the economy and the export of primary products, particularly agricultural products (Yassin, 2016). Somalia is not exceptional for those countries because it practiced a trade deficit near a century due to its dependence on many imports of food, fuel, construction materials, and manufactured commodities. While the main exports are livestock, bananas, leather, fish, charcoal, and scrap materials, Somalia's export is fragile and unstable. For that reason, this study focuses on the main determinants of export performance in Somalia. The study attempted to assess the variables like foreign direct investment, inflation rate, gross domestic product, export, labour force, industrialization, and official development assistance as determinants of export performance in Somalia.

## General Objectives

The general objective of this study is to figure out the determinants of export performance in Somalia.

## Specific Objectives

This study's specific objectives are to evaluate the influence of foreign direct investment and official development assistance in export performance in Somalia.

To determine the effect of gross domestic product and inflation rate on export performance in Somalia.

To evaluate the consequences of the labour force and industrialization in export performance in Somalia.

## Significance of the Study

The stability of the general economy depends on the general performance in the export of the countries. Therefore, recognizing the determinants of export performance will help the representatives provide standard information to policymakers to increase export sectors' growth and production, allowing them to achieve economic growth and sustainable development of their countries.

This study looked to enhance novel knowledge in contemporary pieces of literature as it originates from Somalia. Furthermore, the study will participate in trade reforms and strategies of the export segment. Somalia, while government institutions are getting the enormous study directions of the promoting export.

The study's paramount significance is to improve and increase the export of Somalia due to propose crucial steps that would guide government's institutions that concern foreign trade departments, especially export performance and other related areas. In addition, however, the aim of the study would improve the general production of the countries.

With its livestock sector, Somalia's agriculture has more than 40 million animals, and by 2014, it has been able to export more than 5 million live camels, cattle, sheep, and goats. Thus, agriculture and animal husbandry contribute about 40% of Somalia's Gross Domestic Product. Therefore, agricultural product exports are vital to the country's economic growth and poverty reduction. Moreover, half of Somalia's population lives in rural areas. Similarly, increasing the export of agricultural products would reduce the poverty level of the people. Therefore, the determinants of export performance in Somalia the relevant work is precious and vital.

## Methodology of the study

This study examines the determinants of export performance in Somalia, the research method is mainly deductive, employing secondary data collected from various sources such as the World Bank for its department of World development Indicator and SESRIC. The data used to analyze this study is time-series data, covering 30 years, from 1991 to 2020, for variables' dissimilarity. For getting reliable results from the regressed time series in the regression model, the number of observations is important because the larger the numbers the stronger the results.

In this study, a well-known estimation technique known as ordinary least square (OLS) is used. The reason selected for this method is the nature of the dependent variable (export). Furthermore, because the research is time series in nature, it concentrated on the time series characteristics of the variables to evaluated, although variables were measured for their stationarity.

# CHAPTER ONE: BASIC CONCEPTS AND THEORETICAL FRAMEWORK

The purpose of this chapter is to summarize the conceptual background of international trade, theories of international trade, classical theories and neoclassical theories of international trade, product life cycle theory and finally the chapter provided some discussions about the Theoretical framework Linking FDI and Export Performance as well as, Host-Country Determinants of Foreign Direct Investment Inflows.

## 1.1 Conceptual Background of International trade

International trade has been and will keep on the significant channel and bridge among nations Trade has been present since the ancient period; also, the historical improvement of states rose the needs and crucial of trade-in cooperation of moral and physical and intellectuals (Terzea, 2016). In reality, no country would have all resources in both human and capital, also the commodities it required. Due to the scarce resources, trade is becoming essential globally, although to develop nations' economic strategy, international trade turns into fundamental in developing the countries.

In the initial, people attempted to produce the commodities they needed to survive and become healthy in living; however, they could not have produced everything they wanted. For that reason, people started to exchange goods for themselves. This kind of exchange is known as a barter trade. This old system of trade was represented changes from product to product. Afterwards, the business became more straightforward than the early ones. The people introduced intermediate products called currency (Money) to simplify trade and converted accessible business among them; at that time, the actual transaction begins. International trade was generally formed in a barter system substituted by mercantilism in the mid-$16^{th}$ and $17^{th}$ centuries.

There is a mutual interdependence in all nations of the global on the contemporary world's economic side. However, in the present time, it is challenging to find and study the instance of a closed economy; due to the globalization and liberal trade, whole of global states became open countries in doing for trade among them, but there is a difference in a degree level of openness between one nation to another. Therefore, in present times, there is no nation in complete self-sufficiency (Pradesh, 2013). In this context, the significance of

self-sufficient is producing goods and services that the country has due to the consumer's demand or its citizens' wants.

International trade's prominent definition is exchanging goods and services across borders or territories in foreign countries. Alternatively, in other words, foreign trade exchanges between nations. Countries look like to trade moreover an abundant with themselves and too little with each other (Rauch & Marcouiller, 2001). However, countries prefer to improve external trade to encourage free trade between different nations to enjoy and receive foreign market shares.

Altogether, these economic views and ideologies have determined the international trade strategies of every state. However, trade between different countries in terms of factor endowment must be more significant than trade between countries with similar. Furthermore, we would inspect the most external exchange between wind and textile but very little Mercedes-Benz ford. Therefore, developed countries prefer to trade more undeveloped countries between themselves. Nevertheless, Grubel and Lloyd (1975) revealed that most foreign trade flows were Intra industry trade among developed countries (Garcia Pires, 2012).

In the earlier capitalist era, trade between nations depends on specializations; every country focuses on the natural resources that they can produce according to the other states. In the previous year's worldwide economy proficiency, a marvelous enhance foreign movements of commodities and production factor, through international trade and flow of the production element, grew considerably more than output. The central concept or definition of global business is transferring goods and services across borders or territories. Furthermore, the movement of commodities among countries shows the existence of trade. The majority of global societies appreciate the availability of universal services such as international sports, games, and global supermodels. Globalization is enabling the world together and facilitates the consumption of commodities, services, brand names, and even knowledge from place to place. Business is essential for the consumers and producers; they both survive and getting benefits between them. Furthermore, it is crucial among countries because it participates in its economic growth, employment, and trade balance (Zhang, 2008).

For several decades, the United States played an essential role in reducing the trade barriers in the international economy over the wide range of trade agreements and

establishing international institutions working to reduce or eliminate significant trade barriers. As a result, both the United States and other trade partners enjoyed substantial benefits from superior global economic integration. Numerous American consumers, business firms, and employees have appreciated prosperity because of these efforts. To realize achieving this lofty goal in 1947, the United States ran efforts to diminish trade barriers established an organization named General Agreements on Tariffs and Trade (GATT) (Goldstein et al., 2007). These institutions recognized one of the successful international organizations that promoted foreign trade and free movements of production, and some external observers assumed their role of transforming world international trade. At the end of 1995, WTO was established due to become a change of GATT. The consequence of the null results questioned the effectiveness of international institutions, especially GATT/WTO. The trade members of international institutions generally agreed to promote investments and reduce or eliminate trade barriers such as tariffs, exchange controls, import quotas, and other related trade restrictions (Aaronson, 1998).

### 1.2 **Theories Explaining International Trade**

This section investigates the prominent international trade theories; as we mentioned above, foreign trade's well-known definition is exchanging goods and services across borders or territories among the countries. International trade theories offer clarification and explanation of foreign trade's main patterns and the distribution of gains from trade. However, approaches help nations know the efficient techniques to do business and to specialize in goods. The well-known economists believed that theories encouraged the benefits of liberal trade, while several non-economists compete against liberal trade. The opponents knew the significant advantages of a liberal business, but they had some fallacious reasoning to oppose the liberal trade (Anderson, 2008).

Trade theories provide answers to the main questions, which include: why do nations trade? Does trade a good thing? International trade theories offer the answers to the above questions; although they provided both convincing and tasteful responses, the familiar economists approve of the attractiveness of liberal trade. While a majority of the population oppose and confuse the arguments of liberal business. The liberals whose works make the next section's subject were led, and degree level influenced the Physiocrats' affected, for the primary accurate of economic theoreticians in economic thought history (Schumpeter 1954).Their most famous delegates François Quesnay and A.-R. J. Turgot believed the richness of states depends on the improvements of their agriculture sector (Dorobăț, 2015).

The common purpose of any international trade theories is to clarifies and discuss the reasons and patterns of overseas trade. However, there are two other foreign trade theories to describe the structure, and the other one is to measure the volume of external work. Furthermore, views on foreign trade and the crucial role of allocating the countries' natural resources proposed a fundamental suggestion that increased efficiency using production and other resources. Thus, there are three significant trade theories above international trade, and they are the following, compositions and reasons. The final volume of external work is conventionally said to be a "complete" international trade theory (Rwenyagila, 2016).

The trade theories explain patterns of trade and the effect of internal or home economy. In addition, ideas discussed the kind of state policy due to increasing the future welfare of the state's prosperities and their citizen's wellbeing. Free trade always occurs when administrations do not try to influence and interfere with the market also eliminated import quotas and tariffs. Also, citizens can enjoy buying commodities from foreign countries. At the same time, they have opportunities of getting a market in foreign countries. Therefore, one of the main benefits of the trade includes the specialization of export products and other related manufacturers that country produced the most efficient ways according to other countries.

For the first international trade, theories have initially been from the response of liberals to the central domination system of mercantilism from the 16th to the 18th century. This answer contracted the subject of international trade with substantial and considerable attention. For the nature of this opinion, the 19th century raised two leading global businesses and schools of thought: the British classical school and the French liberal school. From these famous members were Adam Smith, David Ricardo, and John Stuart Mill, and Jean-Baptiste Say, Frédéric Bastiat, and Paul Leroy-Beaulieu, accordingly (Dorobăț, 2015). Furthermore, the 19$^{th}$ century signed especially the field of economics as an emergency of the economy as independent science due to result from the tireless efforts of economists as mentioned above those played a very crucial role in the scientific contribution of the field, also launching the first of critical difference theories in modern of the school of thought. According to the history of international trade theories, classical and neoclassical ideas are the traditional trade theory. At the same time, they focus on the significant difference between nations caused for their view in the way they observed, like the side of differences in technology (classical theory). More importantly, the contrast of the other relative factors of endowment that is the common factors of neoclassical theory explains the countries'

production of goods and services. It's an aspect in output also they argued the ways of the resources efficiently allocated for these methods of external trade encouraged the specializations of goods that the states produce their best products, according to the other countries, these procedures finally promoted the increase of exchange of goods and services among countries and also participate an enhancement of trade activities.

After countries increased the volume flows of trade among them, even the economic growth of nations automatically increased, which led to the high standard living of populations and enhancing the purchasing power of the citizens; therefore, international trade played a significant role in ways of commerce and development.

There are two dominant theories of international trade the classical trade theory and the neoclassical trade theory

### 1.2.1 The Classical Theory of International Trade

At the end of 1790, the classical economists challenged the idea of mercantilism—the prominent and founder of classical economy, Adam Smith. Based on criticizing mercantilism, he proposed the division of labor theory. It passed 41 years since Adam smith suggested absolute advantage in his famous book of Wealth of Nation in 1976. In contrast, David Ricardo proposed a comparative advantage in his favorite book, Principles of Political Economy and Taxation, in 1817. This period is the cornerstone and basis of international trade theory in the time of the classical era.

The notion of Smith, foreign trade has a significant underlying cause of central parts of all kinds of trade transactions. Looking at the Wealth of Nations (WN, hereafter), business is the outcome of the human "propensity to transport, swap, and interchange one thing to another. (WN, I.ii.1) (Schumacher, 2012). Business cannot have selfish motives. However, in comparison, any time individuals make transactions with each other, they try to maximize their self-interest, not some self-sacrificing ones. If they were not gaining benefits, they would not track and made trade among them. Thus, brokers carry on business globally because they earn profit by trade. Nonetheless, Smith revealed that single brokers could gain benefits, but the whole of society would gain an advantage from international trade.

Smith is a father of classical economy and his endeavors of involvement of advancing capitalism. However, most economists usually do not positively rate Smith's contribution to

foreign trade theories related to Ricardo's classical school works. His theoretical writing on international trade is neither original nor brilliant (Leonard Gomes, 2018).

In the following section, we discuss the Smiths doctrine theory of absolute advantage also the following parts discussing the significant contribution of international trade by David Ricardo for his doctrine theory of Comparative advantage:

**A) Absolute advantage theory**

Adam Smith is an appreciated founder of classical economy and capitalism. He admired and advocated freedom and gains from trade. Smith had a great influence on developing international trade. Therefore, Absolute advantage is one of his significant contributions to foreign trade theory. Smith rose and discovered gains in foreign exchange and discovered the weakness of mercantilism. At the same time, he argued nations could not get wealthy flowing mercantilism simultaneously because the export of one state is the import of another. At the same time, he emphasized the significance of specialization and free trade.

Absolute advantage is the first trade theory indicated and clarified initially ideas of specialization in production and labor division. The real meaning of absolute advantage is that an individual or state produces goods and services more efficiently than another individual or country. Thus, we say he/she has an absolute advantage of producing goods and services. Furthermore, absolute advantage occurs when one state produces cheap products than another country or its rivalry.

The substantial assumptions of absolute advantage model are the following: trade is between two nations with two commodities and labor is the only cost of a production factor. Therefore, there is free trade between the two countries. As an example of the absolute advantage model, consider the following table:

Table 1.1

| Maximum yield | Country **A** | Country **B** |
|---|---|---|
| **Cars** | 2 hours | **10 hours** |
| **Truck** | 8 hours | **4 hours** |

Country A has an absolute advantage in Cars' production as it takes fewer hours to produce single unit of cars in Country A than country **B**. However, Country **B** takes fewer hours to produce Trucks. Therefore, it has an absolute advantage in the production of Trucks comparing to country A. According to Adam Smith's theory," countries should specialize in the production of goods in which they have an absolute advantage." So, country A has to specialize in the production of cars and country B in Trucks.

**B) Comparative advantage by David Ricardo**

In the 18$^{th}$ century, British economist David Ricardo made a massive contribution to external trade, and he was the author of the favor book on the principle of economic policy. Due to international trade, he was the precursor of the classical theory of foreign exchange and comparative advantage theory doctrine. Ricardo was a manifesto of move-ups and foreign trade growth, not the difference of absolute advantage but the lift of comparative advantage theory. He appreciated the significance of free trade among nations. The main contribution of external trade was to increase worldwide production through the specialization of goods, while some countries have a comparative advantage over others.

A country has a comparative advantage in producing commodities if the opportunity cost of producing goods in other goods is lower than in other countries. Also, comparative advantage means a "great and huge advantage" that helps governments and individuals make transactions to gain benefits from external trade—relative advantage advocates efficient ways of using a natural resource to better and wealthy manners. Nations should specialize the relatively more productive goods, even if they have an absolute advantage in all goods. In Ricardo's theory, the absolute advantage was another case.

Theory supposed existence of two nations, producing two commodities while using labor as a production factor and fully employed, is immobile globally. However, the factor price is competitive. Therefore, there is no cost of transportation and a lack of restriction on foreign trade. At the same time, climate and the environmental trend is considered as a comparative difference advantage. In contrast, the distinct in comparative advantage causes trade among countries. Ricardo's consequences revealed that countries could export the goods they have a comparative advantage and import them with a less comparative advantage. Clearly showed us how specialization in goods is an essential in Ricardo's notion.

### 1.2.2 Neo-Classical Theory of International Trade

Ohlin criticized the traditional theory of foreign trade, Particularly David Ricardo's comparative cost. he claimed Ricardo's comparative theory is not accomplished. Due to Ricardo's fall to discuss how the comparative cost occurs. Ohlin also agrees that comparative cost difference is fundamental to foreign trade. Although Ohlin attempted to discuss the causes of comparative cost, difference through his theory called the "modern theory of external trade."

The neoclassical trade theory improved to modify unsatisfied notions of traditional trade theory, a neoclassical theory identified as modern theory, by enhancing the classical assumptions of a production factor. For example, there was only one production factor in the Ricardian model: Labor and they allowed adding a second factor of production: Capital. As a result, the modern theory explained a more acceptable explanation in comparative cost differences and external trade patterns among nations.

Therefore, the neoclassical theory is a 2*2*2 model that assumed two countries, two commodities, and two production factors (Labor and Capital). The discovery of two production factors makes this theory very significant, explaining the association between income distribution, external trade, and factor allocation. Although this where neoclassical is a fundamental difference in traditional business in handling the above variables. For instance, the observation is that the Heckscher-Ohlin-Samuelson HOS Model states that goods inter transaction is abundant, such as labor, capital and land. The foreign exchange of goods is, however, an indirect factor arbitrage. The exchange of factors in the places where it is highly abundant to where it is lower or scarce abundant, furthermore the HOS model revealed the mobility of aspect of production that is very significant among international nations to promote and improve trade flow. Under some occurrences, this indirect factor arbitrage can entirely eradicate the factor price difference.

The most significant consequence of the HOS model is the opportunity to sell foreign markets to factor services due to the exchange of goods results from changes in factor services in a domestic market to an external market. As a result, the consequences derived from demand inputs become much greater elastic and more identical through nations (Rwenyagila, 2016). The trade framework suggested by Heckscher (1919) and Ohlin (1924) evacuate from the Ricardian model; it highlights the role of a factor of production, especially labor, land, and capital, in cooperation of two main sectors of trade: agriculture and industrial

also they attempt the explanations of how the accessibility of these factors of production resolves the nation's nature of specialization and patterns of trade.

Paul Samuelson added magnificence to this trade structure by improving a two-factor, two-sector, and two-country form of the Heckscher-Ohlin model that converted the foundation of the neoclassical theory of foreign trade. The Heckscher-Ohlin theory reveals that nations would specialize in producing and exporting goods whose production desires a relatively massive quantity of the factor with which the government is relatively well endowed. However, a capital-rich country like Germany would export capital-intensive commodities, although a labor-rich country like Nigeria would export numerous labor-intensive yields.

This theory provides a possible way of reasoning in doing trade among countries than the Ricardian theory. It also targeted the supply side of the economy and proposed endowment, which discusses business specialization and volume among nations. The demand side is subdued over the expectations of consumers' and homothetic preferences and inhomogeneous products' trade. The improvement of the H-O-S trade model continues along with the progress of empirical consequences of the factor gratify of net trade flow (KANAMORI, 1972).

Conversely, based on modern theory, it is predicted that while Somalia is wealthy inland and a significant portion of her individuals are working in the agriculture sector due to developing its trade, it would produce and export labor-intensive commodities. It should similarly import capital-intensive goods containing technologies and equipment, build and convert industries, and increase agricultural goods' value due to exports. Therefore, it would expand the increase of GDP and enhance the export performance in Somalia. These will help Somalia to increase employment and achieve massive economic prosperity and constant foreign trade progress. Furthermore, Somalia would improve in livestock exports due to industrial products that might support expanding agriculture and livestock production that finally help get the share in foreign markets.

### 1.2.3 The Product Cycle Theory

For several reasons, the classical theories based on factor endowments or economic advantage have remained to show unsatisfied explanations of factor endowments of external trade as they progressed starting in 1960. Due to the quick progress of technologies and multinational enterprises' enhancement, throwback is essential to pursue new international

trade theories to suit changing authenticity. It faced trading globally as it started to progress and now occurs. The development and foundation of product life cycle theory (PCT) of international trade which is an advantageous model not any of overseas trade patterns of manufactures but also international business to improve the massive volume of production and sales, also this very significant to explaining the convinced character of foreign direct investment (Vernon, 1966; Vernon *et al.* 1996). .(Albaum & Duer, 2011).

Vernon (1966) established the theory of the product life cycle of foreign trade. He constructed the impression lag hypothesis due to its remedy of a massive setback in the dispersion of technologies. The product life cycle lies down innovative of several other assumptions of classical trade theory, and it is an excellent accomplishment in the hospitalization of overseas trade patterns. According to the product life cycle notion, numerous manufactured products, especially technological progressive products, undergo business cycles like office machines and electronic products (Albaum & Duer, 2011).

During the PCT process, in which Vernon discussed the fundamental and different stages of the products, the visionary or creator nations of a novel product is initially an exporter of the commodities, which finally misses the comparative advantage visa verse it is trading partners and might ultimately turn into the importer of the goods in a few years later. There are two significant features of the product life cycle. First, it will demand high income because the United States is one of the high-income nations. The second is a production process that assures in nature to be labor-saving and capital using. The causes of labor-saving in the production process are commonly observed scarcely in labor-intensive to the United States nation. The change in technologies will highlight the production process to maintain the scarce production factor (Rwenyagila, 2016). So, the first stage is identified as an introductory stage of the business cycle, which starts when a manufacture enterprise establishes new technological discovery into the invention of manufactured items. The nation was manufacturing firms initially have a universal technological gap promotes and characteristically high developed income countries.

Tsurumi (1977) explained another factor of product life cycle theory: the domestic market's role. Nations improve by producing a new product to meet domestic consumers or local markets' needs and wants. The United States has initiated chiefly numerous innovations of new products due to the satisfaction of the desire consumers and the requirements of an oversize market with high income. However, there is a demand from foreign markets to the US for the invention product. Therefore, the US export the product to overseas markets,

which external manufacturers afterwards modify due to outfit the features of their own nation's market. Ultimately, the US misplaces external markets and might finish importing those products initially imitated overseas (Mullor-sebastián, 1983).

The next stage of the product life cycle is known as the growth stage. In this stage of export and expansion, the innovator of a producer of the goods starts to export its products in foreign countries, especially the developed countries with similar tastes like income level and demand features. That means developed countries export their goods to other developed countries due to their high-income level. During this stage, the manufacturer's market becomes a massive adequate that has excessive production and supports a large number of production activity and finds inefficient production techniques, which means the increased production to spread the amount of supply into the global markets. At this stage, businesses began to receive profits from economies of scale in manufacturing, leading firms to gain marginal profit, increasing the firms' overall benefit. In addition, they would potentially enhance to invest companies' additional currency into the promotion action due to take full advantage of the potential of the expansion of the growth stage.

The next stage of a product life cycle is called the maturing product stage. In this trade cycle, some of the products' overall standards and features start to emerge. In addition, enormous manufacturing techniques begin to be modified. As a result, the overseas demand for goods rises, but it is mainly related to other industrialized nations because they cater to high-income levels. One of the essential purposes of the maturity stage is to receive the portion and share of a market they built. However, this stage is the most significant competitive period to the companies of trade life cycle stages although to maintain in receiving benefits of a market they have intelligently to invest any markets of foreign countries and also to modify and progress the process of the production, which might provide them with a competitive advantage. Furthermore, some enterprises spend more promoting the product due to increased sales and profit during the maturity stages. .The final stage of a product life cycle stages is "A Decline Stage," in this stage, every consumer knowing the features of the product itself and the production process. The decline stage possibly can be defined "as the period between commercial death and catalogue death." A developer of the views of the business life cycle, Vernon (1996), hypothesized that production of innovative products would might shifts to the undeveloped nations due to the labor-intensive countries would play a significant role in the production of the products, while developed nations busy to invent new products and to do another research of producing a product. However, the

developed countries and the United States might import commodities from developing nations (Rwenyagila, 2016).

To summarize the product life cycle theory, the PCL revealed the significance of technology and its stages (Introduction, growth, maturity, and decline stage) and their modifications. The PCL encourages innovation, technologies, and research because innovative states relaxed and enjoyed initial profit to gain products they produced in early stages. However, they exported products in foreign markets, both developed and non-developed countries. Ultimately imported the product from developing countries because they are busy innovating new products. According to Rogers (1962), in his famous theory of diffusion and the adoption of innovation, the notion suggests that initially, the product faces a resistance before they spread in a market. A small number of the population would buy the product. However, later when the product became familiar to the market and increased its value and performance, consumers would get a large segment into the product. That means new products struggle in their initial stage while later enjoying their diffusion between the populations(Goleman et al., 2019).

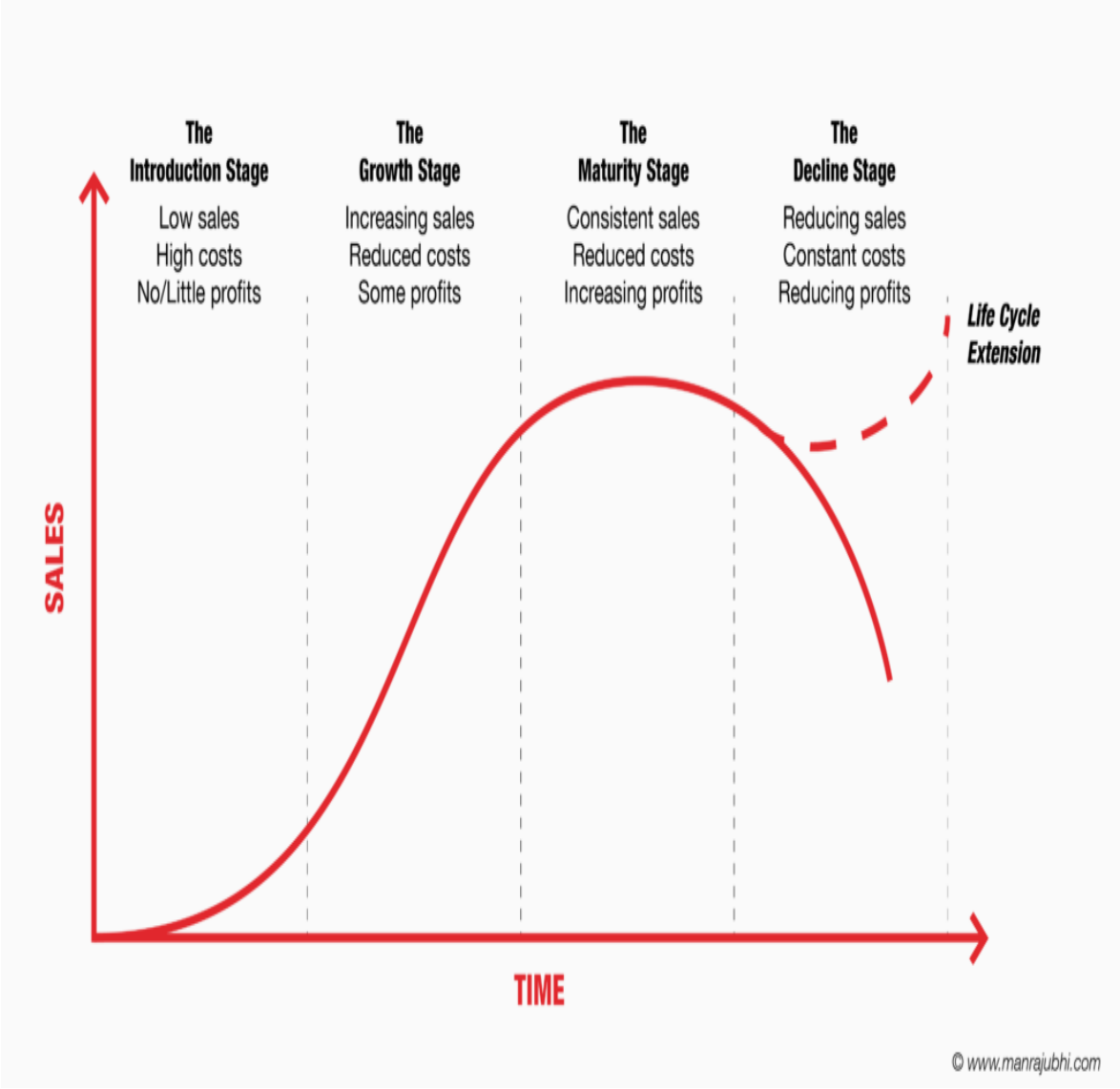
The life cycle theory has begun considering directing the primary approaches, which generally used strategic management theorists such as Andrews (1987) and Porter (1980, 1985). Engaged as a forecaster of the industry's structure is also used to guide and plan the decisions that concern management innovation and market position. (Windrum & Birchenhall, 1998). Although the significance of the PLC theories and their role in advancing, promoting foreign trade between nations. Furthermore, a PLC participates in business firms' innovation to do massive research to invent new products, helping business enterprises succeed in their customers' satisfaction.

On the other hand, there is a criticism about a PLC theory during a practical relevance. The thought that a PLC is a midpoint of explanatory power and a significant strategic tool builder. (Nadeau & Mitch Casselman, 2008). Therefore, the criticism comes after looking at the lack of more empirical studies, concerning numerous studies, which validate the existence and significance of PLC to the business firms in the side of strategic management tools and market positioning.

Finally, the product life theory emphasized the role of developing countries in the production and imitation of the products produced by developed countries, for example, the textile and apparel The industry is a clear example of emerging states like (China, Malaysia,

Singapore, and Japan) became global suppliers after replacing developed countries due to their attempting to invent new products. Furthermore, the automobile segment and production position shifted from the United States of America and some countries of Europe to Japan and other developing countries, which have massive labor-intensive production and economies of scale, making the product life cycle theory an attractive substitute for the Heckscher-Ohlin model (Rwenyagila, 2016). To sum up, a vital fact explaining the division of the product's life into phases is that different strategies might be enforced in a product session from one place to another. Consequently, this permits the product life cycle to behave like an agency controlling the product's production (Cao & Folan, 2012).

**Stages of product life cycle**




***Source:*** *https://www.manrajubhi.com/4-stages-of-a-business-life-cycle*

### 1.3 Theoretical framework Linking FDI and Export Performance

The linkage between export performance and foreign direct investment in host nations was recognized for several kinds of literature. Furthermore, host nations have an opportunity to expand its export due to the consequences of foreign direct investment through multinational enterprises (MCN) of getting benefits of entering foreign markets while establishing a global network that would support their share of the market (Honglin & Song, 2000). For example, MCN might carry host countries in new technology from a foreign nation's firms that invested in making them more competitive overseas. Overall, the only could differentiate between direct and indirect impacts of FDI on receive exports. Straightforward impression process to exports by overseas associates themselves. The influence of foreign direct investment on export actions of domestic companies fabricates the indirect effects (Honglin & Song, 2000).

Theories allocate the foreign direct investment in two main classifications, an initial export-oriented and market-oriented FDI. When FDI is market-oriented, a tremendous significance of charming FDI is the size of the market, development and the host nations' regional integration. Export-oriented FDI is usually observed, an essential factor, especially for the cost of comparative. However, it preferred cheap and skilled labor, accessibility of infrastructure, telecommunications, technology, the supply of raw material, and finally, the market's proximity. Thus, it claimed the miracle of chins unstoppable external competitiveness of growth and expansion of the export sector, especially, promotion of trade and investment. At the same time, it possesses the above two categories.

FDI might cause an increasing export by the host countries, well-known factors such as competition between individuals and firms in the same industries, and the improved business tendency (Leichenko & Erickson, 1997). Moreover, infusion of external new capital movement from capital owned country to host country demonstrates mutually, new equipment and production process, which can convert the standard plant into which named" best practice" established to help compete foreign competitors. Foreign direct investment encourages and promotes export departments of host countries because FDI allowed host nations to receive capital and new technologies. However, FDI played a fundamental role in expanding foreign trade, leading governments to progress and develop, increasing nations' employment.

Micro-theories and eclectic theory could be used to discuss the association between foreign direct investment and export action. A product life cycle, rate of return, and portfolio consist of micro theories. Furthermore, the return rate presupposes that foreign direct investment operates from external variances of the return rate on capital investment. Therefore, this is an inflow of capital as a lowest to highest return nation. Reuber (1973) and Blais (1974) present several studies that emphasized this study. It revealed that exporter would reposition the export cost through their investment return; this logically shows the positive advantage of an exporter in a product that would export it. However, the input cost of production would influence the benefit, and later the place could export the product (*Abul F . M. Shamsuddin*, 1994).

The central imagine of portfolio theory is that to reach the highest profit, the investors attempted to avoid and reduce any risk that would face their interest or capital through allocating their direct investment and resource or capital in variance nations. Thus, an establishment with a more extensive external spreading of their productive actions likely has minor instabilities in their worldwide profits (Cohen 1975) and (Rugman 1979). This is very similar to famous economic themes that know, "do not put all your eggs in one pocket" furthermore, this would prefer and support direct investment in different locations due to avoiding financial crisis or related threats that would or might be faced by investors product.

If we looked at the product life cycle theory and its association with FDI, there is a particular link among them (Hirsch, 1976). At the stage of maturity in a product life cycle theory, there is standardization. The quality of production techniques, which concerns modifying the product significantly when exported in a host country due to a share in a foreign market in their product, would be an investment in a host country. Some empirical studies revealed that companies have various purposes when investing abroad (Rwenyagila, 2016).

According to the link between FDI and export, various studies proposed companies' existences doing the export. In contrast, others both export and invest in foreign markets. In addition, a firm consumes foreign consumers and just doing FDI on abroad nations in their productivity levels. This revealed the different goals of firms. Also, several companies focus on an external market through foreign direct investment (Keith Head and John Ries, 2003). A micro notion related to the FDI is called an eclectic theory, which picked and combined different notions from various fields and finally got a theory associated with FDI. It proposes

three significant and adequate FDI situations: locational advantage, internationalization incentive, and firms' specific advantage.

Therefore, the features of eclectic theory concern, firm's opportunities of foreign and local markets through external investment. The advantage is appreciated from the vantage point of economic competitiveness, productivity, and profitability, and therefore it carries a form of economic asset, either tangible or intangible. However, the asset's value is measured by exploiting the Predictable stream in future profits through the rate of return. According to an intangible asset process, the straight and foreign expansion of companies formerly put an advancing by Hymer (1976), Kindleberger (1969) and Caves (1971; 1974), the companies working an overseas most acquire an advantage sufficient to offset the hamper further to be challenged in an unpredictable atmosphere and to shelter a superior risk.

This advantage usually provided a firm's monopolistic market and originates from several ownership assets of intangible property enchanted by companies, such as goodwill, from its brand name, managerial techniques, marketing skills, technology patent, and availability of raw material. In the first stage of the "Product cycle," the advantages are oppressed overseas by exporting in a creative nation (Vernon, 1966). Domestic production over FDI is undertaken in the next phase due to locational advantage, making more benefit than export development (Rugman et al., 1985).In conclusion, ownership advantage is rationally autonomous of the location advantage. Therefore the ownership advantage can be consistent beyond hinting location factors (Masahiko Itaki, 1991).

The notion of internalization is understood in the form of internalization, which linked the ownership advantage; alternatively, a failure of a market of the intangible asset over FDI by external investor could be lower than folks of alternative means, equally, to sell the patent or licensing or similar to export of the finishing product. It reveals from the market failure and asymmetry hypothesis Williamson (1975). It shows that foreign markets transmitting intangible assets from producers to consumers are inadequate, particularly their transaction cost (Stein, 1997). Regarding the firms' locational advantage, a host country has to prepare a suitable location and provide slightly one locational advantage in domestic competitors to motivate strangers or capital owners to invest instead of directly exporting from the host country.

Although locational advantage can drive by the host state's cheap but trained and skillful labor, small cost, raw material and other investment incentives such as reduce tax or

eliminating trade protections: tariffs and nontariff protection and creation of trade zone areas. In a host country, this locational advantage includes attracting foreign investment for creativity and investment-linked for business. The eclectic theory is one of the most comprehensive approaches related to the FDI, which also discusses, where and when FDI is furthermost possible to flow (Love & Lage-Hidalgo, 1999).

### 1.4 Host-Country Determinants of Foreign Direct Investment Inflows

Looking for a United Nations Conference of Trade and Development (UNCTAD), due to a report of global investment (1998), considered kinds of foreign direct investment and their common concerning features of an out country that are treated by an investor when determining in a case to assume a mission and program in each specified nation. Conversely, argued these factors in the literature of (Bosworth and Collins 1999), that the capability to charming an external capital could provide a massive potential advantage in developing countries (Škuflic, 2006).

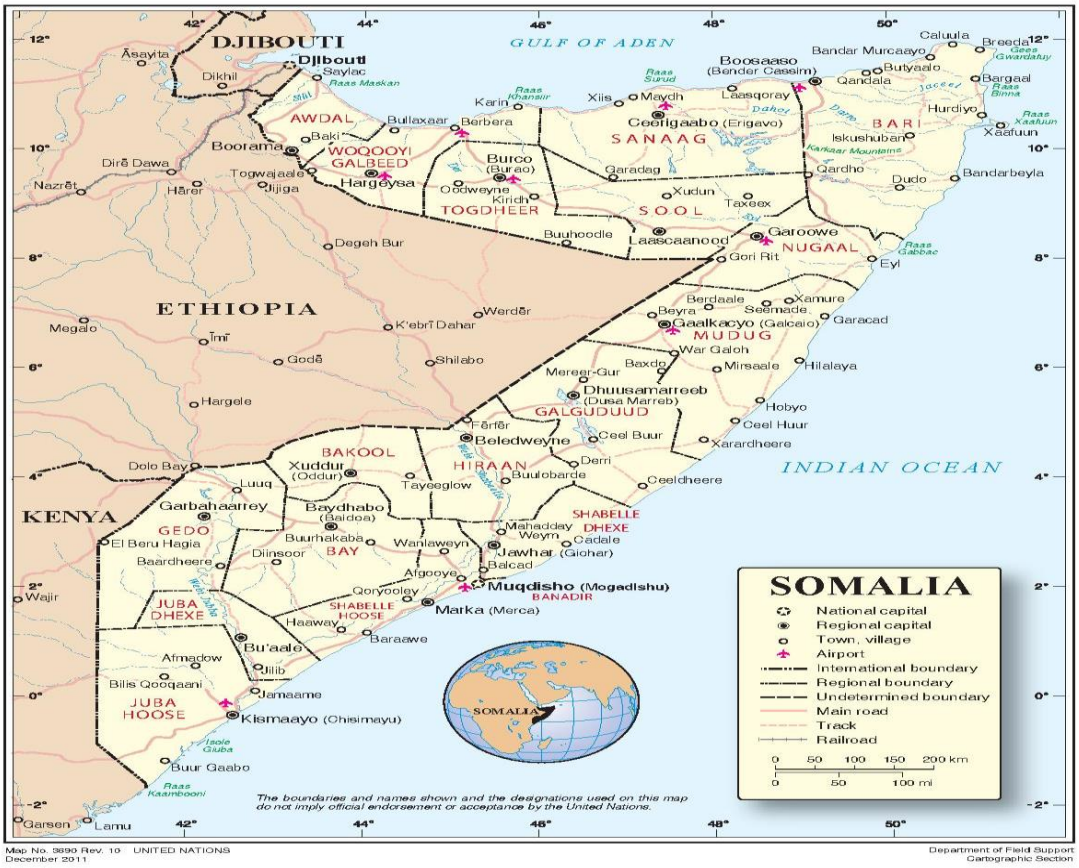
The unique economic leading in foreign direct investment, rendering to the UNCTAD supervise, depends on three groups, (I) market seeking FDI, which enterprise was demanding to discover facilities attempting bordering huge markets of their commodities and services; (ii) resource seeking and capital seeking FDI. This about a firm which searching and looking for a specific capital like copper, and looking for particularly cheap and skilled labour, their goals to reactive human kills and natural resources:(iii) efficiency-seeking FDI, this firm can sell their product in a global, although their main objective is receiving a location which the cost of production lower.

The economic aspects, overseas businesses allowing for investment for all specified republic will similarly be affected by numerous strategies and perspective of a host nation's administration. literally, the heaviness to be practiced in every aspect will alter beginning one probable host nation to additional and different masses will also be practiced by diverse overseas businesses (UNCTAD) in its Global Investment Report (1998) (Nations & Development, 1998).

# CHAPTER TWO: EXPORT AND TRADE OUTLOOK IN SOMALIA

## 2.1 Overview of Somalia's Export Sectors

The Federal Republic of Somalia covers areas nearby 638.000-kilometer square. Somalia locates in the horn of Africa: also, Somalia's population estimated at 16 million. The major and key production system of Somalia depends on livestock and crop production. Due to two rivers in the south of the country, these two Juba and Shebelle offer a mass surface of the water, which significantly play an essential role in the irrigation of crop production, most of it is cash crops. Simultaneously, other areas provide staple grain crops, particularly Sorghum and maize, in two different rainy seasons during the year. Thus, Somalia's economy has historically been and is still primarily natural resource-based with endowments of abundant agricultural land, livestock, and fisheries, even though other parts like construction, telecommunication, and transport have progressively become significant. In particular, both crop production and livestock sections still explain the majority of the Country's GDP.




***Mapof Somalia. Source: [https://www.un.org/Depts/Cartographic/map/profile/somalia.pdf](https://www.un.org/Depts/Cartographic/map/profile/somalia.pdf)***

Somalia's dominant export sources are led by the livestock sector, a significant foundation of domestic and nationwide treasure in Somalia. The production system of export-oriented pastoralists offers an essential repository of income and resilience. Although livestock provides domestic citizens with a source of income, the meat used for home consumption also offers other animal foodstuffs, and it is a significant source of food security (World Bank, 2018). According to the recent valuation of the (UNFPA in 2014), almost 26 per cent of Somalia's population categorized as nomadic. Many rural and urban areas benefit directly from the livestock sector, nearly 65 per cent.

The most fundamental export contributor in Somalia is the agricultural segment, particularly in crop production, which primarily provides food to domestic individuals and massive external earnings. Besides, crop production participates in creating employments and expanding the gross domestic products of the country. Furthermore, in the previous civil war, the country exported hundreds of thousands of tons of yields, including crop and fruit production, such as banana, sesame, Sorghum, etc. Nevertheless, everything has changed after the collapse of Somalia's government in 1991, which brought about a massive catastrophe and reduction in agricultural sectors' production; However, it eventually leads to food insecurity in domestic individuals and influence shrinks in export performance in the whole country. Moreover, due to the lack of effective institutions, the production disaster has started macroeconomic problems such as unemployment, the rise in inflation, reduction of GDP, and expand poverty.

One of the significant resources contributing to Somalia's expanding export sector is the fish sector because Somalia has the second-largest coast among all African countries, which covers near 3330-kilometres. Additionally, the fish sector provides a tiny portion in export, its near 2 per cent while in 3 per cent in GDP, due to an absence of effective administration and structured institutions and the competence of fish management foundations. In addition, the lack of coastal policy led to the fishery system's small scale and only 50 fishing centers (ASCLME Project, 2011).

Moreover, few activities play an essential role in Somalia's export sector, such as scrap metals, skins, and charcoal, illegal to trade. Still, the al-Shabaab terrorist group exports the country's insecure areas to Kenya, although the government does not record their transactions due to a black market. In conclusion, Somalia's export sector needs complete transformation and promotion of its production sector to participate in its growth and expansion of export performance.

## 2.2. Livestock Sector and Export Activities

Somalia's economy depends on the livestock sector, while livestock is a significant resource for its natural wealth. It is the essential base of the country's economy because livestock contributes nearly 75 per cent of GDP through export involvement, domestic nutrition, and external earnings. Indeed, this has been the circumstance for periods and remains the customary depository of domestic treasure and social dignity in Somalia's federal republic. Livestock alone offers a significant portion of its export activities; furthermore, livestock and its products provide an enormous domestic population in mutually employments and food security (meat, milk). In addition, livestock is crucial in the lives of Somalis people due to their dependences.

There are two significant purposes for livestock production: meat and milk production. According to the domestic producers, Somalia's livestock contains three major types, camel, sheep, and goats. Therefore, the primary feed system of animals depends on seasonal rains and other natural pastures. Besides, grass, herbs, shrubs, and sparse trees shelter Somalia's massive rangelands; fresh edible crop remains for fodder; and great movement by mutual herder as well as agro-pastoralists in the exploration of forage. These procedures recognized a small level of input and livestock production.

However, Somalia's weather is interchangeable in recent years due to climate change, which resulted in simultaneous droughts and heavy rains, which cause floods. These factors have decreased livestock production in both feedings and exporting livestock, and they lost their lives. In some areas of the country, floods affected environmental degradation and reduced the growth of grass inland. Due to a lack of practical strategies and government regulations, natural catastrophes challenged livestock production and export performance in the whole country. Ruminant livestock (camels, cattle, sheep, and goats) are rising most broadly on the traditional pastoral or agro-pastoral grazing system. The presence of little livestock value chain vacillating from rural systems in two significant production and marketing inputs in livestock health services and feed (NDP, 2020). Due to promoting livestock production, the local producers and government institutions should encourage and care about livestock and their fodder's general treatment. Second, as we mentioned above, livestock's primary yields are meat, milk, hides, and skins. Therefore, there is an evolving new profitable dairy system of urban or city areas, slaughter for exporting meat and skin of livestock instead of living animals. This one requires specific caring for their quality due to meet international standard rate.

**The primary export collaboration in Somalia in 2020**

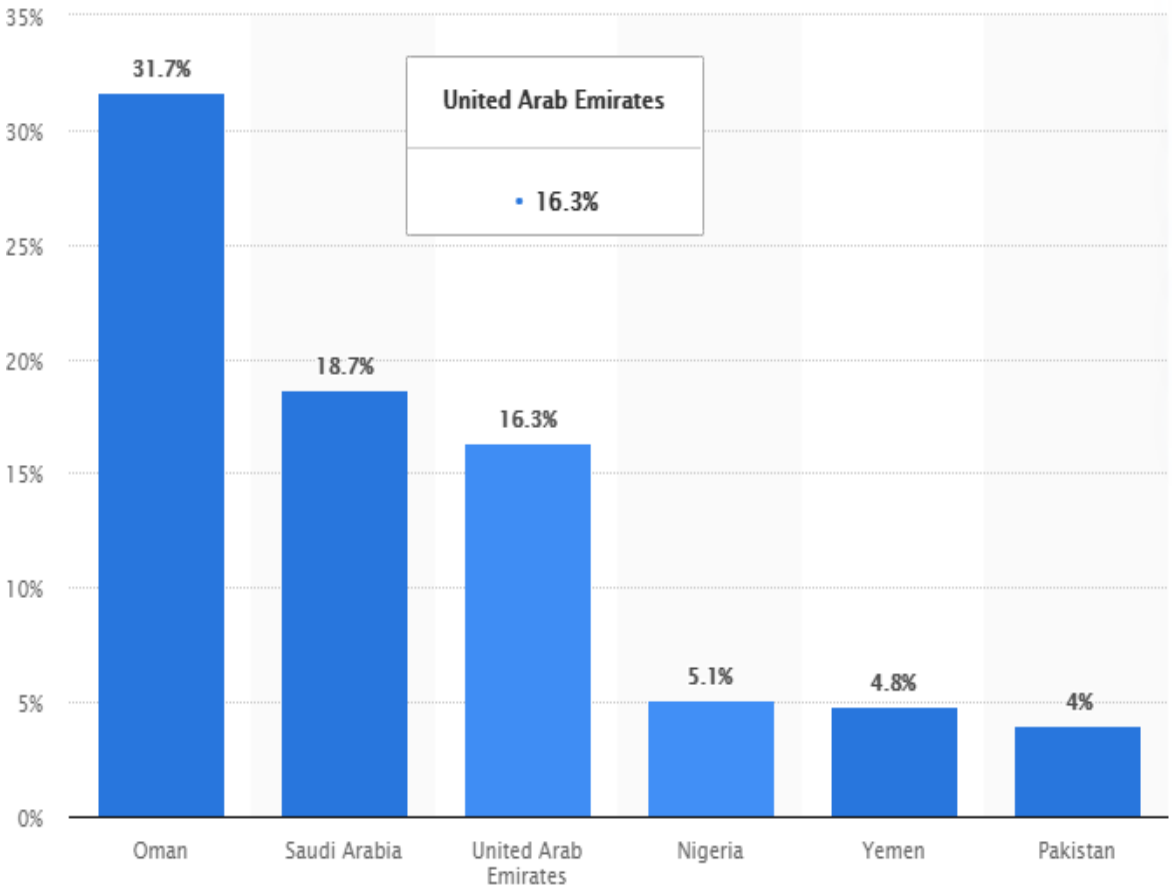



**Figure2.1 Sources:** ***https://www.statista.com/statistics/452269/most-important-export-partner-countries-for-somalia.***

The prominent of Somalia's export foreign markets of livestock products and sympathetic clients in a gulf market, which offers a positive competitive advantage in a country, as figure 2.1 revealed, some oil produced nations in the Gulf (Oman, Saudi Arabia, United Arab Emirates, Nigeria, Yemen, and Pakistan) became the highest portion of livestock export from Somalia. In both live animals and meat also skins, hides, and other yields of livestock products. However, they assisted Somalia in growth and progress in the export and receiving many earnings, which participates in its GDP growth. There is a tough which favourite for the nation's animals and meat in the Arabian Peninsula, mutually for the reason that related and intimate halal manner supplies and meanwhile comparable genetic appearances among Somali and Gulf states shoats (which in here means both sheep and goats, not either young pigs, as other world used to) (NDP, 2020).

Therefore, the livestock sector remains a central key source of Somalia's economic growth and poverty reduction. However, the livestock sectors' performance faces significant problems such as lack of competent institutions, clear policy and strategies, and lack of animal health centers. Besides, the absence of a disaster management agency investigates and researches the consequences of catastrophes like droughts and floods; these issues lead to the animal sector's vulnerability for domestic and international markets and the climate effects. However, the recent estimation of the livestock population is 56 million(NDP, 2020). In contrast, the previous assessment of a historic prewar was less than 40 million. In conclusion, the access funds are not enough due to a lack of proper coordination and institutional management to help the rangeland grazing system withstand pastoral occupation, primarily based on traditional nomadic and animal production. The frequency of droughts and heavy rain with massive floods caused by severe deforestation from spans of unmaintainable charcoal fabrication and occasioning land degradation disguise the circumstances.

Urbanization and remittance play a significant role in expanding domestic consumption, while they provide great opportunities to improve livestock and agriculture. In the mid of 2010, there was a new approach of using livestock products, especially meat, which is the production of fresh red meat, which virtually comprehensive to meet local demand. However, the fresh red meat supply remains glowing and progress, mutually before and after the natural disaster in 2016/2017 droughts (NDP, 2020), resulting from insufficient slaughtering and marketing services.

The other value factor of domestic consumption in livestock is the development of milk production opportunities; in pre-urban areas that rely on productive rangeland, some areas were receiving enough seasonal rains. Other factors that encourage the expansion of domestic consumption in livestock products consist of occasions to deploy solar and wind power due to decreased energy cost, particularly in cold chains, civilizing animal management methods, and feeding methods to enhance livestock productivity. It would reduce cyclical fluctuations without increasing the herd size. These factors encourage techniques to expand livestock production, which finally promotes export performance and activities.

### 2.2.1 Livestock Production Systems

There are kinds of features of the livestock production system and management established in Somalia. Those factors regulate variables that include natural resource endowments, accessibility of labour as a workforce and pasture, and the mass and kinds of animals elevated. There are three central production systems used in Somalia, and they are flowing: nomadic and transhumant pastoralism, agro-pastoralism, and urban and peri-urban raising systems (World Bank, FOA, 2018). According to the World Bank, the above three categories are distinguished in a Somalia livestock production system.

The well-known livestock production system in Somalia is nomadic pastoralism. This system's outstanding features include small or lack of agriculture and the great movements of folks and livestock from one place to another due to grazing and water investigation. On the other hand, transhumant pastoralism is characterized by a more lavish or less formal cyclical journey as of permanent settlements. These two livestock production systems found in Somalia; their maximum concentration regions are northern of the Country like Puntland and Somaliland, the most stable (in both security and policy) and peace regions in Somalia.

Pastoralism is both an economic and social system that firmly becomes to dry land circumstances. In general, pastoralists can make a vital return to places with an abrasion and water. In other words, they return from a location of low rainfall and insufficient resources due to rearing their livestock. Pastoralism's significant features include a complicated set of processes and knowledge, which traditionally allowed preserving continuous stability concerning animals, grasses, and folks (World Bank, FOA, 2018).

In the last decades, reaching sustainable equilibrium became tough in Somalia due to different factors that increase the obstacles. However, the prominent aspects include varying the political landscape and using a method that encourages agriculture and cities due to social settlements. Climate change also enhances and conflicts among a domestic community, severe environmental degradation, and frequent natural catastrophes like droughts and heavy rains resulting from massive floods. According to Somalia, pastoral domestic, everyday use their labour method while having a different job description. For instance, among family associates, the young men herd camels while the rest of the family, especially women and elders looking for cattle and other livestock like goats and small ruminants. Dividing the herd is an overall policy expending the used to enhance to scare

resources. On the other hand, Transhumance can be described as the procedure that animal mobility takes in the lands such as the northern Mediterranean. Winter (coastal) and summer (highland) grazing regions, plethora distinct by around tens of kilometres complete periodically by numerous extended areas by commonly oppressed places to which livestock arrival frequently every year (Annual, 1995). The above opinion revealed the typical livestock movements worldwide, especially in European countries before industrialization, Transhumance.

The other one of Somalia's livestock production systems is the available agro-pastoralism system, which is not a simple method due to its inclusion of different aspects like rearing livestock and crop production. Although agro-pastoralism could be defined by a varied practice of pastoralism, which combines farming, it concerns the integration of agriculture and other levels that shape the agro-pastoralism folk's community (Lane, 2006). However, agro-pastoralism is not a single standard of the livestock production system, according to the grade of agricultural or pastoralists repetition in a specified community. There are different agro-pastoralism in the mode of production according to agricultural or pastoralists status.

In Somalia, the agro-pastoralism production system generally increased in dried regions in entire parts of the country. Several households felt in difficult consequences of livestock dependence as sources of livelihood. Meanwhile, agro-pastoralism combines; the production of animals and grazing with arid areas. The main aim of this process is feeding livestock in residuals from harvesting crops. The major crops that produced the agro-pastoralism process include Sorghum, maize, and beans.

There are different subtypes of agro-pastoralism rely on the size of households, farm, and herds. If the farmer-owned many herds, the farmer divided them into his animals. They are keeping some of the animals on the farm while the other animals in the rangeland. Moreover, the farmer who owns little animals keeps his livestock on small-scale farms. The split of labour circumstances depends on the number of the herd that the farmer had. Besides, households divide their family members into specific jobs (commonly boys and men) to keep packs.

In contrast, the rest of the family stay weak and pregnant, cultivate, and harvest the farms. In the agro-pastoralism regions, crop and livestock production, the nutrient cycling used at the crop residual from the agro-pastoralism system is expected due to their feeding

in animals. In contrast, animal manure is used as a crop fertilizer. However, a natural catastrophe like a droughts power is quite inadequate due to the absence of a livestock management system and transparent policy and livestock production strategies. The most well-known regions in an agro-pastoralism in Somalia are areas near two prominent rivers Juba and Shebelle, and other higher and productive farming lands in southern provinces, which received a higher rainfall (World Bank, FOA, 2018). The Bay and Bakool region are prominent for the agro-pastoralism system. They produce a massive crop production such as Sorghum, maize, sesame, cowpea, and groundnut combined with livestock rearing, commonly in cattle. Moreover, the coastal province always keeps an ever-changing crop growing in agriculture, widely combined with rearing animals, mostly camel and goats.

The animal production system of Agro pastoralism is the practice in regions, which received a high amount of rain, and that water obtained from harvesting rainwater, and several natural drinks of water from seasonal. Some northern areas in the Somaliland region practiced agro-pastoralism because they received high rainfall, allowing them to cultivate and produce several crop productions like Sorghum, maize, and cowpea to associate and combine production rearing animals. Similarly, the other region of the country, such as Puntland, also practiced agro-pastoralism in the area with an irrigated farm and attempted to combine crop productions and keep livestock such as goats and camels sheep. These regions received the right amount of rain in the spring season, becoming a water source for the animals. In Puntland region actually produced several amounts of livestock, which play a significant role in domestic consumptions and the progress of a country's economics and finally encourage and promote an export performance in a country.

The third systems of Somalia's livestock production are pre-urban and urban areas, which formed the integration of two animal production systems: pastoralism and agro-pastoralism. However, livestock feed natural pastures, which grew, traditional land, and seasonal rains caused growing trees and shrubs for the next year. Although this helps herds to feed a graze and expected a water supply is accessible in these areas. Furthermore, roundabout farms integrated camels and cattle at the same farms and targeted domestic markets to import their milk pints in cities. The prominent areas of a pre-urban and urban system that are milk consumers include Somaliland (Hargeisa, Buroa, and Berbera) while in Puntland (Bosaso, Garowe, and Galkayo).

*Table 2.1 Somalia livestock population estimation 2020*

| Region | Camel | Cattle | Goats | Sheep | Total |
|---|---|---|---|---|---|
| Awdal | 411,600 | 65,700 | 1,965,500 | 893,300 | 3,336,100 |
| Woqooyi Galbeed | 535,400 | 96,600 | 2,360,900 | 968,400 | 3,961,300 |
| Togdheer | 446,000 | 4,500 | 1,601,500 | 477,500 | 2,529,500 |
| Sool | 186,100 | 0 | 899,600 | 668,400 | 1,754,100 |
| Sanaag | 174,100 | 0 | 1,656,500 | 1,084,300 | 2,914,900 |
| Bari | 67,400 | 0 | 1,472,600 | 672,800 | |

***Sources: Ministry of Planning, Investment, and Economic Development. NDP 2020/2025***

During the progressed and speedy developing nations, there is a continuing propensity for production scales to improve. Besides, these are mostly deciding for the production of monogastric and less so for ruminants. Simultaneously, specific regions with low economic development, such as parts of South Asia and sub-Saharan countries, still have not experienced an enhancement in the average production scale (Steinfeld et al., 2006). However, Somalia's livestock production system is not exceptional in one of the Sub-Saharan countries; nevertheless, Somalia experienced several catastrophes, such as civil war, which lasted nearly three decades, mainly affecting its economic progress. Besides, there is a natural disaster that resulted in a decrease in livestock and crop production. However, these factors participated in enhancing domestic food insecurity and starvation of the citizens. The

absence of a strong central government and working institutions played an important role in decreasing livestock production systems. Some areas increase harm of traditionally cropping and grazing land living to Somalia's ecological and environmental degradations.

The inclusion of rangeland due to over green livestock production increased. The absence of law enforcement has run major conflicts among domestic livestock producers. In contrast, local demand commercially increased and produced fodder.

### 2.2.2 National and Regional Livestock Policies

Before the collapse of Somalia's military administration, the public sector's national livestock policy was running. Said Barre, the former president of Somalia, nationalized and monopolized the export trade of hides and skin in the 1970s (World Bank, FOA, 2018). The administration ran the control of livestock export until the end of the 1980s. The government required massive outdoor financial assistance and swapped to eliminate their monopoly and animal export trade policy to the international institutions such as the World Bank and the IMF to liberalize the livestock subsector trade. However, the administration has begun to enforce private enterprises to pay a heavy and massive tax and impose restrictions on private livestock exporters. Although other external exporters were challenging these obstacles due to control of foreign exchanges 1in the 1980s, especially livestock exporters, the government officials required to exchange private exporter in their half of foreign earnings. The requirements benefited from being wealthy in government officers.

After the downfall of Somalia's state in 1991, new and unexpected challenges started, which mostly faced and involved the different ways of trade communications in our context; livestock production subsectors challenged the most due to their colossal dependence on government institutions. Especially in the nation's southern regions, the institutional capacity (in current, federal and state members formed) continued inadequate due to their lack of political stability and peace. However, the private sector played a significant role in filling the gap between government institutions, and they provide facilities and essential services to improve trade. In addition, the private sector also offers social services such as health care, infrastructures, education, few commercial banks, and the communications sector's progress. Moreover, the confidential business has grown up while supporting and offering livestock producers in animal transport and health services. Besides, the private exporters facilitated the country's health and nutrition improvement that challenged the ban from importer countries leading Saudi Arabia.

The primary and essential national and regional policy about the livestock sector's progress relies on national development plans and strategies that consider enhancing the nation's production level to cover and run into economic catastrophes such as poverty and unemployment. In contrast, it aims to support a dynamic and commercially competitive animal sector, which commits to reaching sustainable livelihoods, general social and economic needs like economic progress and social services. To achieve aims, plan laid out four lofty goals concerning animal subsectors:

a) Enhancing the capacity of public institutions and improving infrastructures.
b) Increasing animal health services and the productivity of small and large producers.
c) Progressing animal trade and other products of livestock.
d) Improving national food security, nutrition, and food safety within the livestock subsector.

To establish solid national institutions that lead livestock policy, the ministry of livestock, forestry, and range, of the federal republic of Somalia prepared a draft about livestock policy and health in 2016, draft concern southeastern and Puntland states. Furthermore, the article emphasized the approach of animal health and disease control in livestock of Somalia with admiration to recommendations and guidelines of provincial and global standards. The code powerfully highlighted animals' health quality for their milk and meat and checked standard slaughter the legislation empowering veterinary authorities to control animal movements and destroy livestock or products related to disease control (Ministry of Livestock, 2016). Furthermore, the document set out the significant functions of public and private sectors such as animal disease control and trade, land degradations, improvement of institutional capacity and coordination, enhancement of infrastructures, livestock health and foreign marketing development. Besides, to continue the expansion of export level, it also reopens the long-term prohibition of female livestock export.

Somaliland is a self-declared region in Somalia in 1991 after the Republic of Somalia's collapse but still has not received international recognition. However, Somaliland is the most peaceful and stable region in Somalia. Moreover, in 2006 Somaliland approved a national policy of livestock. The area identified numerous parts players' contribution and comparative advantage and set out government institutions' roles and responsibilities, including clarifying and monitoring, private sectors, animal health control, research institutions, and

development partners (Somaliland, 2016). Somaliland policy of livestock highlighted the following:

- Improvement of veterinary public health services to protect and safeguard consumers locally and internationally.
- Maximization and commercialization of animal products to meet the producers' income demands and national nutrition requirements.
- Promotion in trade and livestock products
- Continuous professional development and strengthening institutional capacity are public and private for effective service delivery (Somaliland, 2016).

In conclusion, Somalia's regional and national policies around livestock progress and development emphasized and recognized their administration, institutional improvement for the livestock, animal health services enhancement, and increasing quality of livestock both meat, milk, and the slaughtering time. Although livestock's national policy inspired the trade and export performance of animal encouraged foreign and domestic investment of livestock rearing for both health and disease control. Furthermore, the federal republic of Somalia emphasized increasing livestock production while government institutions attempted to expand foreign markets of livestock; the national policy also encourages trade partners' relationships. Although national policy suggested enhancement of institutional capacity while promoting the effectiveness of supply service delivery. However, livestock's national policy requires massive government implementations and adequate financial budgets to solve and improve animal health services and other relative animal difficulties. Besides, meeting international quality standards for slaughtering an animal requires long-term professional knowledge and external experts to train and enhance domestic producers' quality.

### 2.2.3 The Decline in the Livestock Population

Several reasons caused a massive decline in the livestock population, so far the consequences of the decrease in the grazing places from increasing animal density per unit of common grazing land. However, reduction faced graze areas will automatically result in a substantial negative impact on livestock population growth (Jodha, 1985). He also emphasized the decline of common property resources, resulting in a considerable decrease in livestock population in specific areas.

The government of Somalia conducted a reliable survey about the estimation of livestock population until the latter 1980s; the final poll revealed an estimated animal population of almost 40 million (FGS 1989: FOASTAT). After that period, international institution agencies and some local private firms conducted livestock population estimation. This external agency challenged limited and inadequate internal information or availability of several parts of the country. However, their last assessment about the livestock population was around 39 million in1998—this estimation run by (FAO, World Bank, and EU 2004).

The FSNAU conducted a considerable and current assessment that associated information about Somalia's animal population at the end of 2017. Where agreed to pre-drought baseline, which means this animal population estimation near previous assessment figures showed international agencies for their project of drought impact needs assessment (FGS 2017a). Therefore, it measured a country's livestock population of 52.9 million head (World Bank, FOA, 2018), although the partner classified data in different species of Somalia's livestock, 28.7 million goats, 13.6 million sheep, 6.6 million camels, and 3.9 million cattle crowns. The FSNAU figures revealed that shoats are the highest number of animal populations while cattle and camel figures are slightly smaller than previous FAO and World Bank assessments. Besides, their regional distribution is also different.

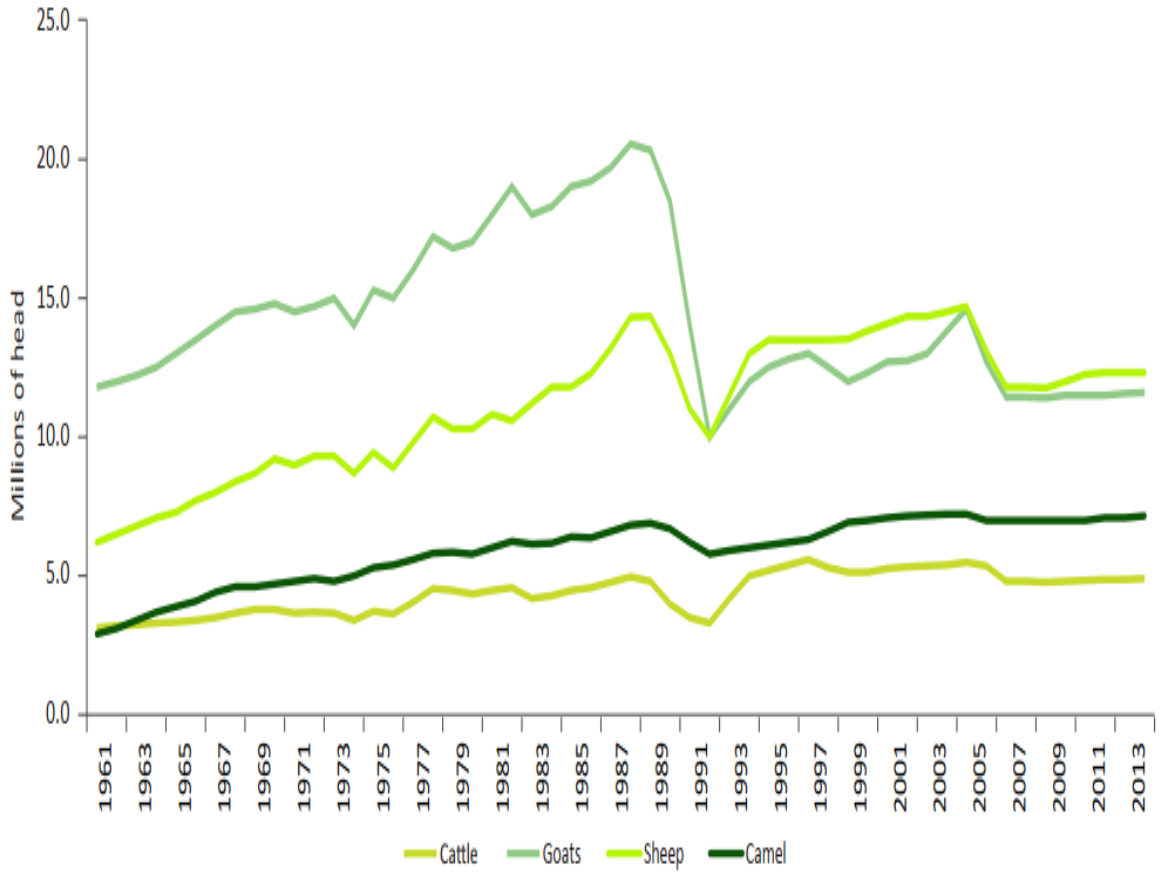



***Figure.2.2. livestock population in Somalia Source: FOASTAT.***

Due to the different research methodology used, the FSNAU estimation does not compare to the previous assessment of international partners such as FAO, World Bank, and the European Union, however all sources, even so, document a sharp decline in contrast to the collapse of the government in 1991. Due to thoughtful, civil war, substantial recovery was interrupted only by a sharp decrease in shoats in 2007-08. The several important reasons for the evident decline of livestock populations were natural disasters such as droughts and floods from heavy rains.

Although, after the current losses resulting from previous droughts, Somalia has the world's largest camel population. Additionally, more than two-fold combined Kenya and Ethiopia in 2010 (Aklilu et al., 2013). Furthermore, it clarifies that Somalia has a considerable consumer preference for the trade partners that resulted from the enhancement of livestock production, especially camel and other animals. Moreover, the camels were found in all parts of the country, especially the areas of famed agro-climatic zones, and cattle were concentrated, the neighborhoods near two crucial rivers of Jubba and Shebelle in the

southern of the country. At the same time, enormous sheep originate from the northern and central regions of the country.

The goats were also found in the north's areas, especially Puntland and some southern regions. The FSNAU assessment steadily revealed the increase of all livestock production species in Somaliland, Puntland, and the southeastern regions; the information showed all 90 per cent of the animal population are shoats. Therefore, the number of animals and their composition is different across animal production in regions of the country. Thus, some available data revealed animal composition into another species, like shifting rearing camels to keeping cattle, according to the climate and accessibility of water supply, veterinary services, and livestock exports. For instance, the availability of information in documents showed that the Bay region changed the animal composition from 30 years to 1984, with substantial shifts from relying on camels to other species like small stocks to cattle dependence (Al Najim, 1991).

Furthermore, similar changes are described approximately in other parts of the country on the same occasion, particularly northern regions in the Country (ILO; JASPA 1977); also, herd composition happened in some areas of Africa, such as Butane areas in Sudan (ILO1965). However, these changes of livestock species arrangement affected nomadic activities by pastoral groups due to the herd needs of water supply like cattle requiring a massive watering density to the shoats and camels. For example, according to Somalia pastoralists, cattle require second-day water in the dry seasons, which means cattle, can survive near water supply areas and shoats every three days. At the same time, camels need water once a week. The modification of animal composition resulted from technical and economic factors related to their influence; the elements consist of water supply, veterinary services, and foreign markets concerns of livestock exports.

Pastoralists attempted to respond to several demands from domestic and foreign markets and other related opportunities and environmental consequences, resulting in herd composition in specific regions. Furthermore, some domestic pastoralists have had a massive herd composition, particularly hardy camels and goats due to a pasture, requiring recurrent pasture shortages. However, the price of camels became higher and affordable to a domestic producer's impoverished household. Therefore, it became to buy a single one of the camels due to its high price.

The country's livestock population has stabilized genetically. Besides, Somalia's livestock adapted to a challenging and complicated geographical and climate. While their products such as milk and meat are not adequate or equal to the other animals worldwide, livestock's weight and milk are low livestock production in Somalia from various factors and traditional production methods. First, drought is a considerable element that naturally resulted in the decrease of the animal population in recent years continuously affected herd's output due to draughts' consequences such as an inadequate water supply. This leads to the massive decline of livestock populations, and the second factor can be floods that sometimes resulted in the loss of animals' production. Besides, the traditional breeding system resulted in a general population of herds due to its breeding exchange. The absence of a commercial production system participated in the decline of the livestock population.

### 2.2.4 Main Livestock Trading Routes

In Somalia, the trading activities related to livestock were run by private sectors, which played a significant role in developing domestic markets and exporting and re-exporting activities. Therefore, the most dominant herd of the east African livestock market is cattle, particularly in the southern Somalia-Garissa and Moyale markets near Ethiopia and Kenya. Besides, the main export ports of cattle before the Republic of Somalia's collapse in 1991 were exported the cattle from neighboring countries such as Kenya and Ethiopia, was the muqdisho port.

Conversely, the destruction of the government affected a reversed the route of export in herds, which caused a significant outflow of trade, especially cattle and camels from Somalia into bordering countries like Ethiopia and Kenya (World Bank, FOA, 2018), which means they occurred of market shifts in Somalia. Simultaneously, the shoats and camels dominate northern areas over Puntland and Somaliland to export ports to the Gulf nations. Somalians live in four neighboring countries like kunya, Ethiopia, Djibouti, and Somalia; moreover, they make substantial trade transactions, specifically livestock pastoral trade, which starts in remote villages where "bush traders" obtain herds domestic producers to village markets (Mahmoud, 2010).

Even so, trade transactions go through large markets of cities like Buroa and Galkayo, the largest livestock market in Somalia, before the export of ports. Although livestock shipped in neighboring countries are unrecorded and unofficial trade transactions mostly from the Ogaden region in Ethiopia, massive cross border trade exists. Some previous

indicators revealed that 80 per cent of livestock exported to two main Somalia ports, Bosaso, and Berbera originated in Ethiopia. Greatest of the livestock exported through Berbera and Bosaso ports transit over Burao and Galkayo, two of the hub herd markets in the Horn of Africa, particularly for Goats and Camels' transshipment Ogaden region of Ethiopia. The Sool Plateau in northcentral Somalia, the Nugaal valley, and the Adun area in northeastern and central Somalia, and parts of southern Somalia.

As well, Beletweyn is another hub of trade connections in the northern regions and the central markets. Most cattle are raised in northern areas near two rivers Jubba and Shebelle, agro-pastoralist in the production system. Moreover, it connected the animal trade from Garissa and some areas of Mombasa. In Somalia, Afmadaw is the largest cattle market in the entire country. Although, military governments deliberated Somalia's livestock trading routes.


***Figure: 2.3 Main livestock Trade routes in Somalia***

***Source: FOA (2017)***

### 2.2.5 Livestock Exports

The export sector of livestock was booming in Somalia for recent years, which exported 5.3 million in 2015 into the foreign markets that were the peak record after the administrations' reform period. Therefore, Saudi Arabia is the most dominant foreign market, which received almost 65 per cent of Somalia's exported livestock. In contrast, the remaining portion got the other gulf nations. Although Somalia's livestock export has massive consumer preference in the Arabian Peninsula, they preferred Somalia's livestock and meat due to a similar and familiar halal treatment and other animal requirements. There is another significant preference: the similar genetic characteristics amongst Somalia's livestock (shoats) and one of the gulf countries. Herds have identical properties such as physique shapes, tastes, and others related to cooking stages, different herds from other global countries, especially Australia, New Zealand, Europe, and the Americas (World Bank, FOA, 2018).

In Somalia to achieve, sustainable and reliable progress about the livestock export performance, the country requires expanding and decreasing a production concentration and its substantial dependence on a few foreign markets; occasionally, this makes the country's livestock sector very vulnerable. Besides, livestock species and their exports are different among countries, such as Saudi Arabia, generally demanding shoats. Simultaneously, Oman and Yemen received cattle, shoats, and Kenya, while Egypt received Camels. However, Somalia needs to improve research and development about foreign livestock markets and new product diversification strategies. In addition, due to a past Saudi Arabian ban on livestock exports from Somalia; animal traders should redirect other markets in the region for their livestock exports. However, Saudi Arabia still receives livestock from Somalia.

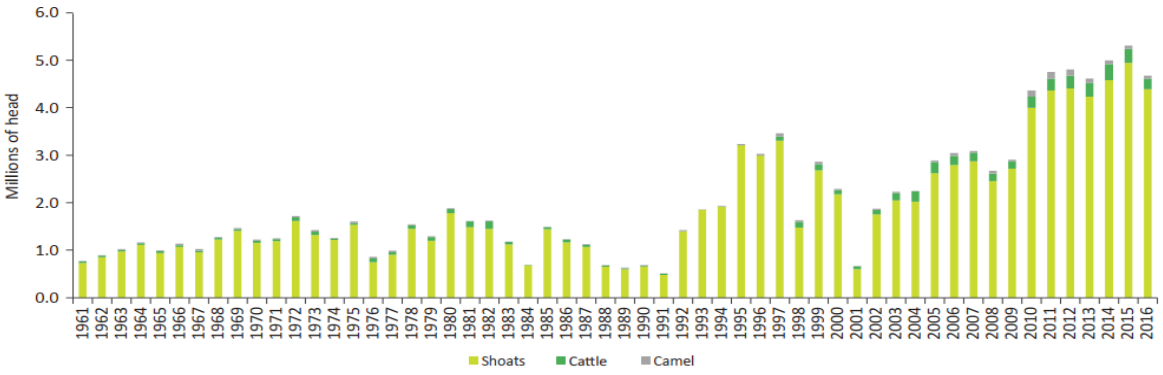



**Figure 2.4 Livestock exports by Somalia in 1961-2016 , Sources: FOASTAT and FSNAU**

When Saudi Arabia lifted the ban on livestock export from Somalia in 2009, he opened modern quarantine centers in Somaliland and Puntland, managed by Saudi private Companies, due to fragile government institutions in those regions to ensure health services of the exporting livestock. In the latest of 2016, Saudi Arabia imposed another ban on Somalia's livestock export; however, in the hajj season in July-September, in 2017, Saudi again lifted the ban in the northern ports such as Bosaso and Berbera temporarily. Besides, there are many livestock exported by Somalia, which reached 1.9 million head; therefore, an amount higher than 4 million animal were exported by Somalia in current years. Moreover, the only foreign markets that remained and demanded livestock in the last quarter of 2017 were Oman, Yemen, and United Arab Emirates in the countries' northern region. In contrast, Kenya received lesser demand in the southern ports of Kismayo.

Although Somalia's livestock foreign market's restriction and challenges do not start in recent years, some interpreters argued Somalia's livestock market of Saudi Arabia declined from near 83 per cent in 1975 to 19 per cent in 1981. due to several challenges, they complained Somalia had lost its competitiveness in livestock markets, including the most extensive market, Saudi Arabia, due to the stagnation of Somalia's export sector (Samatar et al., 1988). They emphasized that the export decline was the absence of Somalia's livestock in competitiveness in other foreign exporters. However, the above notion completely different in current situations because Saudi Arabia imposed new restrictions or banned several times, which resulted in a massive decline in Somalia's livestock exports.

The enhancement of animal demand from the Gulf markets has provided and will continue to offer an essential role in live animal markets; therefore, as we mentioned several times, Saudi Arabia's largest exported livestock receiver. However, the dominants markets of Somalia's Livestock Market in Saudi Arabia get almost 56 per cent of meat for its local supplies, and demand for fresh meats is expected to reach the annual rate of 7.4 per cent in coming years. Some evidence clarified Saudi Arabia's expectation to close the gap of its supplies and demands due to self-sufficiency and reduced livestock exports. The country's food security plan heavily invested the domestic livestock producers to double its production capacity. Nevertheless, the situation never decreases the massive preference of Saudi's consumers of livestock exports from Somalia; also, the change does not affect the export of Somalia conferring to FOA.

Somalia's livestock export capacity is higher today for both volumes and values where they were previously in the civil war era; moreover, the peak export in the early 1980s reported almost near 1.8 million. However, the number declined to 65,000 at the end of the 1980s and dropped down to 45 000 in the collapse of Somalia's military administration in 1991. After that, the export soared gradually (World Bank, FOA, 2018). Furthermore, several challenging years, which faced the country's export sector, increased the industry's vulnerability. Simultaneously, their significant challenge was banned, which's generally was shorty lived obstacles in the years of 1998 to 2001which was the first year of Saudi Arabia's import prohibitions.

Besides, the primary export documents peaked several times, more than 4 million of livestock Somalia exported in 2011, and a significant number nearly 5 million heads in 2014 and 2015. The record year became 2015, which its full-year export date available. This year, Somalia exported almost 5 million livestock in foreign markets, particularly the Arabian Peninsula, including different animals such as exported shoats, reaching 4.9 million, 294,000 cattle, and 72,000 camels. Therefore, the figure revealed an increase in livestock export due to the heavy enhancement of investments into the program of livestock disease control. In addition, FOA estimated a significant increase in 2016 that almost 5.5 million heads exported the highest Somalia ports, such as Bosaso, Berbera, and Kismayo, to flow to foreign markets.

Although the enhancement of export performance become growth in the livestock sector rapidly and made massive progress in recent years, the county's livestock export face numerous challenges and constraints:

- Overreliance on a small number of foreign markets
- Excessive dependence on live herds export
- Insufficient of providing livestock health services
- Limited livestock value chain and informal institutions and the absence of integration and direction of livestock actors
- Fragile connections among business partners
- Lack of quality in ports for the shipments and long transit
- Persistence transport and market infrastructural and logistical weakness
- The vulnerability of government institutions due to lead and monitor in all activities related to livestock sectors

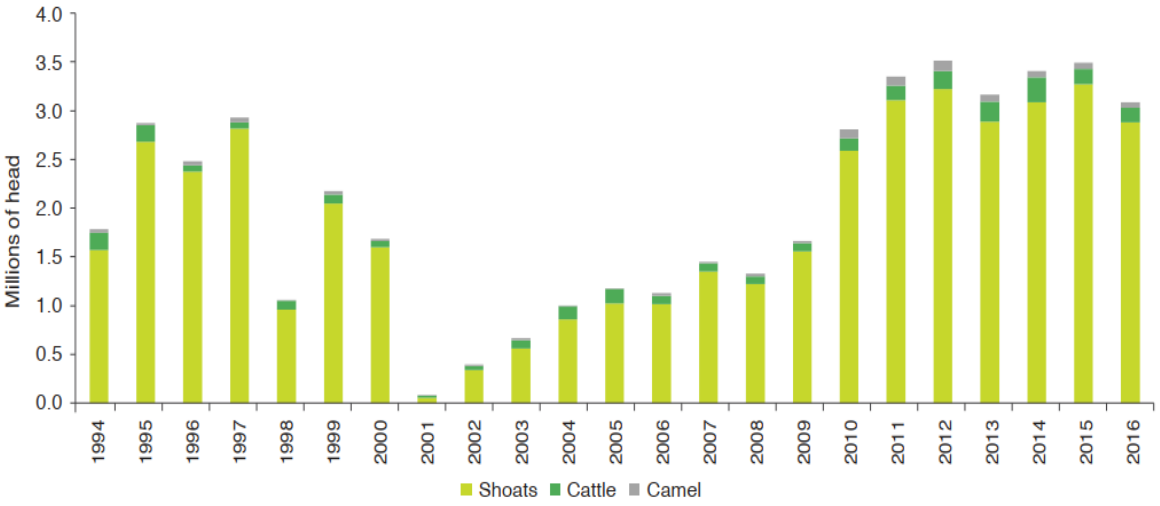



***Figure: 2.5 livestock exported from Berbera port in 1994-2016***

***Source: FSNUA online Database***

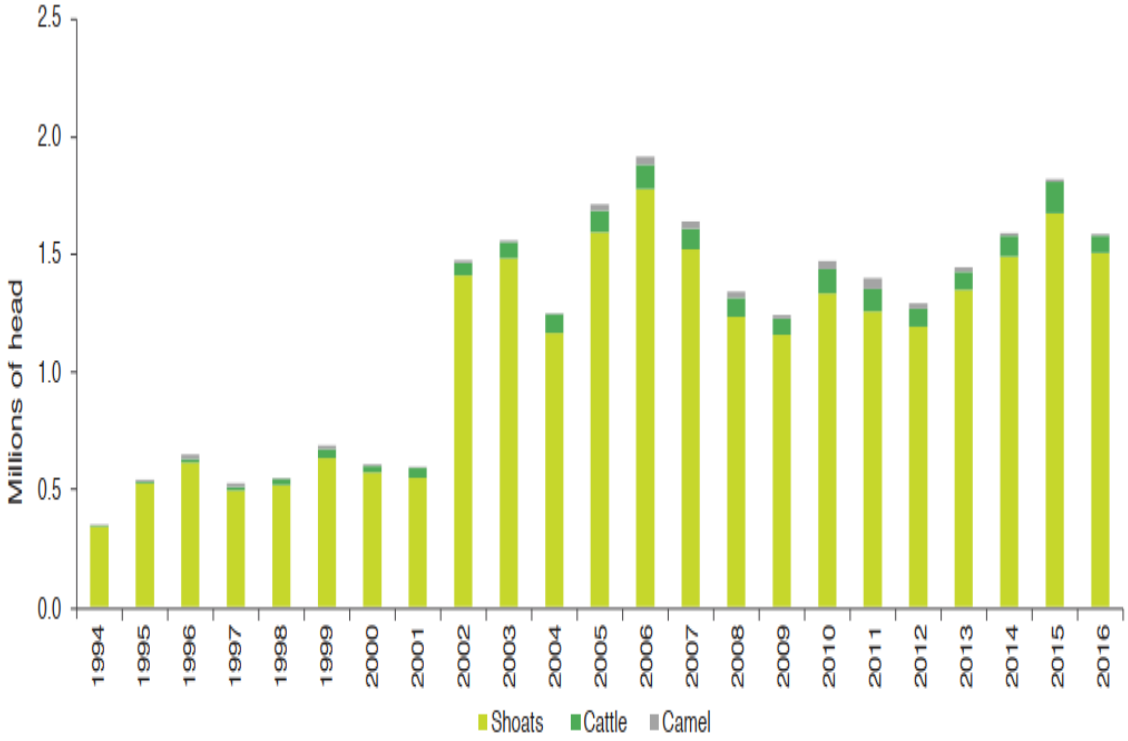



***Figure 2.6 Animals exported Bosaso port from 1994 to 2016***

***Source: FSNU online database***

## 2.3 Agricultural Sector and Foreign Trade

Since the starting of Somalia's tragedy of the civil war in the 1990s, crop and Food production massively declined, due to the absence of seeds for the cultivation purpose, compounded in both insecurity and displacement population (M. M. Mohamed & Isak, 2015). That has also hampered the country's farming system, especially the southern region, which produces most crop production due to its two crucial river and fertile, productive land. Therefore, the agricultural output's consecutive failure resulted in a significant shortage of demand for crop production in domestic and foreign markets. While farmers claimed bad seeds caused their production loss, the lack of numerous pest killers and other agricultural extensions played a significant role in these massive failures. Furthermore, all challenges that faced agricultural production progress resulted from the proliferation of civil war and strong national institutions' absence due to promoting the country's general output.

In the last decades, Somalia's foreign trade mainly relied on agricultural production, crop, and livestock production; the country's most considerable portion of its foreign earnings comes from the farming sector, which played a crucial role in the progress and growth of the country's economy. However, the agricultural industry became vulnerable since the collapse of Somalia's military administration due to the absence of strong institutions and other government services. In available data revealed that agricultural export represents around 93 per cent of the country's export in 2010. Besides, there are excessive changes in current years; however, the recording data related to the agricultural export was extraordinary, for sometimes the average earning of overseas markets estimated around $518 million in the initial of 2010, were more than fivefold the recorded level before the collapse of the government (World Bank, FOA, 2018).

Moreover, before the beginning of the civil war, crop productions were the second significant sector to livestock, which generate the most Share of the Country's GPD and massive earning overseas. Besides, it was vital to food security as Somalia was virtually self-sufficient in the highest staples. However, while crop production remains an essential source of earnings, it is difficult to evaluate the crop production sector's precise current joint involvement without consistent and updated information or data of its general contribution to its economy. Therefore, due to the lack of accurate statistics revealed, crops remain the second position of the economy's widespread influence behind its livestock, and crops enjoyed their class.

The country remains to rely on insignificant portions in export products for foreign markets. The majority of these portions come from livestock products, either exporting live animals or meats, while crop production generates little earnings from overseas markets. Moreover, in the prewar, crop production was the vital source that produces a considerable number of the country's foreign earnings; enormously, banana contributes the most significant portion of export returns. In contrast, Somalia's government nationalized the major private firms that produced banana production before the military administrations, and only tiny private firms remained to run the production of bananas (Webersik, 2005). Furthermore, the agriculture sector notably, crop production, created a considerable employment level for domestic farmers, who got adequate income, which ultimately increased standard living principles for crop producers.

The agriculture sector played a vital role in Somalia's foreign trade for its two productive sectors: livestock and crop production. Which produces the most considerable portion of the country's export sector; however, Somalia's agriculture production challenged massive obstacles, which resulted in the overall reduction of export performance in all agricultural products. However, the industry requires effective institutions that promote farmers to increase their production and facilitate other farmers' services for cultivation purposes. Although the main obstacles of recent years were drought, which affected the country's primary agricultural products, drought destroyed livestock and crop production, which led to massive food insecurity and caused internal displacement in several regions.

Somalia's common trade situation is not progressing in recent years due to a consecutive trade deficit. The country imported many goods from overseas markets, mainly food, fuel, construction materials, and manufacturing goods. This means the country's domestic production was a tiny portion compared to its imported things. The country's primary exporting commodities include livestock, crop production, particularly bananas, skins, fish, charcoal, frankincense, and scrap metals. The country struggled with a trade deficit in the last decades. It could not increase or expand the export while also enhancing local production due to consumption significantly in an average run. In other words, the production and export, the output of petroleum take at least the next eight years, maintain the stable situation of trade, general circumstance will changes, if the petroleum sector rapidly progress, and eventually enhance the ways of life wealth of domestic consumptions. Although improving trade transformation in both political and robust guiding strategies will help the progress of the country's general economy

### 2.3.1 General Crop Productions

Crop production is the primary source for the generation of income and crucial role in Somalia's economy. It will be recalled, before the civil war, crop production was a significant financial source of the government, while it exported more than thousands of tons of different fruits and crop outputs. However, after the state's collapse, everything was changed, and slight crops and fruits farmers produced export declined while foreign markets' position became letdowns. Fortunately, there are progress and stable development of yield and other fruit production in some country areas. Therefore, it appears to a certain degree for adequate production requirement of domestic needs (Abdi-Soojeede, 2018).

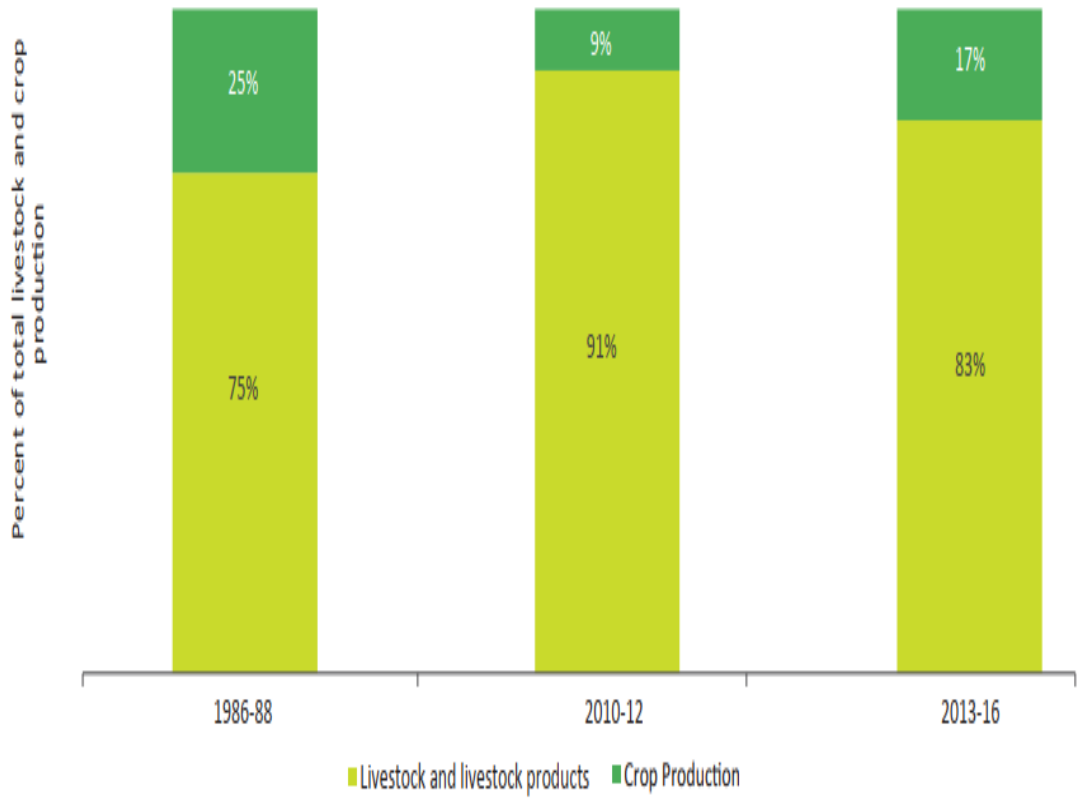



***Figure 2.7. The Share of livestock and crop production 1986-2016***

***Sources: FGS in -1989, FOASTAT in 2010-12 and FGS 2012 -16***

In Somalia, crop production depends on annual rainfall; in contrast, the same areas get fewer than 100 millimetres and are called coastal rigid or semi-rigid regions. Besides, their farming system is tiny scale. While some regions receive a range between 600-899 millimetres, those areas include the same parts of Awdal in Somaliland and two crucial

rivers, juba and Shebelle, which are located southern region of the country. The highest rainfall areas produce massive crops and other farm products, such as banana, Sorghum, maize, etc. However, FOA assessments revealed that only around 3 million hectares of fertile land are five per cent completely cultivable. Of this whole, nearly 2.3 million hectares produce a crop yield below rainfed circumstances. Also, near 700,000 hectares might yield fruit production under recession-controlled irrigation, although the critical two main rivers Juba and Shebelle, irrigated half of the country's crop productions (World Bank, FOA, 2018).

Additionally, the large crop production in Somalia is undertaken in southern regions, in the areas near rivers, by small-scale subsistence farming with a very small hectare of land. Therefore, the most important cereal crops include Sorghum and maize. At the same time, other agricultural products essential for the economy include the same vegetables and fruits, legumes, and sesame. In addition, in fruit crops, bananas are very common in domestic and froing markets, especially in Italy and the same Middle East nations, in Somali government generate past. Present time massive earning for its foreign trade and sugarcane were vital fruits commercially participating in its foreign exports. In contrast, overseas markets have their consumer preference, especially the United Arab Emirates. Nowadays, some fruits became favourable in foreign markets, such as sesame and lemons, while improving the county's export performance.

In general, Somalia's crop production faced numerous challenges and constraints in livelihood. The most frequently happened is a drought, which affected and led to different agricultural products that harmed crop production and other livestock sectors. Moreover, it happened in additional years such as 2011-17; indeed, it damaged the country's expected output and finally caused food insecurity and massive famine faced by folks. However, in Somalia, droughts are not the only challenges of crop production, but other constraints, which participated in inadequate general yield, including insecurity, land degradation, lack of strong public institutions, insufficient skills, knowledge, and finally, absence foreign capital and investments. Moreover, water scarcity and poor water management are top of crop production constraints in irrigated and rainfed crop production. Furthermore, the frequency of floods became destructive in crops and other related farms in the country's southern regions. However, floods caused widespread damage through the rainy seasons. They affected several rural and urban areas near the rivers and more people quickly rather than other natural catastrophes in the basin. Some studies examined in 2016 revealed that almost 900,000 people were displaced in Somalia due to disastrous floods (SWALIM 2016).

In contrast, the river of Shebelle has no longer any capacity to carry much water during the wet seasons, resulting from excessive floods, which eventually destroyed the country's general crop productions. On the other side, the Shebelle River dried out sometimes and negatively affected the region's crop production and others related to using its water as irrigation or drinks.

### 2.3.2 Banana and Sesame Productions and Exports

In recent years, bananas and sesame played an essential role in the country's export progress. Somalia used to be the most and highest exporter of bananas in East Africa nations, and the government has large foreign markets like Italy and Middle Eastern countries. They preferred its taste and have a privileged in Italian markets. In addition, sesame production and its export role become substantial while its predominant markets include Turkey, Jordan, India, and Oman. Besides, banana and sesame production progressed and became the source of earnings for the public and private agencies in recent ages. The southern regions near two rivers produced considerable quantities of two products and attempts to meet the demand of domestic and foreign markets.

#### A. Sesame Production and Exports

In sharp comparison to the decrease in numerous cereal productions rapidly, sesame production progressed quickly. As a result, its export appears to become fundamental in overall export and surpassed its highest prewar positions or levels. The southern region of the country is the hub of the production of different agricultural products. Therefore, around 80 per cent of overall sesame production throughout the Middle and lower of 2-river Shebelle and Juba same little localized production occurred in northwestern areas of Somaliland. However, the excellent climate conditions adapted by sesame is the geography of these areas. At the same time, they became famous in their supply to meet domestic and foreign consumers or Markets.

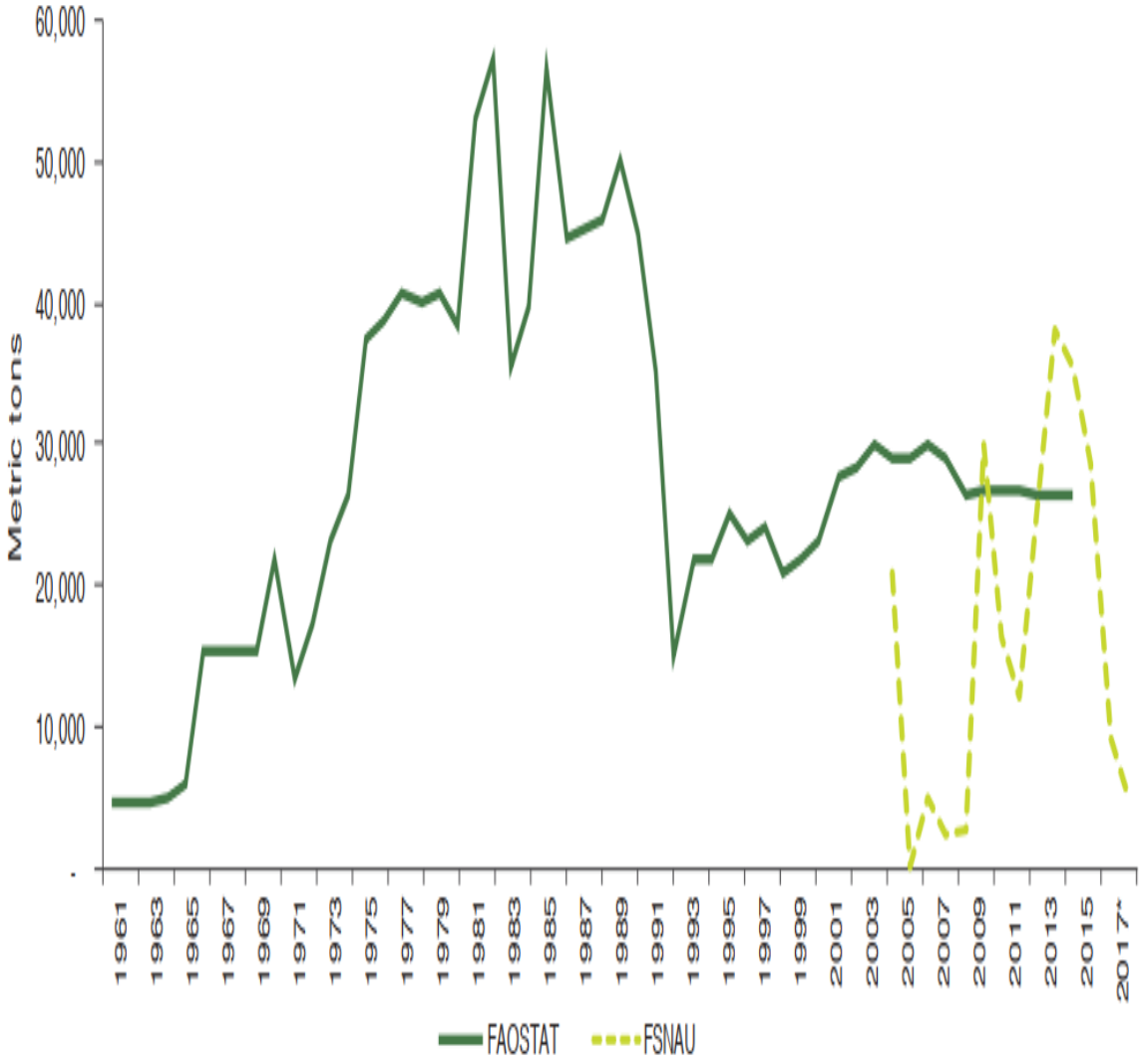



**Figure: 2.8 Sesame production of Somalia in 1961-2017**

***Sources: FAOSTAT and FSNAU***

There is a smallholder of farmers in Somalia who produces sesame, the estimated number of the ranges of farmer's are150,000 to 250,000. With a bit of average near 1-2.5 hectares and output almost near 0.2 tons per hectare under rainfed conditions during 5-8 hectares and yield of 0.4 tons per hectare in irrigated regions. The above assessment from (UNDP and SATG 2016b). According to UN COMTRADE, in data available in partner-imported countries, the value of oilseeds export from Somalia was almost $81.2 million in 2014. The average annual exported oil was around $40 million in the years 2011-14. That was 10-20 times higher than the one recorded in the late 1980s, which was $1.8 million and higher $ 4.1 million in the early 1990s.

In Somalia, there are many Sesame exporters in a muqdisho, which export a thousand tons of sesame in foreign markets. The key partners include India, Jordan, Saudi Arabia, and Turkey. Although the sesame export regulates and plays a vital role in private enterprises, those planned as a different group with a specific partner. Al-Mizan is the crucial sesame exporter in Somalia; it exported 11,000 tons in 2014; also, it entered other new partners such Netherlands, China, Israel, Iran, Iraq, Germany, and United Kingdom. The further exporters include a Moumin group, Horn of Africa trading, and Danwadaag.

**B. Banana Production and Export**

In East Africa, Somalia was the largest producer and exporter of bananas. Its key and crucial foreign partner was Italy, while their business transaction started in 1927 and few Middle Eastern countries. Most banana producers or farms were private firms, and both local and foreign companies were running the production and transaction of bananas before the civil war and after it. Although bananas were the dominants of Somalia's crop export commodities in the military era, they generated almost $ 34 million a year. It was the biggest employer in the country, both directly and indirectly, creating nearly 120,000 jobs. In addition, there was a supply network called Somalfruit, which contained 141 farms reaching 40 to 300 hectares.

In addition, the firms produced crops such as watermelon, grapefruit, citrus, and other domestic food crops in consumption; the main objective was to enhance Somalia's food security, progress and promote export earnings. The Somalfruit, a company co-owned by the government but controlled by Italy and Saudi Investors for their plantation owners, also had a smaller portion. In extra, the average yield was around 25-30 tons per hectare, which almost more minor than the other nations, those near 40 tons per hectare.

For the Bananas production, the famous supplier areas are two crucial rivers, were produced the most considerable portion of crop production in the whole of the country. However, sixty per cent of land cultivated by bananas was located in the lower Shebelle provinces. In comparison, almost 10 per cent of productive land was located in the middle Shebelle areas in gravity irrigation. At the same time, 20 per cent found a lower Juba pump irrigation system. Furthermore, the two river regions are rich in alluvial soil, which's suitable for cultivation. They also had significant factors that helped it, such as wisely progressed irrigation systems, well-structured drainage, and flood control system. Besides, these regions have a road infrastructure that connected them to the ports of

Muqdisho and Kismayo. The competitiveness of bananas export facilitated these two ports for their suitable trade routes in the Gulf countries and beyond.

In conclusion, banana production met several challenges and constraints similar to every agricultural sector after the civil war; security, infrastructure challenges, lack of skills, and governmental services are the farmers' most significant challenges. Fortunately, growing banana in local consumption became gainful in southern regions of the country. That resulted in new investment in the crop growing infertile and productive land while still facing security and other challenges.

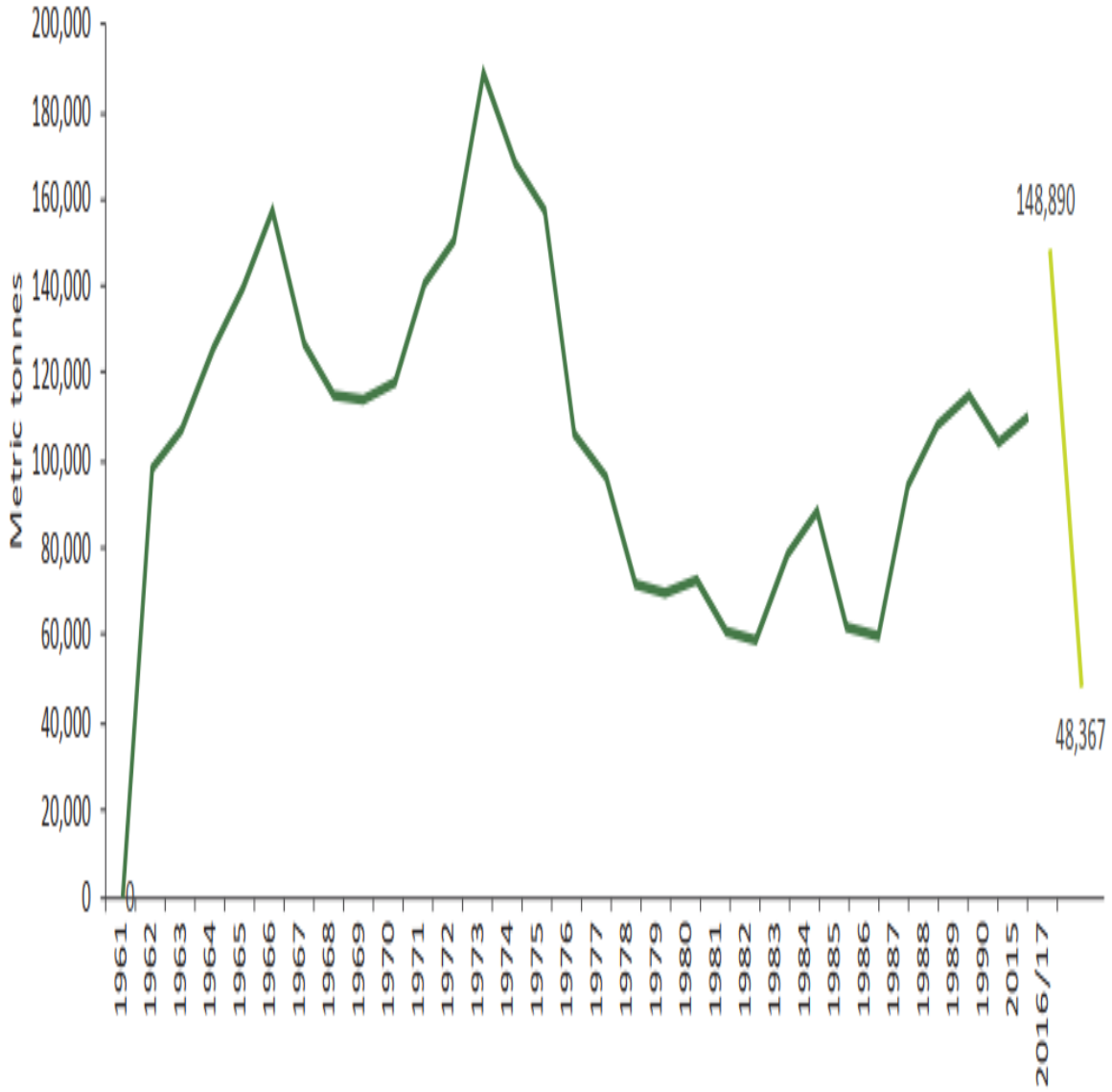



***Figure: 2.9 Bananas Production in Somalia by 1961-2017***

***Sources: FGS and FOASTAT***

### 2.3.3 Government policies and strategies

As we know, the agriculture sectors are the backbone of Somalia's economy. Therefore, the government's policies and strategies enhance and develop its overall production to meet local needs and wants. At the same time, they are attempting to reduce poverty and impoverishments of domestic consumptions. The administrations' essential strategies include improving the regional productivity of all different farming systems (irrigated or rainfed), increasing agricultural products' marketing in domestic and foreign markets, and establishing institutional capacity in public ministries and private organizations. Moreover, keeping and protecting the environment is a relevant factor for regulation and other national implementations.

## 2.4 Fishery Sector

Somalia, the coastline is one of the largest in Africa's whole, its length reached (3330 kilometres) and its many economic exclusive zones. However, fish consumption in Somalia remains one of the lowest in the entire continent and the world. Nevertheless, the enhancement of urbanization, investment, and diaspora return would develop fast growth in the fish sector's local production. The community living in coastal areas has traditionally depended on fishing in different ways like food security, export, and livelihood. In addition, they exported fish in small partners include Kenya, Tanzania, and Arabian Peninsula.

Moreover, the absence of strong and effective public institutions and lack of good fishing management agencies resulted in artisanal fishing in mutually (legal and illegal) fishing activity by external vessels to increase without governor or control. The consequence was thoughtful degradation in the maritime and shoreline environment. Furthermore, the available information and data about the Somalia fishing sector are limited due to water being uncharted, very few supervised, and the absence of governmental monitoring. This complete caused a considerable decrease or unproductive in the fishing sector for domestic and foreign markets. It also limited foreign earnings of the industry, in extra the fishing sector contribute tiny portion in country's general output or GDP, approximately its contribution less than 2 per cent. That means the whole industry is ineffective and requires complete rebuilding and restructuring to progress the sector's overall production and encourage domestic consumption, markets, and overseas markets.

### 2.4.1 Overview of a fishery

Somalia is one of the lowest fish consumption regions in the entire continent in Africa; it's around 1.3 kilograms per capita in 2009 (Cashion et al., 2018). However, in recent years, consumption seems to be rising. Many Somalis still rely on pastoralists traditionally; those prefer to eat meat from livestock; even those pastoralists use a product from fish, which is called haneed, usually mackerel or tuna classes. The shoreline communities have as well eaten fresh fish. Nevertheless, they traditionally struggle for the fish's consumption due to their bad experience with the rapidly spoiled fish because of the absence of ice and proper handling. However, increasing urbanization, government institutions' capacity, and diaspora members' return encouraged fish demand in the domestic markets. In contrast, Somalia has never had a great local industrial fishing fleet, while the whole fishing industry from foreign fleets has carried for many years in the form of joint ventures.

The tremendous marine ecosystem of Somalia has one of the most rigid upwelling systems on the globe. (Upwelling refers to win driver, cooler, typically nutrient-rich water near the marine surface). Because of variation of seasons for the southwest and northwest wet season backing broad diversity oceanic ecosystem and diversity coastal fishing of Somalia also these upwelling and MonoSol helps Somalia's inshore and offshore to be productive for the production of fish while also supports for the attraction and specific preference in country's fish in foreign vessels. These tastes and preferences resulted in illegal foreign fishers. The ministry of fishers and marine resources proposed an article to parliament that protects the country's coastal and inshore fishes (MOFRS, 2016). This article supports the rights of local fish industries also; it keeps the foreign license vessels.

Somalia has very strong in the Indian Ocean currently, its 2000-kilometre long and few natural harbors. For example, Muqdisho port has only a small portion of natural harbors. At the same time, Kismayo port in a Jubbaland has the full natural harbors; Berbera in Somaliland and Bosaso in Puntland are two main water deep harbors. In addition, in other ports, it's human-made due to facilitate commercial and business transactions. However, almost 1,000 kilometres in the Indian Ocean has very little protection in fishing vessels, and the highest is seashore launched. Also, the Gulf of Adan is lower and less dynamic than the Indian Ocean, Maydh Island, and Zeilac are affluent fishing areas in Somalia.

### 2.4.2 Fisheries Production Systems, Trends, and Institutions

The massive common of Somalia's economic exclusive zone is marine or oceanic because the continental shelf along most of its shoreline is comparatively narrow, excluding the side of Puntland. However, Somalia's fisheries production systems classified almost three significant systems, coastal fisheries, offshore fisheries, and inland fisheries. The domestic fish producers usually used small boats launched on the land, so their production system and techniques were highly traditional; their fish production was also deficient due to the lack of ice and proper handling. At the same time Somalia, Fishing is seasonal for several rural dwellers like pastoralists and often a vital source of supplementary food and currency earnings. In addition, many Somalis in the Indian Ocean in a shoreline cease fishing in the months of robust southwest monsoon winds, so several shore communities return to pastoralism.

Thus, the enhancement of food security in Somalia depends on their ways of increasing fish production. The foreign activities in fishing Somalia's water damage domestic fish producers because the foreigners use modern techniques and vessels to catch fish almost from Yemen and Iran. In addition, it caused the rising Somali piracy, which caused massive violence in the entire Seas of Somalia and the Gulf of Aden in several years. Artisanal fishers target shoreline species with specific traps, spears, and nets in addition to free and scuba divers (UNEP 2005). Furthermost present fish catches are Italian vessels in areas of a submarine in Puntland and a little in the South and South of Jubbaland; besides, the absence of governmental monitoring and regulations and the high market prices lobsters command has run to overfishing (World Bank, FOA, 2018).

Maritime and fishery authority or governance is still in infancy in Somalia. For several years, the main challenge was the absence of a legitimate economic exclusive zone. In contrast, the country declared 200 mile-wide in a territorial sea in 1972 (Law No. 37) with significant boundaries such as south with Kenya, north to the Gulf of Aden with Yemen, and west Djibouti. However, the fish operations remained prohibits without flagged or licensed by the government. Effective change in an institution affected by the prolonged inclusive absence of governance and the conflicts itself (Alinovi et al., 2007) and the impact of these variations on livelihood and food security caused a general reduction in all sectors, the fish sector. Finally, progressing, training, and strengthening institutional capacity and certification essential for Somali fishers, and technological improvements required all fishing materials.

# CHAPTER THREE: LITERATURE AND RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter is devoted to discussing the significant parts of our research in terms of literature review. After that, we will focus on our research variables and their relationships to evaluate and measure their significance. The final section will be the research methodology and analyses of the variables using econometric techniques,

## 3.2 Literature Review

This section aims to examine the significant literature on the essential determinants of export performance. There are massive studies about the area, but specific variables and perspectives about Somalia are very few. However, the literature on most of the variables that determines export performance is available in common. Thus, it's adequate to review these essential studies and get previous works of literature.

Sharma (2000), the examiner, investigated export performance in India for this study. Thus, he measured the demand and supply of export while foreign direct investment FDI and its associate of export in India. The study results showed that export supply is significantly associated with the local relative price and that higher local demand decreases export supply. Finally, the impact of foreign direct investment on export performance seems to be statistically negligible. In comparison, FDI has a positive mark because the coefficient is positive.

According to the study investigated by, Pfaffermayr (1996), which employed econometrics methods, especially the group-wide time-series calculation, The empirical findings of this research have indicated that foreign direct investment and export have a solid and meaningful relationship. Besides, it was clarified that FDI and export compliments are given (substitution) whether the cause has been positive or negative in both directions. Two variables FDI and Export, are complementary, indicating positive or negative interrelationships. This study also emphasized that the two variables of FDI and exports are complementary.

Glyfason (1999), for this study, the researcher examined significant and main determinants of export performance and economic growth. For the years 1985–94, the World Bank collected cross-sectional data from 160 countries. After that, methodological approaches were used to analyze the relationships between export and population, per capita

income, agriculture, primary exports, and inflation. The study's consequences revealed that the critical finding is that high inflation and abundant natural resources were combined with low exports and poor development or growth during the timeframe under consideration. The result of the work revealed an insignificant association among inflation, export, and economic growth for those countries' major.

Xu (1996) examined a study on the Causality between Export Growth and GDP Growth. The paper reexamined the causation direction by using two significant issues to test causality: the data features and the option of the optimal lags. Finally, an investigator's outcome offers more substantial for the analytical evidence of the study in the export-led growth hypothesis. Seventeen economies give significant support to the export-led growth hypothesis in positive connections and relations. In comparison, nine economies yields found a two-way cause which means even it supports more vital for the theory.

Anagaw & Demmissie (2013), Using secondary data from different institutions such as W.B., WDI, and NBI, which represent 1971 to 2011, examined significant factors that determine Ethiopia's export output. In addition, the data in the econometric model were also analyzed. However, the study results showed that the long-run research outlook indicates that the country's real exchange rate, transparency, and RGDP positively affect exports. Besides, the RGDP shows that it is statistically unimportant. Therefore, the long-running export success comes with appreciation for its actual production, currency openness, and RGDP. Inconsistently, owing to the determinants of export success, the researchers stressed the short-term perspectives. Simultaneously, the findings demonstrate that transparency has directly enhanced the last year's increased export efficiency. While sustaining fast and sustainable economic development, improving infrastructures, managing and maintaining sustainable exchange rates, and other policies and strategies would boost Ethiopia's export efficiency.

In this study, Bostanci (2012) investigated the determinants of export trade in Cameron from 1970 to 2008. The investigator used a two-stage least square to reveal that exchange rate and trade openness are significant determinants of Cameron export. However, the result was showed that the study was similar to the one in developing countries due to their contradiction of other previous studies. Finally, the study's outcome stated that foreign direct investment (FDI) has no statistically significant in Cameron's export for its determining.

Muhammad Tariq Majeed, (2006) the researcher investigated the determinants of export performance in developing countries. While world development indicators (WDI) took data for this study is 2005, the data contained 1970 to 2004, the study used for a massive sample of panel observation of 75 developing countries. The investigator measured numerous variables that determined export, such as foreign direct investment, labour force, industrialization, GDP, official development assistance, and so on. Therefore, the study's outcome revealed that variables like FDI, industrialization, and labour force positively affected export performance in developing countries. In contrast, the growth of domestic products (GDP) also had a positive export performance.

In this study, O. Afolabi & Abu Bakar (2016) studied factors affecting export performance in Tanzania from 1966 to 2015. The researcher employed Approaches based on Johansen cointegration and Granger causality Correction of Mistakes to approximate the model, testing is used. Furthermore, the study's findings revealed that GDP growth, real exchange rate, and trade liberalization positively impacted Tanzania's economy, particularly export performance. At the same time, the study's findings revealed that export and official development assistance in Tanzania has a negative correlation. Nevertheless, the study results allowed macroeconomic uncertainty from a policy perspective, as inflation harms exports. Inflation in the exporting sector is higher than in the importing economy, forcing exports to rise. Besides, Exports have decreased because of the increased cost.

Liu & Shu, (2003) this study empirically explores export performance determinants at an industry level in Chinese, while the researcher uses cross-sectional data. The investigator discovered that export performance in various industries, which labour cost and foreign direct investment the firm's size, meaningfully or positively affected their export, keeping traditional and advanced trade theories vulnerable to various interpretations. These results suggest that Chinese industrial sectors have recognized their comparative advantages, but they also indicate that the industries must improve their export performance systems to retain productivity. In conclusion, the researcher emphasized that the Chinese's industrial sector had a strong link between FDI and export performance.

Sun, (2001), the researcher examined foreign direct investment (FDI) on the economy in this article. On a regional basis, China's export performance initially discussed the theoretical effect of foreign direct investment FDI on overseas trade. Then, he emphasized the empirical study of the impact of FDI on export performance on China at a regional level. Therefore, the study's result or findings showed that the effect of FDI on

export performance in China had been discovered to vary across three macro-regions. However, the research revealed that the influence is more significant on the coast than on the inland provinces. At the same time, FDI has a positive and substantial impact on export performance in central states; finally, its effect on the western area has been insignificant.

Din et al. (2009) examined a study that explores the factors that influence export performance at the firm stage, considering firm features and supply-side constraints. The research was focused on a survey of export-oriented businesses in four major areas. The findings show a connection between foreign-owned firms' outstanding success and their superior know-how and resources compared to domestically owned firms. Furthermore, the study results showed that the level of investment in market/client-focused technologies positively impacts export performance. However, the most significant supply-side limitation affecting firms' export performance is an absence of validation and recognition of product and process requirements. In conclusion, Improving export performance will benefit from initiatives such as export production areas, globally recognized research labs, and production clusters.

Alves, (2006) this study contains a comparative study of South Africa's export structure and performance while using econometric analysis of the factors that influence export volumes. The study discovered that during the 1990s, South Africa's manufacturing exports grew and diversified less than those of East Asia and those few other resource-based countries. This performance is partly due to low global economic growth in resource-based commodities. Other factors that influence export supply productivity, such as the real effective exchange rate, construction costs, trade costs, and skilled labour, have also been significant. Finally, the study showed that export demand and the capacity to compete on price in the export market are not considered significant barriers to export growth.

Hassan et al. (2018), a researcher, examined export and economic growth performance for this study. Since the data are Time Series data, the analysis used various Econometric approaches such as OLS, VAR, and VEC models. Furthermore, the data was confined from 1980 to 2016 from the different institutions like the IMF Direction of Trade Statistics (DOTS) and SESRIC sites. According to the research's regression analysis, the study results revealed that Somalia's export performance significantly affects economic growth. If well exploited and controlled, Somalia has a massive export opportunity, predominantly in natural resources. However, the research showed that domestic investment and export performance in Somalia has a significant and positive relationship. Finally, the

investigator emphasized a positive association between Somalia's economic growth and export performance.

This investigation examines export performances' relationship considering four variables: import, inflation, foreign direct investment (FDI), and exchange rate in Malaysia. From 1975 to 2013 were the years of the study. The researcher used ordinary least square OLS. Therefore, the study results revealed that Imports of Malaysia have a significant effect on export performance. At the same time, the foreign exchange rate also has a positive association with export, according to Yee et al. (2016). Simultaneously, the study revealed that the inflation rate has a negative relationship with export performance in Malaysia. In contrast, the correlation between export and foreign direct investment has an inverted U curve, which sheds further light on the contradictory facts of a linear connection between export and FDI.

Using time-series data from 1990 to 2009, investigated factors influencing Tanzanian export performance Rwenyagila, (2016). The research looked at the impact of macroeconomic indicators such as foreign direct investment, gross domestic product, inflation, real exchange rate, and trade terms. In contrast, the core purpose of the study was the determinants of export performance in Tanzania. Three estimation techniques were measured for overall export, traditional exports, and non-traditional exports to validate this hypothesis. The study results revealed that foreign direct investment and the real exchange rate have a significant or positive relation to export performance in overall sectors. Except for the traditional industry, Gross Domestic Product was found to be important in all segments. Nevertheless, the results showed that the inflation rate and trade terms significantly affect export performance in Tanzania. Finally, the investigator showed that macroeconomic variables have a positive effect on export performance

### 3.3 Hypothesis Development in Somalia's Export

This study of export performance connects through different variables as we look over and suggest in previous studies. However, the primary purpose of this study is to examine the following variables foreign direct investment (FDI), inflation, growth domestic product (GDP), official development assistance (ODA), industrialization, and labour force. Therefore, the foundation of selecting these variables is data availability due to the absence of data in numerous variables, which are significant, the determinants of export performance that eventually lack the study.

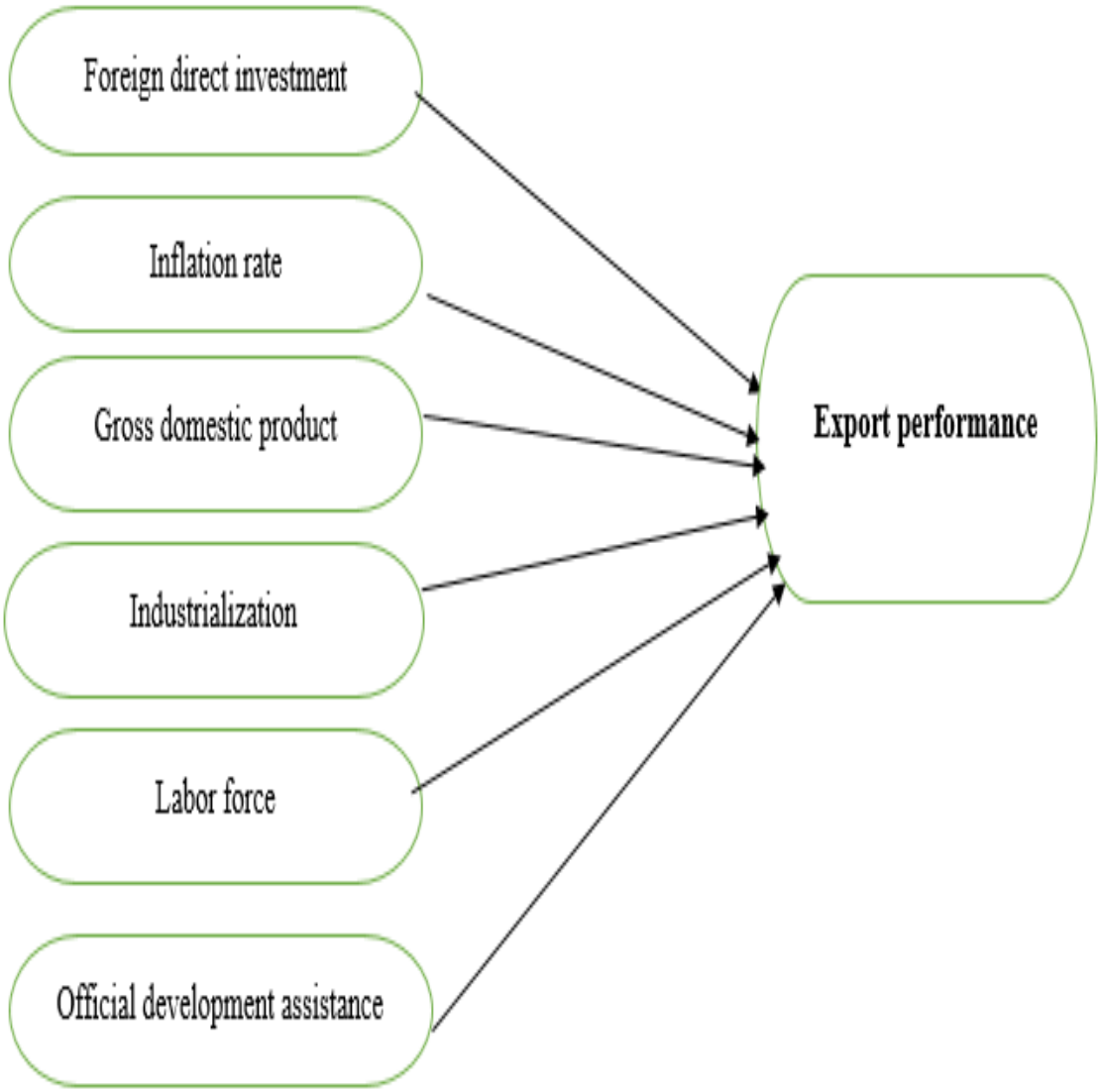



**Figure 3.3 Conceptual framework for determinants of export performance**

### 3.3.1 Inflation and Export Performance

Inflation is the results that occur when the prices of goods and services rise that eventually leads to the lack of capability of purchasing power of the household; it affects the instability of national economies and the standard of living of domestic consumptions.

Even though high inflation makes domestic goods more costly to foreigners or importers, it has been related to low exports of local commodities. They are four significant relationships between inflation and export performance, according to Glyfason (1999), and they are:

a) Inflation leads to a real-term overvaluation of national currencies.
b) Inflation-related output fluctuations are pushing a gap between economic and financial capital returns.
c) Inflation has a potentially detrimental impact on saving and spending
d) Inflation is a consequence of mismanagement of the economy and systemic vulnerabilities.

According to the ongoing empirical studies and thoughts, the significant association between inflation and export performance showed that higher inflation could reduce export performance. Thus, finally, we would say approximately the existence of a negative correlation between inflation and export performance in Somalia.

### 3.3.2 Official development assistance and export performance

The massive size of official development assistance would improve infrastructure and the related social services that simplified domestic production, increasing each country's export performance, particularly in Somalia. In comparison, Somalia received massive official development assistance each year, contributing to the government's economic reform. However, official development assistance in Somalia played a significant role in rebuilding and social development.

Much of the official development assistance would facilitate and progress in the growth of structures and infrastructures that eventually will positively influence the investment climate. Therefore, the variable of official development assistance would expect to have a significant and positive influence on Somalia's export performance.

### 3.3.3 Foreign Direct Investment and Export Performance

Foreign Direct Investment (FDI) is a form of foreign investment where the investor acquires a long-term stake in another nation's companies. For instance, in the context of developing or building a manufacturing facility in another country or making changes to an existing one, such as land, plants, or machinery, due to profit and return purpose. Nevertheless, the sometimes-foreign direct investment would not happen as the investors planned before receiving return and benefits because there is a challenge. One of them is a risk, the political instability that may affect the project or business's goal and objective. Therefore, the investors consider the all-challenging variables and them focusing and looking a sustainable environment that applies to foreign direct investment like political, economic, and socially attractive to the eyes and interest of the capital owners.

In an empirical context, the assertion that foreign direct investment leads to export performance or growth is arguable and controversial. However, domestic investment is thought to play a significant role in export growth strategies. In any circumstance, the consequence of FDI is the amount of profitable investment in the local economy cannot be reduced. In contrast, the local private enterprises considered an investment a vital, perpetual, and reliable avenue and channel due to increasing domestic production capacity. In addition, the importance of public-sector investment has been emphasized, for instance, in roads, communication services, and other public services, including bridges, that are important to attract FDI for both domestic and foreign investors. Moreover, the government plays a critical role in direct and indirect exporting terms by supporting research and contracting with foreign investors and promoting access to finance (Muhammad Tariq Majeed, 2006).

Nevertheless, as many investigators mentioned, the correlation between FDI and export performance is controversial. Most of the researchers found a positive association between them, while a few studies figured out insignificantly. Hoekman and Djankov in 1988 explore essential reviews about the magnitude change in the structure of export of both Europe's central and eastern countries. The paper examined a comparative significance as determinants of trade, production imports, and FDI export performance in European Union business countries. However, the study's conclusions showed the foreign direct investment and export performance has a significant and positive association of central and eastern European countries.

Foreign direct investment (FDI) adds innovative technical and administrative techniques to the host country, resulting in externalities that are more favourable. Furthermore, available evidence suggests that FDI flows are more robust than International Portfolio Investment (Lipsey 1999). This is due to the volatility of Foreign Capital Investments and the limited period with which they are connected. Besides, FDI inflow does not influence the domestic exchange rate according to the external portfolio investment. Therefore, a fair synthesis of the two, taking into account the particular features of the beneficiary economy, would indeed produce the desired financial results. In general, foreign direct investment positively plays a significant role in growth and development in industrialized and unindustrialized nations. However, investors' attraction and incentives are the essential roles of different administrations to enhance their progress and development.

Transfer of technologies, higher growth, better benefits, and additional revenue for the government by taxation, the enhanced balance of payments capacity, job creation, diversification of the economic base and expansion, restructuring, and production of relevant sectors are advantages of foreign private investment. Therefore, the administrations attempted to attract investors by facilitating public services, progressing infrastructures, and other related services. As stated by Feldstein in 2001; First, foreign investment flows mitigate risk for capital owners by helping investors expand their lending and investing portfolios. Second, financial market incorporation on a global scale will further promote the most efficient financial regulation approaches, Traditions in accounting and law. Third, policymakers' willingness to implement poor policy is limited due to global capital mobility. Four, foreign direct investment (FDI) provides to technology transfer. Five, the beneficiaries of FDI also undergo workforce training as part of their new enterprises' activities, supporting the hosting country's human development. Finally, income created by international investors supports the hosting country's corporate tax revenues.

Several countries experienced the significance of foreign direct investment and its contribution and performance of their export. Many developing countries argue that both domestic and foreign investment played a crucial role in their progress. While they strongly emphasized the beneficial contribution of the association of the FDI and export performance. For example, Inflows of foreign direct investment towards Singapore, the most recent, China, have significantly promoted the expansion of export supply capabilities to improve the technological content of exports. Like other Sub-Saharan countries in Somalia, foreign direct investment is having trouble due to security and political turmoil. Nevertheless,

particularly Somalia challenged a civil and terrorist war for almost three decades. Thus, all development programs became insufficient. In addition, the population's life converted tough in different ways due to the absences of the government's role because there is a lack of dysfunctional institutions, and the environment became dangerous for the international investors. Therefore, the country needs to create an environment to boost the economy and attract foreign investors. However, there have been consecutive progress for private and public sectors that provide primary public and private services for the last years, which domestic consumptions require. Therefore, foreign direct investment has a positive link among export performance in Somalia

### 3.3.4 Industrialization and Export Performance

Agricultural production is subject to uncertainty, primarily due to the vagaries of weather. As a result, no modern nation has higher income and outlays based solely on agricultural production. Nevertheless, on the other hand, industrialization leads to the most efficient use of the country's natural and human capital, and industrial production is very much constant. As a result, industrialization would boost the country's output and total wealth. Therefore, the government's attempt to promote the industrialization sector to enhance their production capacity. In addition, they prepared public services such as the improvement of infrastructure and communication. Although the agriculture industry benefits from industrial development and the industrial sector benefit from agriculture. The growth of the industrial sector might have an impact on the allied and associated sectors.

The recurrent shortfall in the balance of payments is due to agricultural export concentration. Although Import prices are declining, wealthy nations are imposing import limits, and the import bill is rising due to higher demand for oil and imported goods. Over the manufactured countries would enhance industrial output due to their decrease or shifts in the agricultural sector. Here, the government attempted to decrease exporting agricultural products and changed their place in manufacturing commodities. Besides, industrial products are stable in price through the global market. Furthermore, the progress of industrialization reduces dependency on imports by starting the import substitution process. Considering all of these considerations, we may assume that industrialization positively influences export performance in Somalia.

### 3.3.5 Gross Domestic Product (GDP) and Export Performance

According to several studies, export performance and the gross domestic product have a significant and positive relationship. Constantly, a higher level of domestic production caused enhancement of export level, which revealed a link between gross domestic product and export. Conferring to Kumar in 1998 investigated the factors that influence export performance in emerging nations and found that GDP has a substantial significant effect on an export value. He also explains that higher-level demand is the primary driver of export growth because surplus capacity can be depleted on overseas markets. Furthermore, if the local production increases and the higher the domestic consumption, the extra or surplus of the output, would search overseas market. Therefore, the export level increase, export performance, and gross domestic product GDP strongly correlate statistically.

Gordon Sithole (1996) performed a study on the Economic Reform and Structural Adjustment Programs in Comparative Analysis. One of his results was that exports are increasing linked to production, as advanced demand contributes to higher export capacities. However, he emphasized a positive connection between the gross domestic product Output in terms of GDP and exports. Besides, excess production causes a drop in costs in a small or close economy, which induces manufacturers to become pessimistic. In contrast, an open economy generates a surplus due to the export of those excessive outputs to the international markets to create foreign reserves because of the higher level of production that leads to massive export enhancement. Therefore, we considered a positive impact between gross domestic product and export performance in Somalia.

### 3.3.6 Labour force and Export Performance

The labour force determines the best use of capital; also, the labour force significantly influences production. Many agricultural workers might be transferred to the manufacturing sector in several emerging countries without affecting agricultural production. Although the challenge of hidden unemployment dominates this system, also, the labour force sector is playing an essential role in the industrial sector due to their high production and contribution of all progress and growth of the area and precisely, the expansion of export performance through the ultimately developing and developed countries. According to Pfaffermayr in 1996, he justifies the labour force's positive effect on export performance in his scientific study.

In addition, the skilled and professional labour force is the basis of output competitiveness, and they reduced the cost of production. Therefore, towards competition throughout the export market, many emerging countries take advantage of the strengths of skilled labour. However, in the export sector, the role of unskilled labour has the opposite effect on productivity. Furthermore, numerous developing countries have a large and uneducated population that usually expands the unskilled labour force. Therefore, we assume into our studies the existence of the positive and negative influence of the labour force on export performance in Somalia.

| **Hypothesis** | **Dependent variable** | **Independent variables** | **Sign** |
|---|---|---|---|
| H1 | Export Performance | Inflation rate | Negative |
| H2 | Export Performance | Foreign Direct Investment | Positive |
| H3 | Export Performance | Growth Domestic Product | Positive |
| H4 | Export Performance | Official Development Assistance | Positive |
| H5 | Export Performance | Industrialization | Positive |
| H6 | Export Performance | Labour Force | Positive / Negative |

## 3.4 Research Methodology

### 3.4.1 Introduction

This study examines the determinants of export performance in Somalia. For this study, the research method is mainly deductive, employing secondary data collected from various sources such as the World Bank for its department of World development indicator and SESRIC. The data used to analyze this study is time-series data, covering 30 years, from 1991 to 2020, for variables' dissimilarity. Due to getting good outcomes from the regressed time series in the regression model, the observation numbers matter to be a lot because the consequences would be healthier. For this section, we divided three significant parts: the Research design and sources of data, Variables measurements, and the last segments of the econometric model and estimation techniques.

### 3.4.2 Research Design and Sources of Data

A statistical research design is adopted for the study. Although, the study is employing secondary data from numerous sources, as mentioned previously. Consequently, this research design is considering acceptable for this study because it was less time and money intensive throughout the data collection. Therefore, the data is collected from different published international institutions such as the World Bank for its World Development Indicator and SESRIC. The collected data covered almost thirty years during the periods of (1991 to 2020), and its time serious data due to the differentiation of exogenous and endogenous variables. The number of observations matters a lot in getting a decent outcome from a regressed time series econometric model. Because the time serious studies whenever the number of observations increase or higher the consequences and results of the study become healthier and better.

According to the data of this study, there are significant variables that influence and determine the export performance of Somalia. Still, unfortunately, some of the variables are absent for this study due to their inadequate and unavailability of data. The other ward the data from those variables are missing for the international and local institutions in Somalia. However, the researcher collected the data of available variables to measure and analyze their influence and impact on export performance in Somalia. In light of this, and the reality that data sources in Somalia remain a barrier because of the absence of strong intuitions that collect needy information and data of all parts of the country.

### 3.5 Variables and Measurement

The study measures several variables, which play significant roles in the determinants of export performance in Somalia. Although, those essential variables of the research include Foreign direct investment (FDI), gross domestic product (GDP), inflation rate, labour force, industrialization and Official development assistance (ODA) as the Independent variables, while the dependent variable is export.

For the research, the Export performance calculates and measures a pattern of volume as a dependent variable. This form of measurement was selected because the country's overall export consists of many goods and services, making it easy to measure in terms of volume than other ways.

The variable of foreign direct investment is anticipated to positively affect exports in several areas, including expanded exposure to global resources, technology transition, enhanced marketing expertise, capital accumulating, and so on. The above measurement approach is selecting because it considers the importance of previous and existing FDI, and it has been commonly used by past research.

The vast majority of the variable of official development assistance ODA should stimulate and encourage the growth of institutions and infrastructures, which would significantly affect the business environment in the long-run. The ODA variable's measurements related to previous studies, emphasizing its role and influence on export performance. However, it is expected that official development assistance will have a substantial and positive impact on Somalia's export performance.

The variable of the labour force has an essential effect on the general production of countries and entirely contribute much to export performance. Thus, the measurements of the labour force depend on several empirical studies and, generally, its role in the output of different sectors. However, the labour force determines the best use of resources; the workforce greatly influences efficiency. Even though hidden unemployment dominates this structure, the labour force sector plays an essential role in the industrial sector due to their high productivity and contribution to all development and growth in the regions, especially the expansion of export performance across developing and developing countries.

For the variables of inflation and economic growth, domestic products or GDP are two opposing lines that will never cross each other since inflation lowers the currency's value, making it more expensive for the average consumer to buy goods and services. As a

result, less is the manufacture and reduced the over-all exports of countries. Therefore, a measurement of inflation and growth domestic products has passed several studies that emphasize their impact on each other and generally influence export performance.

The variable of industrialization allows for the most effective use of a country's natural and human resources and consistent global productivity. As a result, industrialization will increase the country's overall wealth and production. As a result, policymakers attempt to encourage the industrialization market to expand its manufacturing potential. Therefore, the measurements of industrialization depend on previous research that emphasized the significant role of a country's export performance. However, governments attempt to enhance manufacturing sectors to increase output while untimely determining their exports.

### 3.6 Econometric model and estimation

In this study, we will use multiple regression analysis. Thus, the general model of this research is stated as follows:

$$Y= \beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\beta_5X_5+\beta_n\ldots.\mu$$

The overriding aim and objectives of the study are to find out whether or not inflation rate, growth domestic product, official development assistance, foreign direct investment, industrialization and labour force are statistically positive determinants of a country's export performance. Hence, export performance is the dependent variable of the study.

Consequently, export performance is the function of variables listed below:

EXP = f (FDI, GDP, INF, ODA, IND, LF)

……

### 3.7 Estimation Model

The following measurement model is used to evaluate the above-given association:

$$EXP= \beta_1FDI+\beta_2GDP+\beta_3INF+\beta_4ODA+\beta_5IND+\beta_6LF+\mu$$

Where,

EXP: Annual Export value of Somalia to the other global countries in U.S. dollars

FDI: Foreign Direct Investment measure for annual to U.S. Dollars in Somalia

GDP: Annual Growth Domestic Product in U.S. Dollars

INF: Annual Inflation rate in Somalia

ODA: Annual Official Development Assistance in Somalia for U.S. Dollars

IND: Annual amount in Industrialization in Somalia for U.S. Dollars

L.F: Labour Force for their overall contribution in Somalia

μ: error term

### 3.8 Estimation Procedures

In this study, a well-known estimation technique known as ordinary least square (OLS) is used. The reason for selecting this method is the nature of the dependent variable (export). Furthermore, because the research is time series in nature, it concentrated on the time series characteristics of the variables to evaluated, although variables were measured for their stationarity.

### 3.9 Data Analysis and Findings

#### 3.9.1 Unit root test

While analyzing time series data, it is important to check the order of integration of the variables. The purpose of using Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root test are used at level form and first difference of each series. For the study variables in the situation of a level in a unit root testing, they have a non-stationary. However, all absolute values of the t-statistics are more significant than the critical values, both when the constant is with trends and not with trends. This indicates we cannot rule out the null hypothesis.

In statistics and econometrics, an augmented Dickey–Fuller test (ADF) tests the null hypothesis that a unit root is present in a time series sample. The more negative it is, the stronger the rejection of the hypothesis that there is a unit root at some level of confidence. Although we consider a null hypothesis when variables have a unit root, however, when we attempt to change the variables at the first difference, then the entire first differenced variables changed as D (EX-1). Therefore, the whole variables of the model become stationary. That indicates they did not have a unit root, so we should use the first difference in our model due to its stationarity.

As indicated below, tables notably Table 2 revealed unit root test at the first difference in P.P. while the first showed at P.P. in a level.

**Table1 Unit root test (pp) at level**

| Variables | With Constant | | With Constant & Trend | | Without Constant & Trend | |
|---|---|---|---|---|---|---|
| | T statistics | Prob | T statistics | Prob | T statistics | Prob |
| Ex | -2.1451 | 0.2296 | -2.3411 | 0.4004 | 0.3125 | 0.7693 |
| FDI | 2.8896 | 1.0000 | -0.367 | 0.9841 | 3.7794 | 0.9998 |
| GDP | -4.5524 | 0.0011 | -5.4382 | 0.0007 | 0.1587 | 0.7248 |
| ODA | -0.1936 | 0.9287 | -1.4339 | 0.8288 | 1.4176 | 0.9576 |
| IND | -0.3855 | 0.8991 | -1.4876 | 0.8107 | 1.388 | 0.9552 |
| LF | -1.7191 | 0.4115 | -0.0596 | 0.9932 | -0.9389 | 0.3018 |
| INF | 03.7333 | 0.008 | -4.2262 | 0.0121 | -0.9629 | 0.2920 |

**Table 2. Unit root test (P.P.) at first difference**

| Variables | With Constant | | With Constant & Trend | | Without Constant & Trend | |
|---|---|---|---|---|---|---|
| | T statistics | Prob | T statistics | Prob | T statistics | Prob |
| D(Ex) | -4.8043 | 0.0006 | -4.847 | 0.0030 | -4.8377 | 0.0000 |
| D(FDI) | -4.8709 | 0.0005 | -8.4559 | 0.0000 | -4.1538 | 0.0000 |
| D(GDP) | -13.9025 | 0.0000 | -13.8682 | 0.0000 | -14.1825 | 0.0000 |
| D(ODA) | -6.4595 | 0.0000 | -9.7055 | 0.0000 | -6.2034 | 0.0000 |
| D(IND) | -4.7557 | 0.0007 | -4.6926 | 0.0043 | -4.4198 | 0.0001 |
| D(LF) | -0.1586 | 0.9330 | -1.0655 | 0.9998 | -0.8958 | 0.3193 |
| D(INF) | -14.471 | 0.0000 | -14.0684 | 0.0000 | -13.3027 | 0.0000 |

**Table3. Unit root test at the first difference (ADF)**

| Variables | With Constant | | With Constant & Trend | | Without Constant & Trend | |
|---|---|---|---|---|---|---|
| | T statistics | Prob | T statistics | Prob | T statistics | Prob |
| D(Ex) | -4.5575 | 0.0012 | -4.4677 | 0.0072 | -4.6075 | 0.0000 |
| D(FDI) | -4.871 | 0.0005 | -5.9315 | 0.0002 | -4.0635 | 0.0002 |
| D(GDP) | -9.6547 | 0.0000 | -9.3868 | 0.0000 | -9.8707 | 0.0000 |
| D(ODA) | -6.3322 | 0.0000 | -6.5749 | 0.0001 | -6.2042 | 0.0000 |
| D(IND) | -4.7557 | 0.0007 | -4.6926 | 0.0043 | -4.4198 | 0.0001 |
| D(LF) | -1.8761 | 0.0059 | -1.1037 | 0.0028 | -1.7159 | 0.0008 |
| D(INF) | -5.7081 | 0.0000 | -1.9686 | 0.0061 | -0.0475 | 0.0096 |

A unit root check is used to evaluate if a time series variable is unfixed and has a unit root. The null hypothesis is usually characterized as a root and, depending on the test employed, and the alternative hypothesis is stationary, trend stationery or explosive. Therefore**,** above table 3 showed that the Augmented Dickey-Fuller (ADF) test is utilizing to eradicate the unit root. Hence, the unit root test variables indicate our model did not have a unit root test. In contrast, we used the first difference to make stationery in our model. Therefore, the all variable of the model become stationary.

### *3.9.2* Cointegration test

The purpose of using the cointegration test is to understand the long-term relationship among the variables. However, table 4 below shows trace statistics that indicate the existence of on minimum of one cointegrating equation. That means all seven variables, such as export, FDI, GDP, official development assistance, industrialization, labour force and inflation rate, have a long-term correlation and relationships.

Similarly, table 5 below shows us that the max-eigenvalue test indicates that at least one cointegrated equation exists, which revealed the existence of long-term correlation or relationship among variables. Therefore, the VECM model should be used instead of the unregulated VAR model whenever the model variables are highly correlated. Therefore, EX, GDP, ODA, IND, L.F. and INF have a long-term correlation.

**Table.4 J. cointegration test**

| Trend assumption: Linear deterministic trend(restricted)<br>Series: EX FDI GDP ODA IND LF INF<br>Lags interval (in first differences): 1 to 1<br>Unrestricted Cointegration Rank Test (Trace) | | | | |
|---|---|---|---|---|
| **Hypothesized No.of CE(S)** | Eigenvalue | ***Trace statistic*** | 0.05 critical value | Prob** |
| **None*** | 0.945552 | 244.4813 | 150.5585 | 0.0000 |
| **At most 1*** | 0.865349 | 162.9870 | 117.7082 | 0.0000 |
| **At most 2*** | 0.795287 | 106.8450 | 88.80380 | 0.0014 |
| **At most 3*** | 0.653726 | 62.43296 | 63.87610 | 0.0657 |
| **At most 4** | 0.468193 | 32.73830 | 42.91525 | 0.0349 |
| **At most 5** | 15.05702 | 25.87211 | 0.0569 | |
| **At most 6** | 0.149342 | 4.528855 | 12.51798 | 0.0664 |
| | | | | |

**Table.5 Unrestricted Cointegration Rank Test (Maximum Eigenvalue)**

| *Hypothesized No.of CE(S)* | *Eigenvalue* | **Max-Eigen *statistic*** | ***0.05 critical value*** | ***Prob*** ** |
|---|---|---|---|---|
| **None*** | 0.945552 | 81.49433 | 50.59985 | 0.0000 |
| **At most 1*** | 0.865349 | 56.14196 | 44.49720 | 0.0000 |
| **At most 2*** | 0.795287 | 44.41209 | 38.33101 | 0.0089 |
| **At most 3s** | 0.653726 | 29.69466 | 32.11832 | 0.0096 |
| **At most 4** | 0.468193 | 17.68128 | 25.82321 | 0.0042 |
| **At most 5** | 0.313402 | 10.52816 | 19.38704 | 0.0562 |
| **At most 6** | 0.149342 | 4.528855 | 12.51798 | 0.6621 |
| | | | | |

### 3.10 Diagnostics of the model

The Breusch-Godfrey test is used in the statistics to analyze the validity inherent in regression models for the observed data series of various modelling assumptions. The bellow given table 6 below summarizes the diagnostic test of the data and model. We employed the Breusch-Godfrey Serial Correlation L.M. Test, which we used to check the serial correlation of the regression model that essentially and customarily required to test. Although the test reveals the absence of serial correlation of the regression, while the null hypothesis indicates no autocorrelation, the alternative hypothesis is clarified conversely. Hence, Breusch-Godfrey represented a free serial correlation, which implies that error terms are not autocorrelated. Due to that, Obs*R-squared is an identical 5.432475, and it is counterpart P-value is 0.6613. Although these findings are higher than the selected p-value of 5%, the null hypothesis cannot be rejected. That implies the absence of serial correlation.

***Table 6 Breusch-Godfrey Serial Correlation LM Test:***

| | | | |
|---|---|---|---|
| F-statistic | 2.321804 | Prob. F(2,21) | 0.1228 |
| Obs*R-squared | 5.432475 | Prob. Chi-Square(2) | 0.6613 |

In the table7 below, we are diagnosing residual test of the variables. We tested and used Jarque-Bera due to its components of both skewness and kurtosis. Therefore, we have seven features in Jarque - Bera test, that each one represents the variables in the model. Thus, all components showed the distribution of the model to their higher than 5% or 0.005. So we can say the residuals are normally distributed. Finally, the overall of the entire model revealed that residuals are typically distributed because its value is 0.3774, which higher than 0.05. Moreover, this is the good news of our model that clarifies the excellent fit of the model. So, we rejected the null hypothesis.

***Table 7 VAR Residual Normality Tests with Jarque-Bera***

| Component | Jarque-Bera | df | Prob. |
|---|---|---|---|
| 1 | 3.028316 | 2 | 0.2200 |
| 2 | 2.638501 | 2 | 0.2673 |
| 3 | 0.581172 | 2 | 0.7478 |
| 4 | 2.777175 | 2 | 0.2494 |
| 5 | 3.711449 | 2 | 0.1563 |
| 6 | 1.648035 | 2 | 0.4387 |
| 7 | 0.626882 | 2 | 0.7309 |
| Joint | 15.01153 | 14 | 0.3774 |

### 3.11 Regression Model (OLS)

The table below shows the result of the regression analysis by using E-views as a tool of data analysis. Variables included in the model are EX, FDI, GDP, ODA, IND, L.F, and INF as key determinants of export performance in Somalia in a range of periods from 1991 to 2020. The result of the regression shows 0.782 R-square which means 78% of variance explained by the model. Furthermore, the overall difference in observable determinants of Export behavior is simultaneously clarified by variations of the variables in the model. Although the result indicates the existence of other variables that influence the clarification of the dependent variable (export) in the model that we did not mentioned in the study.

**Table 8 Ordinary Least square**

**Dependent variable: Export**
**Method: least squares**
**Date: 04/11/21 Time: 22:20**
**Sample: 1991 2020**
**Included observations: 30**

| *Variable* | *Coefficient* | *Std. Error* | *t-Statistic* | *Prob.* |
|---|---|---|---|---|
| C | 0.939613 | 6.700644 | 6.140227 | 0.0007 |
| FDI | 3.941209 | 5.19E-09 | 7.759537 | 0.0000 |
| GDP | 1.063801 | 0.719015 | 8.479526 | 0.0000 |
| ODA | 2.101671 | 0.001197 | 9.395961 | 0.0001 |
| IND | 2.317851 | 1.817397 | 5.275369 | 0.0009 |
| LF | -8.670018 | 8.08E-07 | -0.107309 | 0.9155 |
| INF | -0.138393 | 0.220554 | - 0.62748 | 0.5365 |

| | | | |
|---|---|---|---|
| R-squared | **0.782833** | Mean dependent var | 4.909 |
| Adjusted r-squared | **0.695745** | S.D. dependent var | 1.354824 |
| S.E. of regression | 1.288333 | Akaike info criterion | 3.545539 |
| Sum squared resid | 38.17545 | Schwarz criterion | 3.872485 |
| Log-likelihood | -46.18308 | Hannan-Quinn criter. | 3.650132 |
| F-statistic | 1.511769 | Durbin-Watson stat | 1.196232 |
| Prob(f-statistic) | **0.00064** | | |

The regression showed below,

$$Y=3.94FDI+1.06GDP+2.10ODA+2.31IND-8.6LF-0.13INF$$

The regression coefficient represents the mean change in the response variable for one unit of change in the predictor variable while holding other predictors constant. This statistical control provided by regression is crucial because it isolates the role of one variable from the rest of the model's variables. Consider the effect of FDI in this result, one unit change of FDI will result in a 3.94 increase in export of Somalia. Likewise, one unit change of GDP will lead to a 1.06 increase in export while other variables are constant. As Ahmed and Majeed (2000) in estimating emerging nations export. They observed that domestic GDP affects exporting their goods positively.

In addition, the coefficient of official development assistance (ODA), is 2.10, this means one unit increase in ODA will increase 2.10-unit increase in export of Somalia. In some studies found, foreign aid promotes the export of donor countries, and some countries use official development assistance (ODA) as a hidden trade policy. Fragile states like Somalia, are heavily dependent on aid as a source of financial flow. In contrast, the regression shows a negative relationship between export and labor force, one unit change in the labor force will lead to an 8.6 decrease in export. Similarly, with a negative coefficient of -0.13, the inflation rate has also played a critical role in determining export performance in Somalia.

Therefore, the overall fitness of the regression result is determined by F-statistics and the result shows it is fit and significant. The t-statistics which is important for determining the statistical significance of the variables has also been tested for each individual variable.

The regression result table shows all the variables tested in the model are statistically significance. Therefore the ordinary least square (OLS) model generally indicate and showed the statistical relationship among variables that the overall F statistics of the model showed us, which their value is Prob (f-statistic) 0.00064. This means the general regression is significant and essential statistically. Similarly, it suggested that the model is good and effective.

# CHAPTER FOUR: CONCLUSION, DISCUSSION, AND POLICY RECOMMENDATIONS

For nearly three decades, Somalia has been undergoing a civil and terrorist war. After the Somali government fell apart in 1991, government institutions also shut down and the country has been facing huge domestic calamities as a result of the conflict and extended hostilities, which have challenged and diminished the people's standard of living, as well as their quality of life.

Somalia's political instability resulted in a lack of functioning government institutions, which led to inadequate infrastructure, slow economic growth, a lack of public services, and extensive poverty in the country. Somalia is criticizing the long-term challenges that have hindered the export process. The country's poor export performance is due in part to a lack of effective governance structures, which results in a lack of support for the agriculture and livestock sectors, which are the country's economic backbone. Furthermore, there have been no incentives for the key export commodities due to the lack of agricultural cooperatives.

The study applied multiple regression analysis, specifically the Ordinary least squares (OLS) method, on the following variables: export as a dependent variable and foreign direct investment, official development assistance, inflation rate, GDP growth, industrialization, and labor force as explanatory variables in a range of period of 20 years. However, the result of the regression shows 0.782 R-square which means 78% of variance explained by the model. This statistic represents the percentage of variation explained in the dependent variable by the independent variables in the model. Furthermore, the overall difference in observable determinants of export behavior is simultaneously clarified by variations of the variables in the model, meaning that the model is fit. Although the result indicates the existence of other variables that influence the clarification of the dependent variable (export) in the model that we did not mention in the study.

Based on our data, the study's findings show the relationship between variables, stressing a strong and significant relationship between foreign direct investment and export performance in Somalia. Furthermore, the results also show GDP and export a positive association between them. In contrast, the inflation rate and labor force variables have a negligible and negative impact on export performance.

Furthermore, the study's findings demonstrated that official development aid (ODA) and industrialization had a substantial impact on Somalia's export performance. Promoting export-oriented industries is a trade policy that countries adopt to open up themselves to international trade, unfortunately, Somalia economically is a fragile country that cannot compete with countries with big economies in the international trade markets. Official development assistance (ODA) makes up a significant part of the country's budget. In 2019, Somalia received $1.9 billion in official development aid (ODA), with humanitarian (US$934 million) and development (US$924 million) money split roughly evenly. Furthermore, Somalia receives foreign aid from a variety of international sources, including the World Bank, the International Monetary Fund, the United States, and others.

The existing literature supports the importance of determinants of export in terms of selected and measured variables, even though it is beneficial to every nation's economic well-being, like many theories, including export-led growth. However, much of the literature backed up the importance and connections between FDI and export. At the same time, it underlined the significance of and link between GDP and export performance.

Exports in Somalia are heavily reliant on crop production and livestock, both of which are major resources for the country's crucial resources. Livestock is vital to the country's economy because it accounts for over 75% of GDP in the form of exports, domestic consumption, and foreign earnings. Crop production is also Somalia's main source of income and a critical component of the country's economy. Before the civil war, crop production was a key element of revenue for the government, with the government exporting hundreds of tons of various fruits and crop outputs. To pay the country’s imports, crop export was the main source of foreign currency.

The export sector in Somalia requires a coordinated effort to boost production and encourage industries to lessen their reliance on imported commodities. Domestic and foreign investment should be encouraged by the federal government. Furthermore, the government should strengthen security and infrastructure to boost agricultural productivity, as a lack of security and roads hurts agricultural production.

Furthermore, Somalia systematically needs work to increase production and move the country toward becoming an industrial nation. To engage in the economy, the workforce must improve their performance and elevate their training standards. Export performance and research using a variety of methodologies have a favorable impact on economic

advancement. Finally, the researcher recommended that the federal government and other members of the state enhance and expand operational security and monetary policy. Because it boosts productivity and promotes export performance, safety is required to create an atmosphere that attracts investors.

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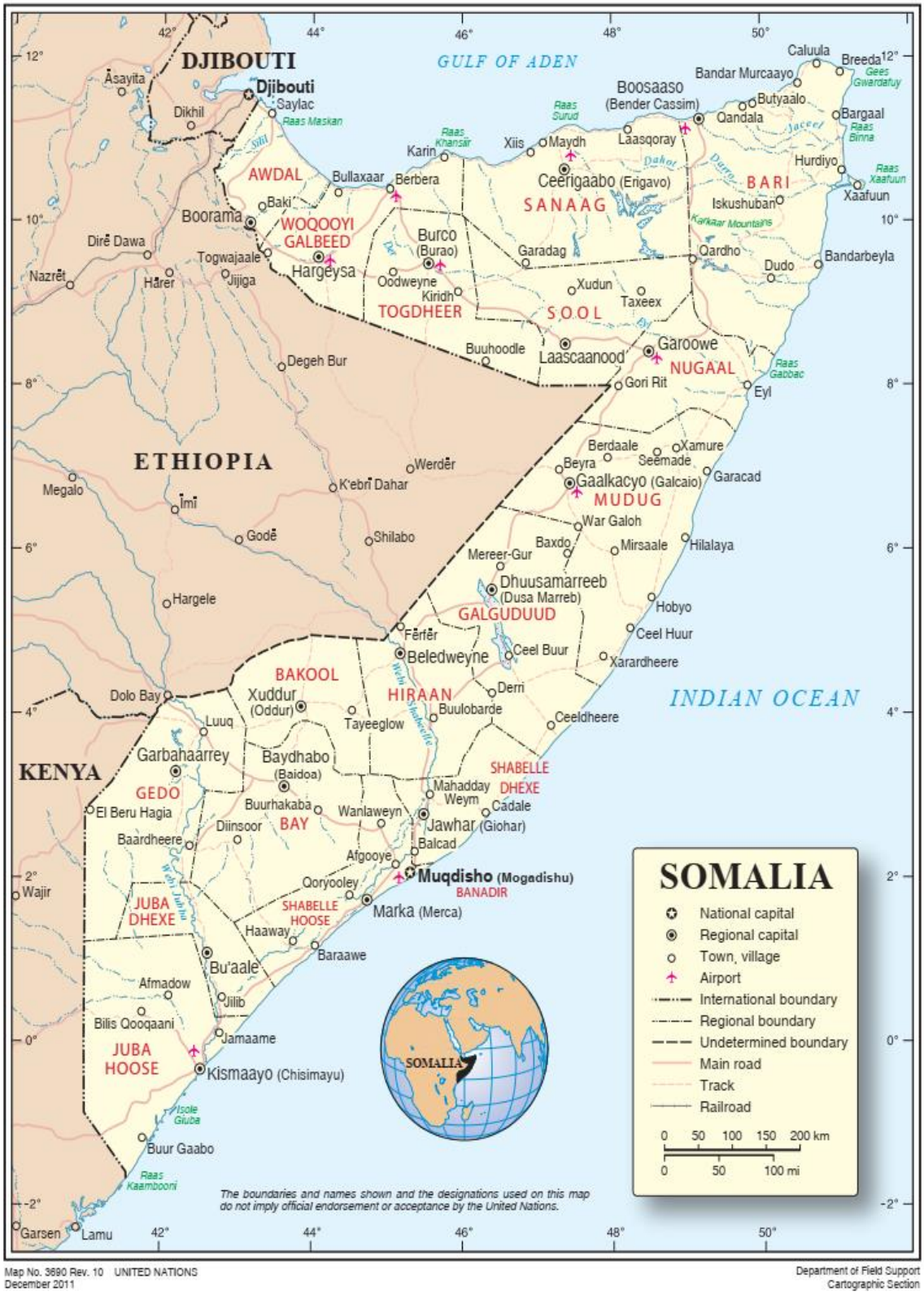
## APPENDEX A




**Map of Somalia**

**Source:** United Nations, Cartographic, Map of Somalia