

**REPUBLIC OF TÜRKİYE
GRADUATE SCHOOL OF
ISTANBUL AREL UNIVERSITY
EXECUTIVE MASTER OF BUSINESS ADMINISTRATION**



**THE IMPACT OF INTERNATIONAL TRADE ON ECONOMIC
GROWTH IN SOMALIA**

MASTER'S THESIS

HASSAN ISSE JIMALE

ISTANBUL, 2024

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ACCEPTANCE AND APPROVAL

The Jury finds that “**THE IMPACT OF INTERNATIONAL TRADE ON ECONOMIC GROWTH IN SOMALIA**” submitted by **HASSAN ISSE JIMALE** on 03.07.2024, successfully passed the defense examination in partial fulfillment of the requirements of the Graduate School of Istanbul Arel University for the degree of Master's Thesis in Executive Master of Business Administration.

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OATH STATEMENT

I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work.

03.07.2024

HASSAN ISSE JIMALE



ABSTRACT

THE IMPACT OF INTERNATIONAL TRADE ON ECONOMIC GROWTH IN SOMALIA

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HASSAN ISSE JIMALE

GRADUATE SCHOOL, ISTANBUL AREL UNIVERSITY
EXECUTIVE MASTER OF BUSINESS ADMINISTRATION
(SUPERVISOR: ASSOC. PROF. DR. AYLIN ERDOĞDU)

İSTANBUL, 2024

In Somalia, the study of international trade has become increasingly important, driven by imports surpassing exports, which underscores the primary objective of this thesis. Therefore, the study employed the ordinary least squares (OLS) method to analyze the determinants of international trade on economic growth in Somalia from 1960 to 2022. Our analysis predominantly centered on explanatory variables such as exports, imports, and trade openness.

According to the findings of the thesis, exports and imports have a statistically significant positive impact on economic growth. This means that a one-unit increase in exports and imports leads to an increase in economic growth in Somalia. Exports and imports reveal a number of factors that are positive for economic growth. Moreover, the thesis findings indicate an adverse relationship between trade openness and economic growth. Trade openness has a probability that it is statistically significant with a negative coefficient within the parameter estimation model. A negative coefficient suggests that the dependent variable tends to decrease with an increase in the independent variable. In conclusion, the study's findings contributed to the policy recommendations, which should be taken into account by decision-makers.

Key Words: Trade openness, Exports, Imports, Economic growth, Ordinary Least Squares (OLS) Somalia.

ÖZET

**SOMALİ'DE ULUSLARARASI TİCARETİN EKONOMİK BÜYÜMEYE
ETKİSİ
YÜKSEK LİSANS TEZİ
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YÖNETİCİLER İÇİN İNGİLİZCE İŞLETME
(DANIŞMAN: DOÇ. DR. AYLIN ERDOĞDU)**

İSTANBUL, 2024

Somali'de, ithalatın ihracatı aşmasıyla uluslararası ticaretin incelenmesi giderek daha önemli hale geldi ve bu, bu tezin temel amacının altını çiziyor. Bu nedenle çalışmada 1960'tan 2022'ye kadar Somali'deki uluslararası ticaretin belirleyici olgularını analiz etmek için Sıradan En Küçük Kareler (OLS) yöntemi kullanılmıştır. Analizimiz ağırlıklı olarak ihracat, ithalat ve ticaret açığı gibi değişkenlere odaklanmıştır.

Tezin bulgularına göre; ihracat ve ithalat arasında pozitif bir ilişki bulunmaktadır ve ekonomik büyüme üzerinde istatistiksel olarak anlamlı bir etkisi bulunmaktadır. Bu sonuç, Somali'de ihracat ve ithalattaki bir birimlik artışın ekonomik büyümede artışa yol açtığı anlamına gelmektedir. İhracat ve ithalat, ekonomik büyüme için gerekli olan birtakım özellikleri ortaya çıkarmıştır. Ayrıca tez bulguları ticari açık ile ekonomik büyüme arasında ters yönlü bir ilişkiye işaret etmektedir. Ticari açık, parametre tahmin modeli içerisinde negatif bir katsayı ile istatistiksel olarak anlamlı olma olasılığına sahiptir. Negatif bir katsayı, bağımsız değişkenin artmasıyla bağımlı değişkenin azalma eğiliminde olduğunu gösterir. Sonuç olarak, çalışmanın bulgularının karar vericilerin dikkate alması gereken politika önerilerine katkı sağladığı ifade edilebilir.

Anahtar Kelimeler: Ticari açık, İhracat, İthalat, Ekonomik büyüme, En Küçük Kareler (OLS) Somali.

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ABBREVIATIONS AND SYMBOLS

ADF	: African Development Forum
AEC	: African Economic
AfDB	: African Development Bank
AU	: African Union
EAC	: East Africa Community
EX	: External Debt
EXP	: Export
EXR	: Exchange Rate
FDI	: Foreign Direct Investment
GDP	: Gross Domestic Product
IMF	: International Monetary Fund
IMP	: Import
NI	: National Income
OLS	: Ordinary Least Square
REC	: Regional Economic Community
REI	: Regional Economic Integration
SSA	: Sub-Saharan Africa
TOP	: Trade openness
USD	: US Dollar
WB	: World Bank

PREFACE

I would like to extend my utmost appreciation to Allah for granting me the strength and fortitude to persevere throughout the arduous process of concluding this study.

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HASSAN ISSE JIMALE

1 INTRODUCTION

International trade, also called foreign trade, involves the import and export of goods and services within a country. Economists argue that since the era of the mercantilism, the concept of foreign trade has become increasingly important. During the mercantilism era, governments controlled foreign trade, which was viewed as a means of increasing gold reserves and goods or services. The country's gross domestic product is largely influenced by imports and exports (Sujová et al., 2021).

According to Gül and Kamaci (2012), the phenomenon of globalization leads to the elimination of all trade barriers, thereby making foreign trade substantial for all nations. Developing countries enjoy more favorable labor and natural resource conditions than industrialized countries. Adam Smith argues that all nations that participate in international trade stand to gain trade benefits. Growth and foreign trade have always been related since the beginning of economics and interconnected global trade in exchange for goods and services. In addition, the majority of classical economists think trade with other countries stimulates economic growth.

According to Özel (2018), free trade agreements are expected to boost the economy in the long run. Trade with other countries enables countries to acquire goods and services that are unavailable within their borders and to focus on producing goods and services that give them a competitive edge. Greater productivity and specialization encourage economic expansion and raise living standards. Trade with other countries broadens economies and lessens reliance on a single sector or region. This argument suggests that international trade is related to overall economic growth. In a free market, any attempt to promote international trade affects GDP growth.

However, wealthier countries are shifting their industrial hubs to emerging markets. At this stage, wealthy nations provide technology, while developing countries tackle other production-related matters. This distinction between developed and developing countries reveals that there is also a global division of labor. Trade

between nations is gaining importance, especially amidst globalization, marked by interconnected economies, societies, and cultures, which has accelerated the exchange of goods, services, and ideas across borders and maximized efficiency and competitiveness (Yenisu, 2018:1176).

According to Frankel and Romer (2017), international business has a significant role in economic progress. Classical and neoclassical economists see international trade as a key driver of national development. Over the last couple decades, the world's economies have become highly intertwined. through foreign trade and the globalization of goods and services across regional borders. Foreign trade is the most fundamental aspect of a nation's economic interaction. It is crucial for the growth of intercontinental trade. Over time, it has had a considerable impact on nations' growth and development, contributing to global economic interconnectivity. Foreign trade has a significant influence on the economy of a nation, not just in terms of quantitative benefits but also in terms of systemic transformation and facilitation of foreign investment. Trade allocates resources to nations with a comparative advantage, leading to more efficient production of goods and services. Foreign exchange has been regarded as a tool and accelerator of economic growth.

Economic growth is positively correlated with foreign trade openness, according to a number of investigations cited by Tahir, Mazhar, and Afridi (2019). Optimal outcomes are ascribed to capital inflow, technology spread, economies of size, and productivity expansion. A balanced economy is one that is growing both in terms of imports and exports. This often indicates both a healthy economy and a sustained trade surplus or deficit. When exports surpass imports, a country has a trade surplus, boosting currency reserves, economic growth, and job creation. Conversely, when imports exceed exports, a trade deficit occurs, depleting currency reserves, impacting domestic industries adversely, and potentially causing job losses.

For a considerable time now, economists have been concerned by the variables that lead to varying rates of economic growth and accumulation in various nations. International trade is one of these elements. Somalia's economy is essentially accessible and open for foreign direct investment, with a sizable amount of its total production coming from foreign trade. Due to the economic assumption that trade

can boost incomes, generate employment, open up new markets, encourage competition, and spread competence, Somalia, which is similar to that of numerous other growing nations, views trade as the primary engine of its economic progress and trade policies (Ibeh, F., 2024).

However, although foreign trade might stimulate economic growth, there is no assurance that the combined advantages of this foreign trade will be shared fairly among those trading nations. Any commercial partnership has both winners and losers. The lowest-trading counterparts may all benefit to varying degrees. The degree to which a nation may profit from a commercial partnership depends on a distinct number of trade terms. These consist of the conditions of commerce that a country has with its commercial competitors; these include the exchange rate and trade values between the items traded internationally and the transferable commodities' market features (Eravwoke and Oyovwi 2012).

According to Ali, B. A. (2023), despite changes in the nature of foreign trade over time, Somalia has experienced this since the 1960s. Somali economists and trade policy makers have all expressed the importance of trade and involvement in international trade and foreign investment to boost exports by subsidizing and encouraging local productivity in the country. This makes it possible for the country to export domestically manufactured items to other countries. Trade between nations is the interchange of assets, products, and services across international boundaries. Economists and international trade scholars define trade as a transaction in which individuals or nations engage in purchasing, selling, or transferring products and services to other nations. It's an approach in which products and services are promoted, sold, and transferred between multiple countries.

1.1 Background of the Study

Since the World Trade Organization (WTO) established the multilateral trade agreement (MTA) structure, nations globally, both developed and developing, have endeavored to devise strategies to enhance trade between regions like the South-South and North-South. Despite efforts, the impact of MTAs on economic growth remains complex and not fully comprehended. Proponents of MTAs argue that the gradual removal of barriers and the expansion of international trade freedoms

promote free trade, resulting in increased imports and exports on a global scale. Krugman (1996) supports the traditional notion of trade between nations, advocating for free trade to bolster economic well-being and efficiency. This perspective aligns with Smith's (1869) argument that the introduction of both domestic and foreign competition in markets fosters greater economic development compared to strict government regulations.

According to Johnson (1976), certain countries should prioritize facilitating open commerce and refrain from entering agreements aimed at regulating employment. However, such agreements, intended to enhance the benefits of international trade among multiple nations, ultimately diminish trade efficiency and intensity. This study underscored a sense of aimlessness and long-term failure associated with this strategy.

According to Orhangazi, Yalçın, and Gezici (2018), exports are an important driver of GDP growth. However, for developing nations, actual exports do not meet the target level required to greatly boost local output. As a result, these economies rely on investment to address various economic challenges and difficulties. Exports are seen as vital for developing countries to increase output and contribute to internationalization and integration. With their help, local investment can be stimulated, leading to more efficient use of human, inherent, and other forces. Improving quality of life, job opportunities, and trade balances are possible outcomes of increased exports, which are expected to boost overall demand and accelerate output growth. Developed as well as developing nations alike are therefore making concerted efforts to encourage exporters to boost their quotas.

From a global outlook, Edoun and KGaphola (2017) showed that India is now measured as a trading hub, superior to China. In this sense, due to foreign trade. Building strong relationships with various nations is necessary to increase profits and influxes from international transactions. This was demonstrated by Ghaffar, Munir, Nawaz, and Javaid (2019), who additionally observed that Pakistan has cultivated robust positive diplomatic ties with numerous countries during the previous decade, resulting in enhanced foreign trade profits.

Okenna and Adesanya (2020) focused on the African countries in a regional context, examining their shared implementation of measures such as tariffs, taxes, and subsidies on imported and exported goods. Underdeveloped countries place a high value on international trade as a crucial driver of economic growth. Imports, exported goods, and accessibility to trade were used to put into practice international trade, as it was claimed that each of such variables had a major impact on economic growth. This indicates that in all countries, imports and exports are indispensable portions of global trade.

According to Mattli (1999), thoughts often circle around the concept of "new regionalism." Understanding the uniqueness of this form of regionalism requires careful consideration of various understandings and potential conflicts or intersections in detail. Scholars and policymakers sometimes label the present state of regional integration as "new regionalism," yet historical illustrations of international cooperation and interdependency have always occurred.

This idea is connected to the prospect of examining regionalism perceived as recent or contemporary in terms of space. It involves discussing an emerging region that has either not undergone genuine regionalization previously or has had it imposed by external factors, essentially mirroring the foundational model of European integration. According to Mittelman (2002), the most notable features of this new regionalism include its extensive global influence, encompassing multiple regions, and its robust external connections.

Moreover, contemporary regionalism, in contrast to its older counterpart, often manifests in various forms across different regions worldwide. While the former primarily focused on security alliances and preferential trade arrangements, the latter, known as new regionalism, has witnessed significant expansion in terms of diversity and scope over recent years (Schulz et al., 2001). Unlike the narrow and Eurocentric nature of traditional regionalism, the new regionalism is characterized by its pluralistic and global nature. Furthermore, many theories of regionalism classify it as new due to its emphasis on the interconnections between the broader global environment and regional dynamics, particularly in the context of globalization of trade.

According to Melo and Tsikata (2014), Similarly, a global phenomenon, regional economic integration, is extensively practiced in Africa as well as other regions. These accords have expanded significantly all over the world during the previous fifty years, and even Africa has not been an exception. Regional integration, especially in Africa, has been a major concern in both political and economic endeavors since independence. This issue has concerned various countries in Africa since gaining independence in the 1960s and 1970s. Some were concerned about a multitude of subjects, including the future economies of their respective nations. Several nations have implemented a diverse assortment of economic reform initiatives whose objective is to accelerate the nations' economic development. The first was to initiate a broad-based program of sectoral reform, which primarily included privatizing land and industry. Similarly, anti-inflationary fiscal and monetary policies were implemented.

Following this, a new era of political and economic awareness dawned, sparking the establishment of continental and regional bodies aimed at bolstering development efforts. The inception of the Organization of African Unity (OAU), later evolving into the African Union (AU), on May 25, 1963, marked a pivotal moment in this movement, uniting 32 member states in Addis Ababa, Ethiopia. With a vision of fostering a more interconnected and prosperous Africa, the OAU instituted various economic bodies, notably the Regional Economic Communities (RECs). These RECs, numbering eight to correspond with distinct African regions, were designed to facilitate trade within and between Africa, fostering economic cohesion at a sub-regional level. Notably, three of these RECs are focused on the majority of nations in the Horn of Africa.

In addition, regional economic integration in Africa was shaped not solely by internal political-economic dynamics but also by global events. Since the conclusion of World War II, preferential trade agreements (PTAs) have emerged in various parts of the world. The significant human and financial toll of the war prompted European nations to take measures to prevent future conflicts. Efforts to rebuild war-damaged European economies led to heightened production and trade, driving European nations toward economic integration. France and Germany, influenced by these

political and economic considerations, were among the pioneers in establishing the European Union, recognized as a multilateral organization.

The drive for regional economic integration and infra-regional trade arrangements (IRTAs) extended beyond Europe. During the 1950s and 1960s, numerous Asian and American nations were involved in various regional agreements. Additionally, the early 21st century witnessed a rise in bilateral trade agreements. Consequently, both internal and external forces have spurred African countries, including those in the Horn of Africa, to pursue economic integration. Many African nations adopted strategies aimed at liberalizing and promoting infra-regional trade.

According to the Intergovernmental Authority for Development (IGAD), the Horn of Africa region consist of Djibouti, Somalia, Eritrea, Kenya, South Sudan, Ethiopia, Sudan, and Uganda, covering a combined area of 5.2 million square kilometers (IGAD, 2011). Approximately 80% of the area experiences arid or semi-arid conditions, receiving less than 400 mm of rainfall annually. The region boasts diverse climates and landscape, including chilly highlands, wetlands, hot rain forests, and other characteristics typical of equatorial regions (IGAD, 2008). Agricultural lands make up around 7% of the total landmass; forests cover 19%, while pastures encompass 28%. The remaining 46% of the land is largely unproductive. Rainfall patterns in the region exhibit significant variability, contributing to its susceptibility to frequent droughts, making it one of the most climate-vulnerable areas in Africa.



Figure 1.1 Map of the Horn of Africa region (Source: IGAD)

The Horn of Africa region is home to an estimated population exceeding 254 million, characterized by high population growth rates. On average, the population density stands at approximately 30 persons per square kilometer (IGAD, 2011). However, there are significant variations in population density among countries within the region, ranging from a minimum of 15 persons per square kilometer in Somalia to over 95 per square kilometer in Uganda. Population density disparities are even more pronounced across different ecological zones, with hot climate areas typically exhibiting lower population densities, while certain pockets register densities exceeding 600 people per square kilometer.

The Horn of Africa possesses abundant natural resources such as oil and gas reserves, diverse flora and wildlife, various energy sources, maritime and water resources, as well as cattle resources. If effectively managed, these resources have the potential to significantly contribute to the region's development. According to IGAD (2010), Despite the extensive and valuable economic potential of the region, most countries in the Horn of Africa grapple with underdeveloped economic and social conditions. Without exception, these countries are characterized by weak domestic markets, significant debt burdens, inadequate infrastructure, and low levels of savings and investment.

Agriculture serves as the cornerstone of the regional economy, encompassing both livestock and crop production. It forms the basis for domestic food supply and serves as a source of export earnings. Moreover, it provides extensive employment opportunities, engaging over 80% of the workforce. The industrial sector's contribution to national economies is notably limited, with Kenya showing comparatively stronger industrial capabilities than other regional countries. Similarities in the goods and services produced by most countries in the region have hindered intra-regional trade. Additionally, the markets of member states operate independently, without significant interconnection. Globalization trends in the world economy present both challenges and opportunities for the region's overall development (IGAD, 2010).

The Horn of Africa is frequently associated with armed conflicts, state collapses, refugee movements, extensive famine, drought, poverty, and, more recently, piracy (IES, 2011). Countries within the region exhibit notable disparities

not only in their geographical size and population but also in their climate, natural resources, and various social, economic, political, and cultural aspects. Moreover, they vary in their colonial legacies, which underpin their current socioeconomic and political orientations. Economically, Ethiopia, Sudan, and Kenya stand at one end of the spectrum, boasting abundant human and natural resources and experiencing rapid economic growth, while Djibouti, Somalia, and Eritrea reside at the opposite end, characterized by weak economic performance and relatively limited human and capital resources. These significant differences consistently impact their relationships and their capacity to effectively engage in regional economic integration initiatives.

Thus, economic integration in the Horn of Africa, in both its rate and scope, will have a profound impact on the region's potential. To combat the spread of inequality in the region, the nation's comprising the Horn of Africa must collaborate. Therefore, isolated economic development cannot achieve tangible and effective results without economic integration, encompassing infrastructure, commerce, and labor mobility (Dibaba, 2016).

According to El-Affendi (2009), during the early 1990s, despite its history of disasters and conflicts in the preceding decades, the Horn of Africa witnessed the emergence of an innovative African initiative aimed at regional cooperation. Conversely, numerous studies have scrutinized the progress and evolution of regional integration in the area, concluding that it has fallen short of expectations and failed to achieve the commendable objectives set forth for the Regional Economic Communities (RECs). Many regional-level campaigns, initiatives, and policies have remained inactive or merely exist in written form, lacking implementation. Key provisions from REC conventions and agreements have been left unexecuted. Neither the RECs nor the Intergovernmental Authority on Development (IGAD) have succeeded in fostering critical sectors for regional economic integration, such as infrastructural development, nor have they effectively promoted economic integration through the establishment of a free trade area. Numerous studies on economic integration challenges in the Horn of Africa highlighted a lack of political determination as a significant barrier to successful integration. Additionally, disparities in the distribution of benefits such as intra-regional trade, industry allocation, and job creation pose another hurdle. Regional Economic Communities

(RECs), in conjunction with member states, should devise mechanisms to address this issue by implementing policies to offset negative impacts on certain countries due to integration initiatives. This necessitates the establishment of a dedicated fund and regular contributions from member nations. Absent such measures, concerns about unequal gains hinder progress in integration efforts.

Trade within the Horn of Africa nations remains limited, occurring through formal and informal channels. Notably, Kenya-Uganda, Ethiopia, Somalia, and Uganda-Sudan (including South Sudan) feature prominently among each other's primary import and export partners, as highlighted by Byiers (2016). Looking at the trading dynamics within the Horn of Africa region, Saudi Arabia emerges as a significant trade partner for four countries, ranking among the top five in terms of imports or exports. Similarly, Egypt holds a prominent position as a trading partner for three countries in the region. Yemen and Oman hold such status for two and one country, respectively. Particularly, China is ranked among the leading five export targets for Ethiopia, Sudan, and Eritrea and stands out as the region's leading import partner for those states combined. Except for Eritrea, almost all of the nations in the area rank India among their biggest five import collaborators. Furthermore, the G8 nations collectively serve as major trading partners for all countries in the Horn of Africa region.

Alongside the documented trade between countries in the region, there exists a substantial volume of informal trade, estimated at around 40% of GDP. This informal trade primarily involves items like medicine, clothing, food, and fuel. A study carried out in Ethiopia in 2007/08 revealed that the value of unofficial exports, such as beans to Kenya, Khat to Djibouti, and coffee to Sudan, reached tens of millions of USD. Additionally, the livestock trade contributes significantly to this informal trade, valued at a minimum of \$200 million. The prevalence of such extensive informal trade poses a significant obstacle to regional trade as a whole, further complicating already limited intra-regional trade (Healy, S. 2011).

Hall, C. M. (2005), states that regional integration refers to “the cooperation between countries within a geographical proximity to promote sustainability and economic growth. In addition, Lee, J. W., & Shin, K. (2006), shares a similar understanding. Regional trade integration is better when the member states of a

trading bloc concentrate their relations and integrate their trading by different countries into one, allowing free access of goods and people to cross borders, reducing trade tariffs, establishing skilled human resources, and preventing violent disputes from breaking out amongst themselves.

According to Abendin and Duan (2021), who conducted research, they observed that in Africa, there exists a positive correlation between economic growth and job creation when cooperation is considered within a digitally constructed economy. In order to promote foreign commerce, the nation must take into account the impact of taxes on both the import and export of commodities. Customs taxes are often applied to goods being imported or exported, and excessively high tariffs have the potential to stifle foreign trade.

Conversely, the East African Community (EAC) is a regional organization consisting of seven partner countries: Burundi, the Democratic Republic of the Congo, Kenya, South Sudan, Rwanda, Uganda, Tanzania, and Somalia. The headquarters of the EAC are located in Arusha, Tanzania. The anticipated population of the East African Community (EAC) is 283.7 million individuals, with more than 30% living in towns and cities. The EAC covers a land area of 4.8 million square kilometers and has English, Kiswahili, and French as its official languages. according to Anami, A. K. (2023). The combined economic output (GDP) of the EAC is US\$ 305.3 billion. The foundation and implementation of the EAC hold considerable strategic and geopolitical significance, presenting encouraging opportunities for its renewal and reinvigoration.

The East African Community (EAC) serves as one of the eight regional economic institutions acknowledged by the African Union (AU). It stands out as the sole community that aims to establish a political federation as part of its architecture. Africa is renowned for its copious riches, yet it suffers from inadequate infrastructure. The EAC is now focused on achieving universal availability of energy and power throughout all partnership countries. However, it is equally crucial to prioritize territorial integration and the alignment of regulations and legislation in the energy industry. Integration is necessary to ensure equal treatment across all partner nations, irrespective of their status as a nation, and to remove any obstacles inside the EAC (Tharani, 2017: 486).

Several regions have effectively utilized integration to boost their economies. However, other countries observe lower per capita income, capital inflows, GDP growth, and living standards.

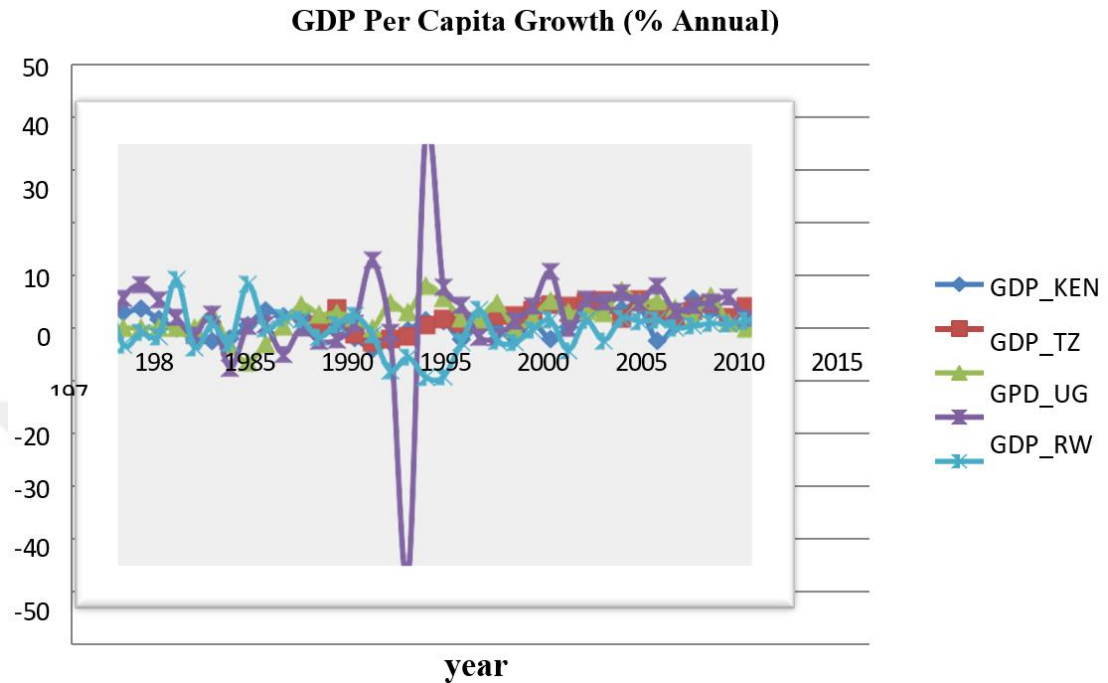


Figure 1.2 Outlines the annual GDP per capita growth rate for the East African Community (EAC) and its member countries

Source: World Economic outlook Database, 2015.

In Figure 1.2, Rwanda experienced its most significant decline in GDP growth, dropping to -47.3142%, attributed to political upheaval, notably the genocide of 1994. In contrast, Rwanda experienced the most significant GDP growth within the East African Community (EAC) in the following year, reaching 36.76702%.

Africa is internationally recognized for its elevated poverty levels and rapidly increasing population rate (Potts, 1995). All countries have a common ambition to establish robust synergy and explore optimal methods of cooperation in order to collectively attain growth and progress for the betterment of their respective populations. This is fostering employment prospects and promoting both international and local investments. Nevertheless, ongoing political disputes and pervasive corruption within regional organizations have hindered progress, making it challenging to achieve the desired goals.

Hausmann (2006) argued that good integration is crucial because nations that experience rapid economic expansion also tend to have a significant increase in their exports. Nevertheless, this has not been the case, as a number of countries face difficulties in collaborating or attempting to execute programs. While receiving substantial foreign assistance, East African nations are experiencing recessions and low quality of life, while certain partner governments are showing a rise in the actual rate of growth.

Net Barter Terms of Trade Index

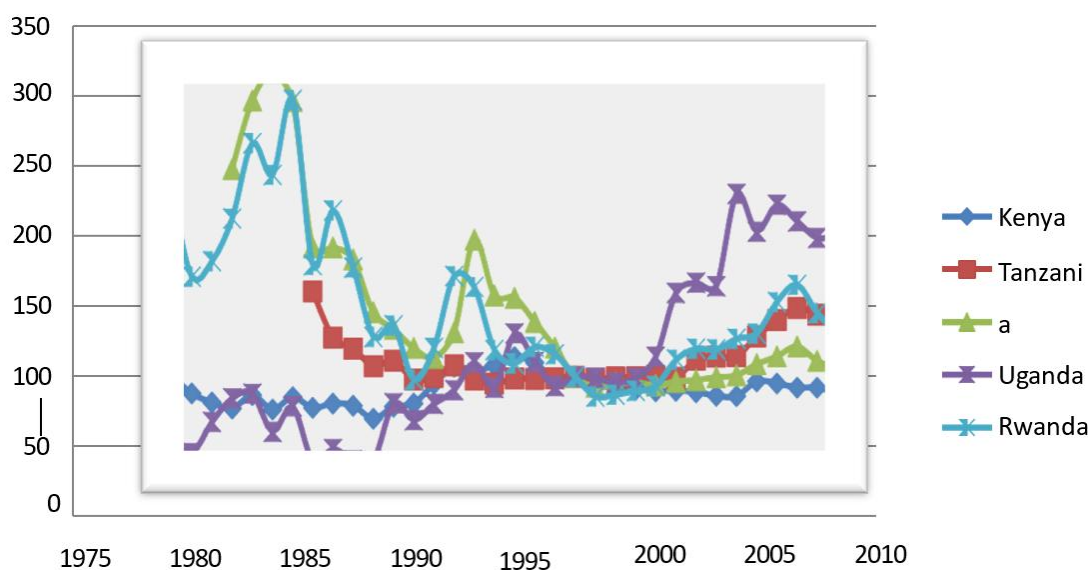


Figure 1.3 Illustrates the Net Barter Terms of Trade index

Source: World Economic outlook Database, 2015

Figure 1.3 illustrates fluctuations in the net barter terms of trade among five nations over time. With the resurgence of the East African Community (EAC), there has been notable growth in trade among its members. This trend is particularly visible with the formation of the Customs Union in 2004, initially involving Kenya, Tanzania, and Uganda. Rwanda and Burundi later joined in 2008, further bolstering trade dynamics. According to the EAC Development Strategy for 2011/12 to 2015/16, intra-regional trade surged by 40 percent between 2005 and 2009. Tanzania experienced a considerable increase in exports to Kenya, jumping from US\$ 95.5 million to US\$ 300 million, while Uganda saw its exports to Kenya rise from US\$ 15.5 million in 2004 to US\$ 172 million by 2009. The establishment of the Common Market in July 2010 further facilitated this export growth.

According to Muriuki, T. K., and Kosimbei, G. (2015), the anticipated increase in trade and investment between EAC nations is anticipated to bolster prospects for economic expansion and advancement. However, policy-making bodies like the World Bank are currently discussing and examining the relationship between trade and economic development in disadvantaged states. A number of mechanisms include lower tariffs and integration, banking sector changes, workforce improvements, administrative changes to regulations, encouragement of investment, and tax structures. The integration and standardization of payment systems, among other factors, promote and facilitate the pooling of capital by nations, allowing them to fully leverage regional administrative and human capital. In order for regional partnership and inclusion in Africa to advance, it is imperative that African nations properly address the local difficulties they are currently facing. Africa demands enhanced regional partnership and a more influential presence to effectively engage with the international community, which has historically marginalized them, in order to reform the international financial, economic, and power structures.

1.2 Overview of Somalia's Economic Performance

Exports play a crucial role in international trade and economic expansion, particularly in developing economies. In numerous underdeveloped states, the main source of wealth comes from natural resources, which are often exported. Conversely, when the national currency depreciates, it means that its goods become cheaper for trading counterparts. This can potentially increase demand for the nation's exports. When the currency rate falls, foreign commodities become more expensive, leading to a trade imbalance with fewer imports and more exports. In 2019, Somalia's exports of services and products represented 16.9% of its GDP. It is projected that the total value of commodities and services exported will reach \$1,131 million this year, representing a 6% increase compared to the past year. The main sectors of exports in Somalia include cattle, wheat, and forest goods. The livestock sector constituted 61% of the overall export value, and forestry goods made up 17.4%.



Figure 1.4 Figure 1.4 Export trade of Somalia

Source: Trading Economics

Since 2019, Somalia has witnessed a decrease in its primary exports due to significant factors such as floods and the COVID-19 pandemic, which have had a negative impact on the country's economy. Somalia's cattle, a significant export, experienced difficulties in 2019 and 2020 due to the COVID-19 epidemic, resulting in a decline in animal exports. Figure 2 depicts the declining pattern in exports throughout the previous three years.

Agriculture remains a predominant catalyst for economic expansion in Somalia, serving as the country's foremost generator of revenue, job opportunities, and exports. In 2019, Somalia's agricultural sector contributed approximately 65 percent to the country's gross domestic product (GDP) and accounted for 82 percent of its total exports. As indicated by the World Bank survey, approximately 25% of the total population consists of agropastoral. Approximately 70% of the Somali population resides in rural regions and works in occupations related to livestock, agriculture, wood products, and fish manufacturing, output, and commercialization.

Developing agricultural productivity in Somalia can have a significant impact on various aspects such as food sovereignty, hunger eradication, agricultural productivity, and economic development, as almost all of the people rely on agriculture for their livelihood. Droughts caused a decrease in the amount of land

used for cultivation and the number of crops produced, leading to a deficit in crop output. The prolonged drought had a devastating impact on individuals involved in the livestock sector. The available pastureland was insufficient to sustain livestock, and there was also an inadequate water supply for their needs.

In Somalia, animal agriculture plays a pivotal role both culturally and economically, providing sustenance and income for around sixty percent of the population. Key livestock species include camels, sheep, goats, and cattle. Galkayo and Burao livestock markets are significant regional hubs, while Beleweyne serves as a crucial link between central and southern regions, facilitating livestock exports through Basasso harbor. Somalia has two main livestock export terminals: Berbera and Bosasso, with Kismayo and Mogadishu occasionally participating in exporting refrigerated and live animals.

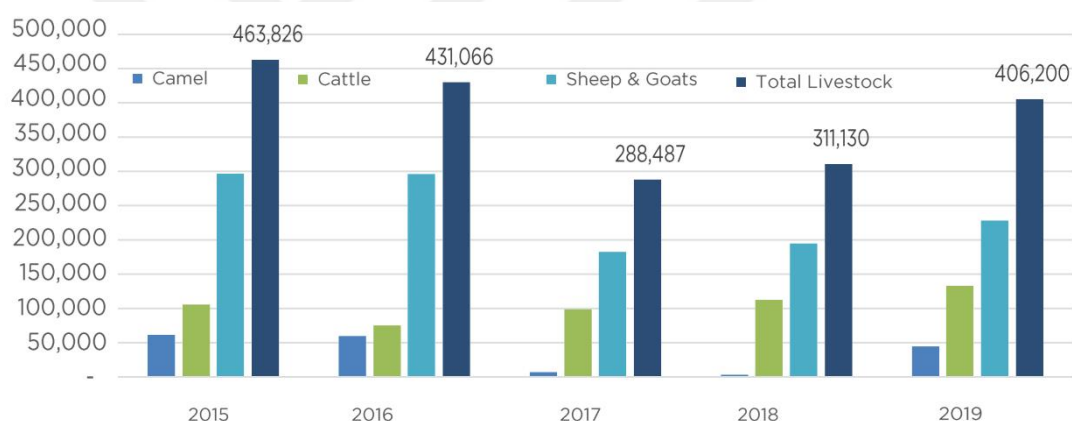


Figure 1.5 Exported livestock of Somalia

Source: Somalia National Bank

Ever since the commencement of the civil war in Somalia during the 1990s, the local fishing industry has maintained a modest scale. Coastal inhabitants are progressively turning to fishing for both livelihood and sustenance. Somalia's central government has initiated substantial reforms concerning the management of marine resources. The Ministry of Fisheries and Marine Resources, under the Federal Government, has granted offshore fishing permits for the first time in nearly twenty years. These changes are expected to positively impact the sustained growth of the fishing sector.

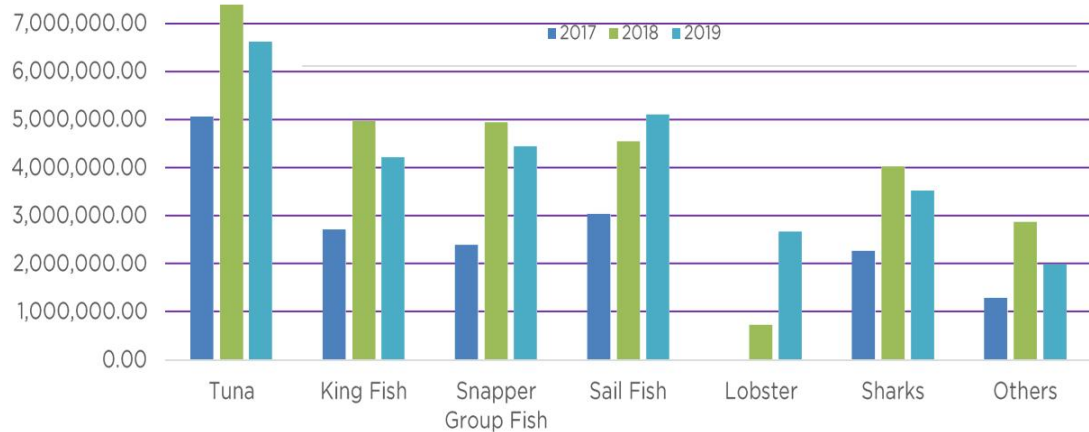


Figure 1.6 Export trade of Somalia

Source: Somalia National Bank

Somalia's official currency, the shilling, was first introduced in 1962 by the National Bank of Somalia in denominations of 5, 10, 20, and 100 shillings. Subsequent issuances by the Somalia national bank and the Central Bank of Somalia followed in 1975 and 1978, respectively. Additional denominations such as 50, 500, and 1000 shillings were introduced in 1983, 1989, and 1990. A currency reform attempt in 1990 involved a 100-to-1 exchange rate change. Currently, preparations are underway for new banknotes in denominations of 20 and 50 shillings. Coinage initially included 1, 5, 10, and 50-shilling denominations under the Somali Republic in 1967, while coins in the name of the Somali Democratic Republic were issued in 1976 following the adoption of Somali currency value names.

Reestablishing the Central Bank of Somalia and delegating authority to it to formulate and implement monetary regulations was a priority for Somalia's Transitional Federal Government in the late 2000s. The Somali shilling was widely distrusted; hence, the US dollar was frequently used in trade. Due to the dollar's dominance and the Somali shilling's ongoing problems, prices fell to unprecedented lows. Over the past five years, the value of the Somali Shilling has exhibited a consistent level of stability compared to other global currencies. Formulating a currency change approach for Somalia is a positive and progressive move. CBS will address the issue of fakes in Somalia by introducing the new Somalia Shilling, marking the first time since 1991.

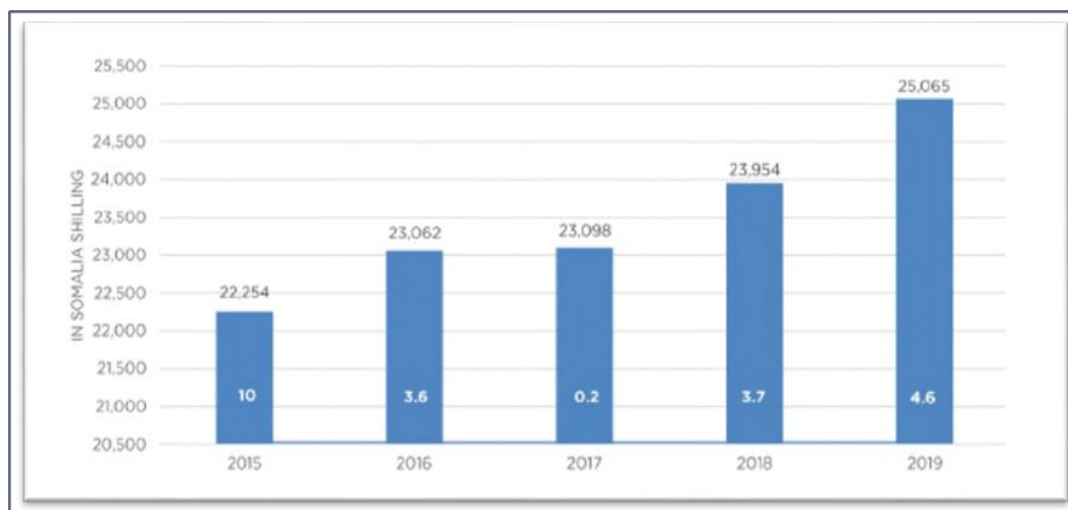


Figure 1.7 Somalia's annual exchange rate

Source: Somalia National Bank.

The above figure depicts Somalia's currency rate fluctuations, showing notable changes. In 2018, the rate rose from 23,954 to 25,065. It suggests that legislative monetary bodies have little impact on the foreign exchange market. Throughout 2019, the exchange rate between the Somali Shilling (SOS) and the US Dollar (USD) remained relatively steady compared to other East African currencies. However, the domestic currency experienced a 4.6 percent decrease against the USD, the primary trading currency. The dollarized economy is witnessing an expanding trade deficit, while the use of mobile money for transactions is increasing. In 2019, the average marketplace exchange rate for the Somali Shilling against the US Dollar stood at 25,065 SOS.

According to Borhan and Subramaniam (2020), Somalia, as a member of the emerging nations, puts into practice trade as being open to trade, foreign direct investment, and currency rate. Some were unable to demonstrate a meaningful correlation between exports and economic development. Somalia has experienced remarkable expansion in the past few years due to increased trade agreements between nations, and it is joining the East African Community. Economic growth is driven by technical advancements and initiatives to lower obstacles to trade. Some emerging nations, like Somalia, have permitted their markets to fully capitalize on economic progress.

1.3 Problem Statement

Somalia is one of the nations in the Horn of Africa where there has been protracted conflict with a high death toll. The United Nations (2016) estimates that 43% of Somalis survive on \$1.00 or less per day, whereas 73% survive on \$2.00 or less. The fall of foreign trade was linked with Somalia's disintegration and state collapse in 1991. The degree of poverty in Somalia has increased over the last 20 years. Considering all the many parties involved in the present recovery actions, the initiative to integrate Somalia's economic progress with foreign trade policy has become essential in recent years (Menkhaus, 2016).

With limited global partners, Somalia experienced a decline in economic growth. The reason for this phenomenon might be attributed to the idea that a country is unable to achieve macroeconomic self-sufficiency and prosperity without engaging in international trade. According to Warsame (2014), because of the protracted conflict, Somalia was cut off from international trade. Furthermore, there are several perspectives on the link between international trade and growing the economy. Classical scholars, like Adam Smith, were passionate about this link. Smith argued that trade facilitated specialization, division of work, and increased production efficiency.

Academic scholars and trade decision-makers are interested in the effects of imports and exports on economic progress. As a result of the absence of an effective government, the GDP of Somalia has not done well over the past two decades, with foreign trade being one of the most severely affected economic performances. Only cattle were a significant contributor to the limited Somali exports. It was unable to maintain the trade balance account since other industries were either inactive or lacked the excess to be traded. Somalia's role in international trade was severely limited due to a lack of functional government, a scarcity of commercial banks and financial public institutions that match foreign standards, insufficient infrastructure, and a lack of systems for measuring exported and imported goods. Somalia's major exports primarily focus on livestock.

According to the existing literature, there are gaps as a result of several studies that were conducted in distinct settings and concentrated on economic

development rather than economic growth when considering exports and imports as independent variables. With the objective of closing those gaps and conducting further analysis, this thesis attempts to figure out and explore the impact of international trade on economic growth in Somalia.

1.4 Objectives of the Study

1.4.1 General objective

The main objective of this thesis is to investigate the impact of international trade on economic growth in Somalia.

1.4.2 Specific objectives

The study was driven by the following thesis goals:

- To investigate the impact of exports on economic growth in Somalia.
- To examine how imports impact economic growth in Somalia.
- To discover how the trade openness phenomenon effects economic growth in Somalia.
- To establish a solid foundation for public policy founded on an innovative international trade approach that considerably boosts the country's economic growth over the long term.

1.5 Scope, significance, and limitations of the study

The study's scope is limited to Somalia at the national level. In addition, the study data covers the period from 1960 to 2022.

For the government: The study's conclusions will be critical for the government and trade policymakers. This research will give insights that will encourage the exports and imports of Somalia's international trade. In order to encourage trade openness, the study will shed light on the macroeconomic performance since Somalia recently joined the East Africa Community (EAC) and signed other bilateral trade agreements.

For academics: First, it gives scientific knowledge of empirical research regarding the subject of the study. Secondly, it provides policy recommendations and contributes to future academic perspectives on foreign trade and economic growth.

As a result, while writing this thesis, the study ran into a number of issues, including dispersed data from multiple sources. Therefore, users of the study results should take those constraints into account.

1.6 Research Hypothesis

The study examined the following research hypothesis:

H1: Exports have a strong and significant impact on economic growth in Somalia.

H2: Imports have a strong and significant effect on economic growth in Somalia.

H3: Trade openness has a significant effect on economic growth in Somalia.

2 LITERATURE REVIEW

2.1 Theories of International Trade

According to the literature and previous research conducted, there is a link between international trade and economic growth. To include further theoretical foundations and practical analyzes. This study examines the effectiveness of international trade on Somalia's economic growth indicators.

2.1.1 The theory of absolute advantage

The theory of absolute advantage, introduced by Adam Smith in 1776, provides a foundational explanation for international trade. Adam Smith posited that trade between countries is driven by the principle of absolute advantage. According to this theory, a country can produce a specific commodity more efficiently than other countries, making it advantageous to produce that commodity. Conversely, the same country may be less efficient at producing other commodities. By specializing in the production of goods where they hold an absolute advantage and importing goods where they are less efficient, countries can mutually benefit. This specialization allows each country to maximize its production efficiency and economic gains. As a result, both countries involved can enjoy a higher overall level of production and consumption by focusing on their strengths and trading for their weaknesses Schumacher, R. (2012).

The theory of absolute advantage offers a framework for understanding why a country may choose to export certain goods. It posits that a country can export goods if it can produce them at a lower cost than other nations, thereby holding an absolute advantage in their production. Adam Smith expanded on this idea by defining absolute advantage as a country's capability to produce goods and services using fewer resources per unit compared to other countries. This efficient use of resources not only reduces production costs but also boosts the overall production of goods. Consequently, a country with an absolute advantage can increase its export potential

by leveraging its ability to produce more efficiently and at a lower cost, ultimately strengthening its economic position in the global market (Marbun, 2015).

Sampoerna University (2022) outlines several key assumptions underlying the theory of absolute advantage. These assumptions are as follows: (1) The factors of production are solely related to labor, implying that labor is the primary input considered in production processes; (2) The goods produced are of uniform quality, meaning there is no difference in value or standards among the goods exchanged; (3) The exchange of goods is carried out without considering financial aspects, focusing purely on the trade of physical goods; and (4) There are no shipping costs involved in the exchange, assuming that goods can be transported freely without incurring additional expenses. These assumptions simplify the theory and provide a foundational basis for understanding the mechanics of absolute advantage in international trade. Beyond the simple transactions of buying and selling between nations, absolute advantages can also be realized through the exchange of commodities. This exchange involves two countries trading goods that are uniquely produced within their borders. Such exchanges are beneficial because they allow each country to import products that would be more costly and less profitable to produce domestically. By importing these goods, countries can reduce their production costs and improve their overall economic efficiency. This strategy not only leverages the absolute advantage each country has in producing certain goods but also fosters economic interdependence and maximizes the mutual benefits of international trade.

Importer countries also benefit from trade because it would be more expensive for them to produce the same goods that they can obtain more cheaply from exporters. Consequently, Adam Smith argues that each nation should specialize in producing goods for which they have an absolute advantage and import goods for which they have an absolute disadvantage. This specialization allows for the most efficient and effective use of production factors, thereby maximizing world output and increasing the wealth of nations. According to Adam Smith (1776) absolute advantage views trade as a positive-sum game, in contrast to mercantilism, which sees trade as a zero-sum game (Smith, 2010).

Although the concept of absolute advantage has enhanced our understanding of international trade dynamics and served as a foundational model for trade theories, it has struggled to explain changing trade patterns due to its limitations, particularly over the past century. One major limitation is that Smith assumes labor is a homogeneous factor in production within a country. Additionally, Smith's advice that a country with an absolute advantage in producing a good should always export it does not hold true in many real-world trade situations and may not always be beneficial for the country. To address these issues, Thus, David Ricardo (1819) introduced the concept of "comparative advantage" to the international trade literature, offering a more nuanced explanation of trade dynamics.

2.1.2 The Theory of Comparative Advantage

On the other hand, Ricardo (1819) argues that absolute advantage is a specific condition of comparative advantage and claims that countries should import some goods even though they have an absolute advantage in producing those goods. The principle of comparative advantage, proposed by Ricardo in 1817, suggests that a country will export goods or services where it has the highest comparative advantage and import those where it has the lowest comparative advantage. Ricardo's concept of opportunity cost involves the trade-off of producing one quantity of a good in favor of producing another, as elucidated by Fletcher (2011).

This principle underscores the basis for comparative advantage, where a country can produce a good at a lower opportunity cost relative to another nation (Suranovic, 2010). Consequently, even if a country lacks an absolute advantage in producing certain goods, it can still gain by specializing in those goods where it holds a comparative advantage and subsequently exporting them. This strategic approach to trade allows countries to optimize their production efficiencies, allocate resources more effectively, and capitalize on international trade opportunities based on comparative advantage principles.

Therefore, if countries focus their specialization on products where they possess comparative advantage rather than solely absolute advantage, it could lead to enhanced efficiency in allocating factor endowments and greater economic welfare (Acharya, 2008). This strategic alignment with comparative advantage principles

allows nations to optimize their use of resources, foster economic growth, and potentially improve overall welfare outcomes through international trade.

Furthermore, comparative advantage serves as a crucial framework for understanding trade patterns, as it arises from disparities among countries in terms of factor endowments or technological capabilities. Presently, certain countries specialize in specific industries and export goods from these industries, leveraging their comparative advantages driven by either endowment or technology (Acharya, 2008). For example, developed nations often specialize in high-value-added, high-tech goods, deriving their comparative advantage from specialization, whereas developing countries may excel in labor-intensive production, thereby exploiting their comparative advantage. This differentiation in specialization based on comparative advantage not only explains trade dynamics but also influences economic strategies aimed at maximizing productivity and trade benefits across diverse global economies.

Comparative advantage fails to fully explain intra-industry trade, especially prevalent among developed countries, and overlooks several factors addressed under absolute advantage, such as economies of scale, imperfect competition, and demand-side dynamics in trade. Moreover, the theory predominantly treats labor as the sole determinant of costs and exchange, assuming homogeneity in production factors within a country and ignoring international disparities in labor productivity (Suranovic, 2010). It was not until later, as noted by John Stuart Mill (Mill, 2009) in his work, that reciprocal demand and supply were recognized as primary determinants of domestic goods' value, shifting focus from production costs alone.

However, David Ricardo (1817)'s seminal theory predicts that locations benefit when they allocate their resources in the goods in which they have a comparative advantage, i.e., those produced with a higher relative productivity. Yet these comparative advantage patterns are not random, nor are they set in stone; theories detailing the evolution of locations' productivity levels date back to the work of Marshall (1890) more than a century ago. Since then, many studies have highlighted the role of relatedness between sectors and relatedness between regions in the evolution of comparative advantage. Here, we take a complementary stance, giving evidence that these patterns of relatedness also reveal deeper information

about the requirements of industries and endowments of locations. We then show how this information could be used to develop a measure of counterfactual or implied comparative advantage, and how such a measure helps explain changes in comparative advantage of locations over time.

According to the Ricardian theory of trade, the intensity of production of a location in an industry is determined not by its absolute productivity in that industry, but instead by its productivity relative to that of other industries in the same location and by its productivity in the industry relative to other locations. Although Ricardo introduced this idea using two countries (England and Portugal) and two products (cloth and wine) almost two centuries ago (Ricardo 1817), the multi-location multi-product version of his model has only recently been formalized and subjected to rigorous empirical testing (Eaton and Kortum 2003; Costinot et al. 2012). Yet these models can only infer the relative productivity of a location in a product if the location already makes the product. This is an important void, as the emergence of new, modern industries is an essential component of economic development (Hausmann et al. 2007). In addition, current Ricardian models assume that the relative productivity parameters are uncorrelated across industries. This implies that the likely productivity of a country in motorcycle production, for example, is equally independent of whether it currently has comparative advantage in car-making or in coffee.

The Ricardian model operates under a set of stringent assumptions that shape its theoretical framework: (1) There is a fixed endowment of identical resources, (2) Factors of production can freely move between different uses within a country, (3) Factors of production cannot move between countries, (4) The model employs a labor theory of value, (5) Technological levels remain constant across both countries, (6) Unit production costs remain consistent, (7) Full employment is assumed, (8) Markets operate under perfect competition, (9) There are no government-imposed barriers to economic activities, (10) Internal and external transportation costs are negligible, and (11) The analysis simplifies the scenario to a two-country, two-commodity framework. These assumptions are crucial in defining how the Ricardian model explains international trade patterns and comparative advantage. By assuming these conditions, the model provides insights into how countries specialize in

producing goods and services where they have the lowest opportunity costs, leading to efficient resource allocation and potentially beneficial trade relationships. However, these assumptions also limit the model's applicability in real-world scenarios where factors such as technological progress, varying resource endowments, and government interventions play significant roles in shaping global trade dynamics Siggel, E. (2006).

One of the key benefits of the theory of comparative advantage is its ability to explain the exchange rate and quantify the gains from trade, aspects that the theory of absolute advantage does not address (Ibrahim and Halkam, 2021). By focusing on comparative rather than absolute efficiency, Ricardo's theory provides a more comprehensive understanding of how countries can benefit from trade even if one country is less efficient in producing all goods. It emphasizes the importance of opportunity costs and suggests that countries should specialize in producing and exporting goods where they have the lowest relative production costs, leading to mutually beneficial trade relationships.

In the modern global economy, prosperity is a nation's choice. Yet, in this modern economic world, sustained prosperity and the achievement of higher level of productivity growth still remain an issue. Comparative advantage theory is old but still relevant in explaining patterns of trade especially among developing countries. The Ricardian model shows how technological differences can lead to gains from trade which makes it as relevant today as it has always been (Feenstra 2015). Many developing countries can simultaneously boost-up their economic growth and promote the efficient allocation of resources through the exploitation of their comparative advantage. Establishing sustainable growth in an economy is one of the most important concepts in countries across the globe. Most countries structure their economies in order to meet their long-term development goals although what they choose as the main drivers of growth may differ. Long before the industrial revolution, agriculture was the main economic activity in almost all countries, but it was especially true in developing and third world countries.

However, over the last 50 years, there has been a shift in focus from agriculture to manufacturing activities. In fact, many economies across the world have achieved a far more significant development. Even though the Industrial Revolution started in Europe, it

quickly spread to other countries. What made the Industrial Revolution more attractive was the fact that it improved the standards of living. Immediately after the end of the Second World War, economic independence was gained by some of the developing countries. At last at the end of the 20th century, a small group of developing world became successful in achieving higher economic growth trimming the gap between them and the advanced economies. Japan, Hong Kong, China Singapore and Taiwan are the major examples of countries which performed very well in achieving higher annual growth. Recently in some large developing economies, China, Brazil and India for instance growth rate is quite high and turned them into global growth poles (The World Bank 2011).

2.1.3 The Heckscher-Ohlin theory

This theory was introduced in the 1920s by Swedish economic historian Eli Heckscher and his student Bertil Ohlin. Commonly referred to as the Proportional Factor Theory, the Heckscher-Ohlin theory posits that countries will import goods whose production demands resources that are scarce and expensive locally. Conversely, these countries will export goods that can be produced more abundantly and inexpensively due to the availability of certain factors of production. Essentially, the theory suggests that a country's trade patterns are determined by its relative resource endowments, leading it to specialize in the production and export of goods that utilize its abundant and cheap resources, while importing goods that require resources in short supply (Ibrahim and Halkam, 2021).

Heckscher-Ohlin's concept suggests that international trade arises based on two crucial factors: the availability of production inputs and the intensity, or proportion, of these inputs' utilization in the production process. Different products require varying ratios of these production elements, which leads to differences in production methods. Technology plays a significant role by determining how various manufacturing components are combined to produce a product, thus creating these differences (Tambunan, 2009). The types of goods that a country produces, exports, and imports are influenced by its resource endowments, such as labor and capital. Countries will tend to specialize in and export goods that intensively use their abundant resources, while importing goods that require resources they lack.

Heckscher-Ohlin's theory concludes that international trade has a tendency to raise income or wage levels for workers and reduce interest rates on real capital in countries that are rich in labor but scarce in capital. This is because international trade encourages countries to specialize in industries and trade in goods that intensively utilize their abundant production factors (Salvatore, 2013). As a result, countries engage in trade with one another because they possess a comparative advantage, which is derived from their technological superiority and the abundance of specific production factors. Essentially, the theory posits that a country's trade patterns are shaped by its relative resource endowments and technological capabilities, leading it to export goods that make intensive use of its plentiful resources and import goods that require resources in short supply.

According to Lestari (2022), several factors contribute to the creation of buying and selling transactions in international trade, including:

1. The Information Revolution and Transportation

Globalization has spurred swift advancements in technology and information over time, profoundly influencing international trade. These advancements have streamlined trade processes, simplifying countries' participation in export and import activities. The widespread adoption of information technology has bolstered communication and international relations, while enhanced transportation infrastructure has expedited the movement of goods and services (Azizah, 2021). Consequently, globalization enhances the efficiency and effectiveness of global trade through these technological and logistical innovations.

2. Interdependence of Needs

Countries possess varying strengths and weaknesses across human resources, natural resources, and information technology, fostering interdependence to fulfill domestic needs (Setiawan and Lestari, 2011). Developed nations typically lead in information technology, contrasting with developing countries that depend on them for access to advanced technologies. This mutual reliance highlights global trade's interconnections, where nations trade to offset shortcomings and leverage distinctive strengths.

3. The principle of comparative advantage

A country's superiority is typically shown through exclusive assets or resources that are not found elsewhere. These unique advantages can lead to substantial increases in state revenue (Thabroni, 2021). For example, a nation might have abundant natural resources, advanced technology, or skilled labor that is scarce elsewhere. These distinct characteristics enable the country to earn more from international trade, using its strengths to gain a competitive advantage globally.

4. Economic liberalization

Economic liberalization is a crucial policy that fosters economic growth and boosts competitiveness. By opening up significant opportunities for international business activities, it encourages countries to engage in trade with one another. As a result, nearly everyone embraces this policy to capitalize on the opportunities created by cross-border trade (Thabroni, 2021).

5. The country's foreign exchange needs

The primary aim of engaging in international trade for a country is to acquire foreign exchange reserves, which are essential for its economic development and stability. Foreign exchange reserves play a crucial role in building and advancing a nation's infrastructure and economy. Therefore, international trade is vital for a country to accumulate foreign exchange reserves, which serve as a critical monetary indicator reflecting the economic strength or weaknesses of the nation's fundamentals (Sayoga et al., 2017).

Sukirno and Seregar (2009) identified eight factors influencing international trade:

1. Meeting domestic demand for goods and services.
2. Generating revenue and increasing government tax income.
3. Varying capabilities in mastering science and technology for economic resource management.
4. Seeking new markets to benefit from domestic products.
5. Factors such as natural resources, climate, labor, culture, and population diversity influencing production capacities and output levels.

6. Consumer preferences favoring specific products.
7. Expanding political and diplomatic relations and receiving aid from other nations.
8. The era of globalization has rendered isolationism impractical for any nation, emphasizing interconnections.

2.1.4 Product Cycle Theory

Vernon (1992) proposes the product cycle theory to demonstrate how technological advances, economies of volume, misinformation, and ambiguity have impacted the changing nature of business practices. According to the paradigm, (1) the creation of novel products happens with distinction among both industrialized and developing nations, and (2) enterprises in wealthy states are homogeneous with respect to the availability of scientific competence and skill to analyze integrated innovative information. In light of these hypotheses, the framework forecasts which nations export as well as import.

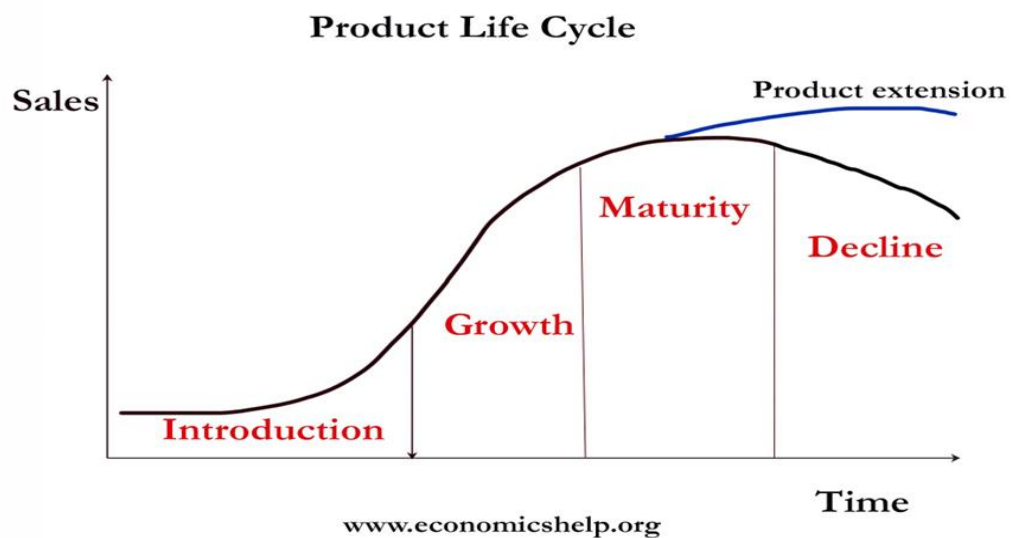


Figure 2.1 Product Life Cycle

Source: Vernon (1992)

Stage 1: Introduction

This is the point when an invention is introduced to the marketplace; buyers are not familiar with it yet. For the purpose of creating demand, firms promote the new goods to increase sales. At this juncture, earnings are not very high, but nevertheless, they start to climb while there are not many competitors. The commodity naturally moves up to the subsequent stage as extra volumes are sold.

For instance, a new type created in the US for domestic consumers is first produced there, as that is where the need is, and producers like to stay close to the field to gauge client response. During this phase, operational attributes and production methods are modified as firms familiarize themselves with the commodity as well as the marketplace.

Stage 2: Growth

At this point, the item's desire drives higher sales. As a result, production costs decrease while returns grow. The item gains popularity, prompting competitors to enter the marketplace with various versions. The company that developed the initial commodity increases its promotional spending in an attempt to capture as many buyers as practicable. While a large percentage of possible new customers have purchased the good, it moves on to the next stage. For instance, the latest product created in the US for domestic consumers is first produced there, as that is where buyer interest is; therefore, producers like to stay close to the industry to gauge client response. During this phase, the system's characteristics and production processes are modified as firms familiarize themselves with the good and its marketplace.

Stage 3: Maturity

During the mature phase of the product life cycle, a large number of buyers possess and identify the commodity. During the product's development era, demand levels out and sales quantity increases more slowly. The first supplier may lower pricing to maintain its market position and orders at this time because there are several competitors. Higher output and lower costs for advertisements and studies keep the firm attractive even when revenue margins are declining.

Moreover, because the product meets the expectations of affluent consumers, interest in it is rising internationally, although it is mainly associated with other developed nations. In this regard, in the case of the recently created goods, the United States adds worth to its ultimate exports to other wealthy countries as a response to rising global demand (facilitated by economies of scale). During the mature output period, there are more alterations.

As the manufacturing phase matures, more modifications take place. After selling to other wealthy countries, the American corporation would start to think about whether it would be possible to manufacture outside of the West as well. An American firm might not be able to assist other European countries like France if it were a French industry. Therefore, after the first export explosion in the United States, there is expected to be a decline in US exports as well as in US commodity manufacture.

Stage 4: Decline

At this stage of development, the makers are comfortable with the production procedure, and consumers can easily identify the distinctive characteristics of the good; manufacturers are also experienced with the properties of the goods. This is the result of a good's sales peaking during its senior phase and then beginning to drop. State income finally reaches a degree where manufacturing the goods is no longer economical.

The amount spent is minimized. It would be simple to stage out the goods or sell them to rival companies. Trade could shift to developing countries. Another time, manufacturing costs play a significant role, and developed countries are working constantly to create new products. For instance, the nature of trade suggests that the item is one that affluent country like the United States have only recently started purchasing from underdeveloped countries.

On a monetary level, a lengthy operational life is ensured by a robust need and cheap production costs. It gets taken off the marketplace during the "decline" stage after a prolonged period of duration when production expenses are too excessive and pricing is low. It is significant to observe that a business or firm inside

a country survives in an economy by adapting the products they produce and sell; in other words, by riding the storms.

Solow and Swam (1996) proposed this theory, which is predicated on the idea that exogenous technological improvement has a significant long-term influence on economic growth. Similarly, according to Hahn (2010), trade abroad could therefore impact economic growth if it promotes technological innovation. The concept also contends that capital and human resources would have an influence on the nation's economic growth, alongside science. According to Solow, technology plays a crucial role in driving revenue growth in nations with sufficient resources, such as wealth and labor.

According to the concept, differences in the amounts of labor and capital required throughout the output procedure are what lead to the short-term emergence of economic equilibrium. According to the idea, changes in technology have an impact on how the economy functions as a whole (Setterfield, 2009). The idea goes on to say that the economy's progress is greatly influenced by the amount of capital that individuals accumulate and how they use it (Ben-David & Loewy, 2003). An additional reason offered by the concept is that the relationship between labor and capital determines overall production. This approach also makes the case that technology increases labor output, which raises aggregate production since labor is used with greater effectiveness (Boianovsky & Hoover, 2009).

According to Moudud, J. K. (2000), Economic development scholars have relied on the fundamental neoclassical model for the last three decades, which includes only a single homogenous good, a well-mannered neoclassical function of production, exogenous employees augmenting scientific advancement, full workforce participation, and exogenous workforce progression.

According to Fizaine (2016), According to the Harrod-Domar model's assumption that the output-capital ratio would remain steady at the necessary rate of expansion in the investment stock, which is determined by multiplying this percentage value by the fixed saving rate, this will just coincidentally match the fixed natural rate of expansion in the workforce. Conversely, as the percentage of labor compared to capital increases, the output-capital ratio continuously decreases

because the model permits elastic prices and salaries, continuous switching among capital and workers, and declining yields to wealth. The change is made if the authorized rate of capital expansion just keeps up with the actual rate of employee increase at full productivity.

Besedeš and Prusa (2003) come to the conclusion that interactions in trade between nations are fleeting and have sparked attention on two wide-ranging issues. First of all, why do trade-related partnerships tend to end quickly? Second, what kind of policy measures can clarify how long the transient trade lasts? (Molin & Fugazza, 2009).

According to Nitsch (2009) and Hess & Persson (2011), conventional trade concepts are unable to address these two issues. Theoretically, there is no explanation for the length of time that the phenomenon of trade links has been seen in scientific research (Hess & Persson, 2011). Suggested concepts and explanations that shed light on the inputs of the many different theories include the corresponding business model, the item cycle approach, the investigation approach, firm differences, superior ladder theoretical terms, fundamental theory, and the breakdown philosophy of supply logistics around the world.

2.2 Empirical Review

The following sections primarily focus on the empirical review of trade openness, imports, and exports in relation to economic growth.

2.2.1 Exports and Economic growth

The causal relationship between exports and economic growth in an open economy can be understood through four distinct hypotheses (Taştan, 2010). One prominent hypothesis, known as the Export-Led Growth (ELG) hypothesis, suggests a unidirectional causal link where exports drive economic growth. This theory posits that exports contribute to income and positively influence economic growth indirectly, alongside the multiplier effect. As exports increase, resources shift from inefficient non-trading sectors to the more efficient export sector, leading to productivity gains and overall economic growth.

Increasing exports boosts productivity by encouraging international competition, which drives the adoption of new technologies, accelerates research and development, and enhances management and entrepreneurial practices. These factors lead to skill development and more hands-on learning, which in turn supports economic growth (Berg & Lewer, 2007). Additionally, higher export volumes enhance a country's ability to import essential capital and intermediate goods needed for industrial production, further contributing to economic expansion.

The second hypothesis, known as "Growth-Oriented Exports," posits that economic growth drives an increase in exports. This view holds that as economies grow, they embrace new technologies and enhance productivity, which boosts their export potential and provides a comparative advantage in global markets (Giles & Williams, 2010).

The third hypothesis suggests a reciprocal relationship, where higher exports foster economic growth, and increased income from that growth in turn promotes further trade, creating a reinforcing cycle (Taştan, 2010).

The fourth hypothesis proposes that there may be no direct causal relationship between economic growth and exports (Taştan, 2010).

These hypotheses represent the main theories discussed in the literature, with most research findings aligning with one of these primary viewpoints.

The link between exports and economic growth is a central theme in both theoretical and applied economics, reflecting the crucial role exports have had in the development of advanced economies. Export-driven or export-oriented growth illustrates the importance of exports in fostering economic expansion. This approach, aligned with free trade and economic openness, underscores the benefits of integrating national economies into the global market. According to Sannasse et al. (2014) and Mandel and Müller (1974), export-oriented growth is vital for countries seeking to interact with and benefit from global markets.

Globalization has greatly increased the opportunities for international trade by bridging the economic gaps between countries. This has particularly benefited developing nations, leading to significant economic growth through greater trade

opportunities. The effect of foreign trade on economic growth has been a topic of discussion since classical macroeconomic theories and continues to be relevant in current Neo-Liberal Economic policy debates (Acet et al., 2016). This ongoing discussion underscores the lasting importance of foreign trade in influencing economic outcomes in today's global economy.

From classical growth theories to modern economic models, various factors have been identified as key determinants of economic growth, including wages, interest rates, savings levels, human and physical capital, technological progress, and natural resources (Rebelo, 1991). Among these, exports have consistently been recognized in the literature as a major driver of economic growth. This highlights the crucial role that export activities play in promoting and sustaining economic development.

In 2014, Somalia achieved a record by exporting over 5 million live animals, including camels, cattle, sheep, and goats. The livestock sector is a cornerstone of Somalia's economy, representing over 40% of GDP and productivity, with a total of more than 40 million farm animals. Over the past 20 years, livestock exports have peaked. FAO data from 2015 indicates that agriculture, particularly animal products, is the primary contributor to Somalia's GDP, followed by the service sector. Somali cattle are prized in global markets, enhancing trade with Gulf countries and neighboring regions. In addition to live animals, Somalia exports meat, skins, hides, and butter, which are sought after for celebrations like Eid in the Gulf (FAO, 2015).



Figure 2.2 Export performance

This graph illustrates the main features of Somalia's export trend. It has gotten worse over the last two decades due to ongoing difficulties. Due to livestock goods being the main export, the graph line shows reductions at times when Somalia had either an extreme drought or an Arab World animal embargo. Since the 1980s, when Somalia had a functioning government, it appears that exports have surged recently. This verifies the findings of Leeson's (2007) study, which concluded that disorder was a preferable situation for Somalia to state rule. The Federal Government of Somalia claims that international fishing businesses are removing large quantities of fish from the country's waters due to inadequate border security. Somalia's government and its member states will likely adopt a fisheries resource distribution and profit-sharing regulation that explains licensing and resource allocation. This strategy aims to strengthen the Marine Corps by detecting potential resource fraud. Somalia's exports came from its cattle, agriculture, and fisheries, and these industries remain promising if problems are handled amicably and the nation's trade laws draw in both foreign and domestic capital.

According to Mohamed Mire Mohamed (2015), cattle were widely distributed throughout the regions of two distinct rivers in Somalia, even though the country faced severe regional issues from severe weather, uncertainty, and unrest in politics. They discovered that the industry creates the majority of jobs for rural and nomadic communities and accounts for 80% of the nation's export revenue. Their study focused on the contribution of agricultural and animal output to the nation's export profits. The study concluded that there is a positive relationship between export and economic growth.

Long-term problems in Somalia are impeding the country's ability to build its export industry. First, there have been many droughts that have severely impacted farming and cattle, the two largest industries. These two industries were the only ones with excess to export after meeting demand locally and having significant economic activity. Regretfully, though, a string of severe droughts, little rainfall, and the drying of rivers led to a reduction in the output of these industries, and their work force was displaced, with most of them living in camps established by NGOs in Mogadishu and neighboring countries as refugee settlements. In the event that obstacles are effectively removed, the sector's significance and export participation

may rise considerably. There is no geographical restriction on the consequences of the famine. It affected every region of the nation and led to a decline in Somalia's total economic output.

Second, issues with politics and instability are important (Isak & Mohamed, 2017). Throughout Somalia's last 25 years of civil conflict, there have been issues with local and maritime fear, which have had both a direct and harmful effect on economic output and trade. In light of the presence of pirates in the Indian and Red Seas, transportation services traveling to and from Somalia have substantially dropped due to the high risks involved. Because of the facilities, social contacts have decreased, and corporate entities are unable to engage with the nation due to anxiety.

When firms can invest in a conducive climate and there is sufficient technology to link people in diverse places, the market can generate excess production for export. Thus, the commercial society in Somalia migrated to other states with more favorable investment climates, such as the UAE and other African nations, where they felt secure enough to put their fortune.

Third, there was a dearth of funding for the business sector to engage in manufacturing and exporting. Independent financial institutions were unable to provide Letters of Credit to enable trade reduction, and there were no government corporate banks available to support trade deals. Due to this, only a small number of merchants are able to import and export goods into and out of Somalia, creating a dominant position in the trade sector.

Fourth, there also appeared to be a problem with other methods of quality control. In several instances, it was said that Somalia's cattle were not in excellent health. Somalia livestock were stated to have the Riff Valley Virus sickness. As a result of the restriction on only one significant export, the trade equilibrium of the nation suffered. Some academics attribute this to a geopolitical concern. Live livestock make up the majority of Somalia's exports, with only a few major counterparties. The rationale is that, at the point of slaughter and delivery, they carry out their own inspections for quality (UNECA, 2016).

Lastly, a major concern is the government entities' vulnerability. As a result of the inadequate structures, there is a deficiency of subsidies, along with assistance for agriculture and animals. The government and state ministries of farming and livestock are unable to provide the necessary funding to support the industries' core functions and increase output. Additionally, neither the federal nor state sectors of trade have any plans or policies in place to encourage the export of goods that are highly desired locally. The nation's borders are not under the Customs Agency's jurisdiction. This may clarify the likelihood of unreported and unofficial export activity. The Somali Federal State is having difficulty establishing a strong state, and it takes a while to boost the nation's output. Nevertheless, it ought to set up the tools necessary to address or even mitigate these difficulties. Somalia's trade sector is actively involved in international markets, leveraging its vast experience and expertise to facilitate trade and investment.

Countries with open economies prioritize raising the standard of living for their people, as this is a key sign of economic growth. Mishra (2011) examined the dynamic connection between GDP growth and exports. The findings indicate that an export-led economic plan is being rejected.

On the other hand, Niishinda (2013) conducted a further study focusing on the connection between exports and the country's economic growth. In order to determine how the factors, relate to one another, the findings demonstrate that expansion is reliant on export success.

According to Saaed, A. A. J., and Hussain, M. A. (2015), exports can have a number of different effects on Somalia's GDP growth potential. To begin, there is research showing that exports promote economic growth. This suggests that increased exports contributed to a higher GDP. Second, exports have been determined to increase GDP. This shows that exports are an important driver of economic growth in Somalia. Furthermore, agricultural exports, which include animal exports, were discovered to have a favorable and considerable influence on economic growth. However, it has been discovered that there is a bidirectional Granger causality between goods that are imported and exported. This implies that there is a relationship between imported and exported goods and that each can support economic expansion. These findings demonstrate how crucial free trade as

well as export-led growth approaches are to fostering economic expansion in Somalia.

The link between exports and economic growth is a hot issue in both academic and empirical economics studies. This condition is addressed by the importance of exports in the previous developments of the countries that are today classified as industrialized. In the invention information available, the impact of exports on economic growth is referred to as being focused on exports. Geared toward export expansion is an expansion paradigm that focuses on exports and is sometimes used interchangeably with trade facilitation or openness. Associated with export growth is one of the most important mechanisms for nations' inclusion in the global economy (Mandel & Müller, 1974).

The method entitled internationalization has shortened the disparities between international economies, which has greatly expanded the possibility for foreign economics between nations. Specifically, by expanding trade possibilities in emerging nations, this trend has made a substantial contribution to the acceleration of economic expansion. Foreign commerce's impact on prosperity has been the subject of controversy since the advent of classical theories of macroeconomics, and this issue is still relevant in the current period of Neo-Liberal economic policy (Acet et al., 2016).

Growth has been addressed by a variety of determinants and models that range from the classical growth concept to the present. Yet, salaries, borrowing costs, savings capacity, technical advancement, natural supplies, labor and physical investment, and deposit levels stand out among all of these factors as growth drivers (Rebelo, 1991). Aside from all these other elements, exports are undoubtedly one of the greatest and most powerful drivers of a nation's development, as evidenced by several studies in the academic literature.

The correlation between economic growth and exports is a subject that is regularly explored in the economics field. Several studies about exports exist in publications, and they contradict each other. A long-term association between exports and economic growth was identified by Simdi and Seker (2018), who looked at the years 1998 to 2016 and discovered that both domestic and global crises had an

impact. The import-led growth prediction is true in actual terms for the 2003–2016 period, whereas the export-led growth assumption holds up in real concepts, according to Yurdakul and Aydin's (2018) analysis with both nominal and real values.

As the above illustrates, while the connection between exports and growth has been the focus of several research projects up to this point, various investigations have formed differing conclusions. These discrepancies should be regarded as normal, as the two factors have separate components. In contrast to the GDP statistics, which are the foundation for evaluating improvement, the export data contain the worth of certain imported commodities alongside the percentage of local output. To discuss the export-driven expansion phenomenon would be insufficient if the majority of exports are made up of imported items (Takım, 2010).

According to Taştan (2010), there are four distinct methods that determine the causal link between exports and economic growth in an open market. Exports and growth have a linear causal link, according to the first concept. Along with the impact of the multiplier, trade is considered to be a component of revenue and to implicitly contribute to economic performance. Resource allocation from unproductive non-trading industries to the export market will occur as a consequence of rising exports, and effective resource management will boost economic development and performance.

Increased exports will boost output by putting pressure on businesses through global competition, which will spur innovation and expansion in the form of new technology searches, increased R&D, improved management practices, entrepreneurship, and experiential learning. According to Berg and Lewer (2007), this will lead to higher economic output. Furthermore, when exports rise, the import volume rises as well, making it easier to import capital and intermediate products, which are crucial for the manufacturing of industrialized goods.

A causal association between growth in the economy and exports is predicted by the assumption. According to this theory, also known as "productive-oriented exports," economic growth promotes output advantages, makes it easier for new innovations to be adopted, and eventually boosts exports by giving a nation a competitive edge in global marketplaces (Giles & Williams, 2010).

The link between exports and economic development is bidirectional, according to the assumption. Both greater income standards and increasing commerce can result in bilateral relationships and economic progress, as can a boost in exports. Exports and economic development could not be causally related. There aren't many distinct ways other than the ones already discussed. The findings of our study indicate something quite distinct from these methods, which may be combined under a broad title based on the findings of investigations published in the journal (Taştan, 2010).

2.2.2 Import and Economic growth

No nation in the world today can produce all the commodities it needs; as a result, each country focuses on producing goods and services where it holds a comparative advantage. Countries then trade a portion of these goods and services for those produced more efficiently by others. The disparities in factor capacity, technology, and preferences among countries have significantly expanded the basis for international trade (Adedeji, 2015). This intricate web of international trade allows countries to benefit from each other's strengths, promoting economic growth and development globally. By leveraging comparative advantages, nations can specialize and improve their production efficiencies, leading to a more interconnected and interdependent global economy. This dynamic not only supports economic stability but also fosters innovation and cultural exchange, enriching societies worldwide.

Due to limited local production, most consumer and manufacturer goods in Somalia are imported from abroad. These imports primarily enter through the ports of Muqdisho, Berbera, Bosaso, and Kismaayo, and are categorized into food items such as sugar, rice, wheat flour, wheat, cooking oil, dates, pasta, and biscuits, as well as non-food items including petrol, diesel, clothes, cars/trucks, spare parts, cigarettes, soap, and building materials (Ministry of National Planning and Development, 2015). Additionally, other import channels include Beled-xaawo customs at the Kenya-Somalia border, Wajaale customs at the Ethiopia-Somalia border, and Muqdisho Airport, which facilitate the monthly importation of both food and non-food items. Among these imports, sugar, rice, and wheat flour represent the largest share of food items, with hundreds of thousands of tons brought in monthly, while dates and

biscuits account for a smaller portion. On the non-food side, fuel, clothes, and vehicles are consistently imported in substantial quantities, measured in thousands of tons and cubic meters (M3). This dependency on imports underscores the importance of these ports and customs points in sustaining the country's economy and meeting the needs of its population. Enhancing local production capacity and diversifying import channels could help Somalia achieve greater economic stability and self-sufficiency.

International trade refers to the exchange of goods and services between countries across the globe, necessitating the involvement of at least two nations. This encompasses all activities related to trade between merchants across international borders. Some countries are more richly endowed with resources than others. However, even those nations with abundant resources may lack the ability to effectively manage and utilize them to their advantage, thus missing out on opportunities for growth, development, and improving the standard of living for their citizens (United Nations, 2014). The importance of international trade arises from the fact that no country can produce all the goods and services its people need, largely due to resource disparities and various challenges.

Somalia's economy exemplifies a very open economy, with imports and exports accounting for 91.5 percent of its GDP—the 7th highest in Sub-Saharan Africa and the 45th highest in the world (World Bank & Ministry of National Planning and Development, 2014). This high ratio illustrates the economic interdependence among nations (Salvatore, 2013). Somalia's tariff levels align with those in Sub-Saharan Africa, with import tariffs at 4.15 percent and export tariffs at 3.34 percent. Berbera Port serves as the economic hub of Somaliland, providing all import and export services (Berbera Port Authority, 2016). The primary drivers of international trade include variations in government policies, the presence of economies of scale, advancements in information technology, differences in resources, and varying demand levels. These factors create a complex global trade network that enables countries to leverage their strengths, compensate for their weaknesses, and achieve a more balanced and prosperous economic landscape. This interconnectedness not only facilitates economic growth but also encourages cultural exchange and technological innovation, benefiting societies worldwide.

Economic growth can be assessed using various metrics, with Gross Domestic Product (GDP) and Gross National Product (GNP) being the most common. GDP measures the total value of all goods and services produced within a country's borders, while GNP accounts for the total value of goods and services produced by a nation's citizens, regardless of their location. These indicators provide a broad overview of a nation's economic performance (Tamplin, 2023). Beyond GDP and GNP, other indicators such as per capita income, employment rates, and productivity levels are also critical in evaluating economic growth. Additionally, factors like technological advancement, infrastructure development, and human capital improvements play significant roles in shaping a nation's economic trajectory. These comprehensive measures enable policymakers to devise informed strategies for sustainable development, addressing both the immediate and long-term needs of their economies. By considering a range of economic indicators, countries can better understand their growth patterns and implement policies that foster resilience and prosperity.

Uğur (2008) examined the relationship between imports and economic growth in Turkey, using a vector autoregressive model to analyze the impact of investment goods and raw materials as proxies for imports. The study found a significant correlation between imports and the country's economic growth. Similarly, Mishra (2012) investigated the empirical link between imports and economic growth in India, emphasizing the critical role of international trade in developing countries like India. This study, covering the period from 2009 to 2020, highlighted the importance of the export-led growth hypothesis, demonstrating a bidirectional relationship between exports and economic growth. Expanding on these findings, it is evident that international trade, encompassing both imports and exports, plays a pivotal role in the economic development of nations. The studies underscore the importance of strategic trade policies that enhance investment in goods and raw materials, fostering a conducive environment for economic expansion. By leveraging international trade, countries can access a broader range of resources, technologies, and markets, driving innovation and productivity. These dynamics not only contribute to immediate economic growth but also lay the groundwork for long-term sustainable development, improving living standards and economic resilience.

Ebrahimi (2017) conducted a study examining the relationship between imports and economic growth in Iran, utilizing cointegration methodology. The study analyzed real GDP and total imports from 1961 to 2010. The findings indicated no cointegration relationship between exports and GDP, particularly when real GDP was the dependent variable and exports were the independent variable. Conversely, a study in Korea by Kim, Lim, and Park (2007) focused on the impact of exports on economic growth, covering the period from 1980 to 2003. The results demonstrated that imports significantly contributed to economic growth, while exports did not have the same effect. This was attributed to the fact that imports bring in consumer goods and new technologies. Consequently, the study suggested that liberalizing imports could significantly enhance overall economic growth. Building on these findings, it's clear that the role of imports in economic development should not be underestimated. The inflow of consumer goods and advanced technologies through imports can stimulate domestic industries, enhance productivity, and drive innovation. Additionally, a strategic approach to trade policy that balances both imports and exports could create a more resilient and dynamic economy. Encouraging import liberalization, alongside fostering export growth, can provide a comprehensive strategy for sustainable economic development, ensuring that countries can leverage global resources and advancements to bolster their economic performance and improve living standards.

Aluko and Adeyeye (2020) examined the causality between imports and economic growth across 41 African countries. They found that in 7 countries, there was unidirectional causality from imports to economic growth in the short term, and in 5 countries, this was also evident in the long term. Conversely, unidirectional causality from economic growth to imports was observed in 4 countries in the short term and in 10 countries over the long term. Another study by Aluko and Obalade (2020) focused on the relationship between imports and economic growth in 26 African countries from 1990 to 2015. This study found no causality between imports and economic growth in more than half of the countries studied. Ogbonna (2015) specifically investigated Nigeria, using cointegration and Granger-Causality tests, and concluded that imports significantly enhance the country's economic growth.

These studies highlight the complex and varied relationship between imports and economic growth across different African nations. The mixed results suggest that the impact of imports on economic growth can differ significantly depending on the specific economic contexts and time frames considered. In some countries, imports act as a catalyst for economic growth by providing access to essential goods, advanced technologies, and raw materials that domestic industries need to thrive. In other countries, the relationship may be more complex or less direct. To foster economic growth, policymakers in African nations should consider tailored trade policies that reflect their unique economic conditions. For instance, enhancing infrastructure, improving trade logistics, and removing trade barriers could maximize the benefits of imports. Additionally, focusing on diversifying the economy and building local capacities can help countries leverage imports more effectively, leading to sustainable long-term growth. By understanding the nuanced impacts of imports, African nations can develop strategies that harness the full potential of international trade to boost their economies.

Kim, Lim, and Park (2007) argued that imports have a significant positive impact on economic growth, while exports do not have the same effect. This is attributed to the fact that imports bring in consumer goods and facilitate the transfer of new technologies. In contrast, Aluko and Obalade (2020) found no evidence of causality between imports and economic growth in more than half of the countries they studied. On the other hand, Ogbonna (2015) observed that imports significantly boost economic growth in Nigeria.

These findings highlight the critical role imports can play in economic development. The inflow of consumer goods through imports can meet immediate needs and improve the quality of life for citizens. Additionally, the transfer of new technologies through imports can drive innovation, enhance productivity, and stimulate domestic industries. For countries like Nigeria, where imports have been shown to significantly enhance economic growth, strategic import policies can be instrumental in driving development.

However, the lack of a consistent causal relationship in over half of the African countries studied by Aluko and Obalade (2020) suggests that the benefits of imports may not be universally applicable or may be influenced by other factors such

as the quality of infrastructure, governance, and the level of economic development. Therefore, policymakers should adopt a nuanced approach, tailoring import strategies to their specific national contexts to maximize economic benefits.

Furthermore, while imports are important, a balanced trade policy that also promotes exports can provide a more sustainable path to economic growth. Exports can help countries earn foreign exchange, reduce trade deficits, and create jobs. By fostering both imports and exports, countries can build a more resilient and dynamic economy, capable of sustained growth and development.

According to Delong and Summers' theory, investment in machinery drives economic growth, with foreign-imported machinery being more efficient than its domestic counterparts Ebrahimi, N. (2017). This body of research provides a theoretical basis for believing in the positive impact of foreign trade on economic growth. Specifically, these theories emphasize the benefits of importing consumer goods, particularly those categorized as 'Intermediate Goods' or 'Investment Goods' Ebrahimi, N. (2017) Krueger argues that reducing imports of investment goods leads to a slower growth rate, while reducing imports of raw materials and intermediate goods decreases employment and output.

Despite the broad acceptance of a positive relationship between imports and economic growth, there remains a lack of precise understanding regarding the type and direction of this relationship. To gain a clearer insight, it is necessary to analyze and model the long-term relationship between imports and economic growth. The insufficiency of research on the existence and direction of the cointegration relationship between import variables and economic growth variables is evident. This study aims to address this gap by examining the relationship between imports and economic growth from this perspective.

Extending this analysis further, it is important to consider the dynamic interactions between different types of imports and various aspects of economic performance. For instance, importing advanced machinery can enhance industrial productivity, while importing raw materials can stimulate manufacturing and construction sectors. Additionally, understanding the long-term impacts of trade policies on economic growth can help policymakers design strategies that optimize

the benefits of foreign trade. By fostering a balanced approach that encourages both the importation of investment goods and the development of domestic industries, countries can achieve sustainable economic growth and improved living standards.

Noor, S. I. M. (2018) explored the impact of imports on Malaysia's economic growth in their article, "Does Import Affect Economic Growth in Malaysia?" Using systemic cointegration methods and causality tests based on the Engle-Granger two-step method, the Yvanson method, and the Toda-Yomada method of Granger, they analyzed data from 1970 to 2007. The findings revealed no direct correlation between imports and economic growth. However, the study showed that imports indirectly influence economic growth, while economic growth directly affects imports.

Expanding on these findings, it's essential to understand the indirect pathways through which imports can contribute to economic growth. For instance, imports of advanced machinery and technology can enhance productivity and innovation in domestic industries, leading to overall economic improvement. Additionally, access to a diverse range of raw materials and intermediate goods through imports can lower production costs and stimulate industrial growth.

Furthermore, the direct influence of economic growth on imports suggests that as a country's economy expands, its demand for foreign goods increases, driven by higher consumer spending and investment in infrastructure and industry. This bidirectional relationship highlights the importance of maintaining a balanced trade policy that supports both import activities and domestic production capabilities.

Priede (2012) investigated the link between rising import volumes and regional GDP per capita in Europe in his paper, "Import Impact of Economic Growth on Regional Economies," covering the period from 1995 to 2005. Contrary to the common belief that increased imports might reduce income levels, Priede's findings indicated that both higher import volumes and expanded import areas had a positive effect on regional income growth. As a result, the study suggests that there is no need for policies aimed at reducing imports, as the evidence shows that imports contribute beneficially to regional economic development.

Extending this analysis, it is important to consider how increased imports can stimulate regional economies. For instance, higher import volumes can lead to greater availability of goods and services, enhance competition, and foster innovation within domestic markets. Moreover, imports can provide access to advanced technologies and inputs that can boost local production efficiency and support job creation.

Furthermore, the positive impact of imports on regional income highlights the importance of integrating trade policies that support both import activities and regional economic strategies. Policymakers should focus on creating an environment that leverages the benefits of imports while also investing in infrastructure, skills development, and innovation to sustain economic growth. By adopting a balanced approach, regions can maximize the advantages of global trade, enhance their competitive edge, and promote overall economic prosperity.

2.2.3 Trade openness and Economic growth

Rana's (2020) research concentrated on trade openness and growth. The analysis demonstrated a long-term relationship between international trade and economic expansion. Specifically, trade access is a strong predictor of a country's economic growth. The study's conclusion was that trade obstacles should be removed in order to facilitate international trade and that trading processes should be made more user-friendly. In addition, it was advised that import strategies make use of knowledge exchange to boost economic expansion.

Le Mouël, Huchet-Bourdon, and Vijil (2018) investigated the relationship between trade openness and economic expansion. Trade access is measured in terms of both diversity and competence. According to the research, nations that export superior items and offerings may see quicker rates of economic growth. The investigation revealed a non-linear relationship between business excellence and the economic reliance ratio. This means that nations that specialize in producing poor-quality commodities suffer from increased commerce with other states.

Malefane (2018) studied the connection between trade openness and economic development. The findings from the research showed that trade access and

economic growth interact directly and significantly. The findings showed that encouraging trade-friendly measures is essential to South Africa's development.

Mbingui and Etoka-Beka (2021) used the Congo as a case study to attempt to establish a link between trade access and economic growth. It has been shown that trade liberalization significantly and inversely affected Congo's economic growth over a variety of time frames. This conclusion implied that the business openness strategy did not help the Congo.

Keho (2017) analyzes how trade liberalization affects a nation's economic growth. It has been highlighted that being open to trade has a major and considerable impact on the nation's economic growth over the short and long term.

Ur-Rehman, Shaheen, and Munir (2021) studied trade freedom and its influence on economic growth. According to the research evaluated, foreign business has an important impact on boosting economic growth in the context of economic reform and internationalization tendencies. An open trade strategy may affect economic progress in two distinct ways: knowledge transmission through importation and export encouragement measures that stimulate creativity and inventiveness, hence increasing rivalry among manufacturing-focused enterprises. The findings showed that business liberalization is directly and significantly related to the nation's economic growth.

Oloyede, Osabuohien, and Ejemeyovwi (2021) examined West African nations to see how trade openness affects economic growth. The investigation revealed a favorable but non-significant relationship between the factors. The research results highlighted the significance of major players along with the state enacting and enforcing necessary regulations to promote freedom of trade.

Hasan (2021) focuses on business liberalization and economic prosperity. The investigation found that trade liberalization and national economic growth are inextricably linked. According to the Granger causality assessment, trade freedom has a major influence on economic growth solely over time.

Silajdzic and Mehic (2018) examined trade openness and economic development, drawing on findings from developing nations. The research indicates

that the relationship between economic growth and freedom of trade is equivocal from both a research and academic standpoint. In principle, research found that trade access leads to greater economic productivity, market inefficiencies, and disparities in innovations and endowed funds, which might have a negative influence on a nation's attempts to free up trade. The experimental stance was that adopting trade reforms may not always have favorable consequences.

2.2.4 Foreign Trade, Taxation and Economic Growth

According to Beck and Chaves (2011), they performed research on taxes and how they affect trade performance. The theory under consideration was that the business would become less productive as taxes rose. In the future, this would result in a decline in the worth of exports. We looked for information from 25 OECD countries. It was observed that a tax hike would have the opposite effect on the nation's business growth by means of imports.

Gnangnon (2019) conducted research on tax adjustments and how they affect the nation's trade freedom. Between 1980 and 2014, 92 developing nations were included in the analysis. Trade accessibility as well as tax changes were shown to be directly and significantly correlated. Owens and Zhan (2018), conducted a taxation and economic study. In practice, it was shown that taxes are a significant factor influencing the nation's business. It also became clear that tax breaks and other subsidies are important tools for strategy that may be used to increase exports and draw in foreign investment.

The goal of Solleder (2013) was to highlight the implications of export tariffs on commerce. It was surmised that there was a clear rise in the use of export duties. It was mentioned that the cost of export duties is shared by both those who import and export businesses. centered on the effects of tariffs on international business. Specifically, the effects of tariffs on the company's exports were examined. Obstacles have been found to have a negative and substantial impact on exports.

Owino (2019) examined the relationship between customs, excise duties, and economic development. This investigation was motivated by two improvements: insufficient information from existing evidence and discrepancies in existing

scientific research. As a result, the research's focus was on balancing opposing viewpoints and closing information shortages. The philosophical basis was supplied by the model for endogenous growth, and a linkage method was used. The findings showed that there is a strong and substantial interaction between sales and customs taxes and macroeconomic development.

Lashkaripour (2021) was curious to find out if trade tariffs may be one of the main ways that nations make money. Following a study of the pertinent information available, it was found that the amount of economic influence in even huge nations is restricted. Mehmetaj and Skenderi (2019) related customs to economic growth, using Kosovo as an instance of study. The investigation, which was an analytical evaluation, found that customs income is essential to the growth of the national income.

Over the past few years, trade across borders has become more and more important for all nations. Additionally, all multinational firms have a plethora of challenges to contend with. More specifically, government officials have to know how to manage the business properly. The growth of international commerce sharply declined in 2011. The global economy is impacted by natural disasters, changes in the exchange rate, and civil wars (World Trade Organization study, 2012).

According to the World Bank (1981), the Somalian economy had a healthy trade equilibrium in the 1970s. While Somalia's balance of payments difficulties is unique and likely to be causative, the balance of transactions in third-world nations is unfavorable. Tariff restrictions were erected in the 1980s and early 1990s in reaction to a dramatic reduction in domestic commodity prices, resulting in a significant decrease in product and service output. In wealthy nations, the recession has an impact on global commerce and the absence of monetary rules on transactions, which frequently results in excessive monetary inflation in nations that are obviously thriving.

As an outcome, trade has an impact on the market value of the national coins, which is determined by the market. When demand is high, the dollars' worth and price grow in accordance with supply as well as demand laws. In this case, the currency's worth will either grow or decline. As a result of the trade disparity, the

national currency could fall in value. Over time, business change is essential to delivering the money needed to fulfill the obligations. International investors (Adams et al., 2015).

According to Uzun et al. (2011), trade openness marked the start of globalization, which has been the most popular notion in the past few decades. The phrase "trade the rise of globalization refers to the expansion of worldwide marketplaces as well as increased interconnectedness and similarity across countries. The globalization drive has culminated in a dual economic framework; however, it has also increased growth disparity in developing markets.

Kizilgol and Ipek (2013) conducted an extensive analysis of the relationship between open trade and international commitments using the extended regression method and the ARDL methodology. The results show that expanded open trade has a major, both immediate and long-lasting, effect on public responsibilities. In summary, loans are good for Turkey's economic development. Moreover, the Turkish economy has achieved its objectives through the prudent use of debt from abroad.

The analysis categorized states into two groups based on whether they depend on oil or not, according to Mehrara (2011), who carried out the research on the connection between GDP development as well as export growth in emerging countries. Results indicate that exports as well as economic growth have a linear short-run relationship for non-oil-producing nations, while there is undoubtedly a distinct short-term cyclical relationship among alternative flexibility and economic development for oil-wealth nations.

Ronit (2014) states that studies were carried out to investigate the relationship involving exports as well as economic expansion. The findings also suggest that export markets respond more substantially to shifts in GDP, as shown by the degree to which a Granger causality check can demonstrate the GDP growth explanations for moving earnings.

To sum up, Kundu (2013) studied the results of modernization in seven SAARC nations. Unit root and co-integration tests, together with panel data analysis,

were employed in the assessment. Investigators found that the quality of the evidence was sufficient to confirm the rate of free economic activity and expansion.

2.3 Conceptual Framework of the Study

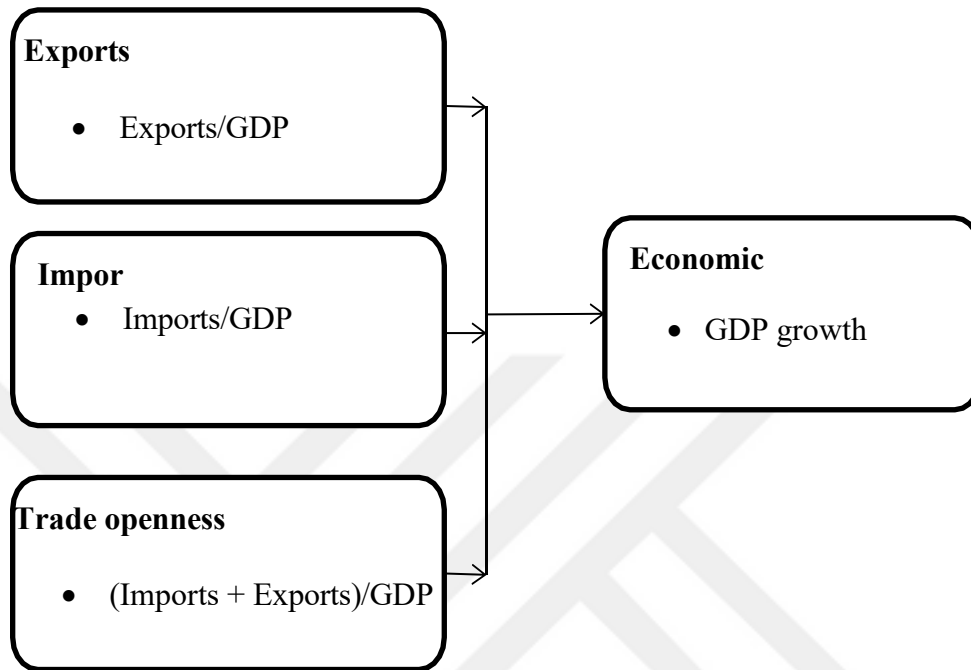


Figure 2.3 Shows the conceptual structure that drives this study

3 THE METHODOLOGY OF THE STUDY

This chapter covers a description of the study's methodology, data sources and data type, methods of data analysis, model specifications, and theoretical framework. It also explains how estimation techniques and diagnostic tests will be analyzed and interpreted.

3.1 Data Type and Data Source

Secondary data from the World Bank indicators covering the years 1960–2022 was collected for this study. According to Remler and Van-Ryzin (2021), data is a term that describes unprocessed evidence that is obtained in secondary form based on the purpose of the response to specific study objectives and the hypothesis for which it was collected. Somalia is the subject matter of the study.

3.2 Methods of Data Analysis

Examining the relationship between dependent and independent variables comprises three core components and econometric methods, among which are descriptive statistics, model parameter estimations, and modal diagnostics.

3.3 Model Specification

In this study, the ordinary least squares (OLS) method was utilized to analyze the fundamental determinants of international trade in Somalia. Consequently, the functional relationship between international trade and its determinants can be explained as follows:

$$GDP_t = \beta_0 + \beta_1 EXP_t + \beta_2 IMP_t + \beta_3 TOP_t + \varepsilon_t$$

(+) (+) (-)

Where: -

Economic Growth, Exports, Imports, and Trade openness are denoted by GDP, EXP, IMP, and TOP, respectively.

The intercept β_0 signifies that if we hold all other independent factors constant, economic growth will also remain constant. • β_1 to β_3 denote the slope coefficients of the independent variables. • t indicates the time period, while ε is the error term.

3.4 Description of the Variables

Table 3.1 Operationalization of Variables

Variables	Measurement	Data collection
Export Indicators	Export/ GDP	World Bank
Import Indicators	Import/GDP	World Bank
Trade openness Indicators	Exp + Imp/GDP	World Bank
Economic Growth Indicators	GDP Growth Rate	World Bank

3.5 Estimation Technique

In this study, to determine the relationship between economic growth and the explanatory factors, ordinary least squares (OLS) was utilized. Therefore, in order to employ OLS, the assumptions of the standard linear regression equation have to be met.

3.6 Diagnostic Tests

The study employed diagnostic tests, which are further described below.

3.6.1 Normality

In this study, normality assessments can be utilized to figure out how random parameters underlie a given set of data that is normally distributed in order to assess

if the data collected is well-modeled by a normal distribution. However, in order to determine whether a data set has a normal distribution, normality tests are vital for optimizing the accuracy of outcomes and interpretations.

3.6.2 Multicollinearity

In the context of multiple regression analysis, multicollinearity is defined as the presence of significant intercorrelations between several independent variables. Multicollinearity frequently produces skewed and erroneous findings when a researcher or scientist tries to assess how precisely each explanatory factor can be used to predict or interpret the explanatory parameters in a statistical method. In conclusion, multicollinearity could also lead to less reliable probabilities or wider trustworthiness ranges regarding the influence of explanatory factors in the model.

3.6.3 Heteroscedasticity

In linear regression, heteroscedasticity refers to the inconsistent dispersion of residuals. It is observed as a consistent shift in the dispersion of residuals across the range of experimental measurements. This inconsistency poses a concern for ordinary least squares (OLS) analysis, as OLS assumes that the residuals are derived from a sample with a constant variance. To meet the regression assumptions and validate the findings, it is essential for the residuals to exhibit equal variance.

3.6.4 Autocorrelation

Autocorrelation is a quantitative property that determines the level of closeness between the data points of all closely related factors over repetitive intervals. The study of correlation has its foundation in regression analysis; if all explanatory variables are entirely positive, the closeness is 1.0. If the two distinct factors have a full negative substantial correlation, the inverse connection score indicates that there is no linear relationship between the values of the parameters.

4 FINDINGS AND DISCUSSIONS

This chapter examines the data obtained in its secondary form. The chapter examines economic growth employing descriptive statistics, trend analysis of trade openness, exports and imports, model parameter estimation, and diagnostics.

4.1 Descriptive Statistics

Descriptive statistics is a form of statistical analysis that combines massive amounts of quantitative data. Descriptive statistics are categorized into central tendency and variability measurements. Central tendency statistics measure the mean, median, and mode, whereas variability measures the standard deviation, minimum and maximum variables, kurtosis, and skewness. The mean shows the lowest value among a set of statistics.

Table 4.1 Descriptive Statistics

Variables	Mean	Median	Maximum	Minimum	Std.Dev.
Economic Growth	1.9365	0.0000	30.073	-18.266	6.4392
Export	9.9166	12.049	33.179	0.0000	8.6866
Import	27.970	22.573	88.487	0.0000	26.745
Trade Openness	37.886	36.411	121.66	0.0000	34.5066

Source: World Bank Indicators (1960–2022)

Table 4.1 The dependent as well as independent variables are depicted in the descriptive results. Between 1960 and 2022, the dependent variable of economic growth had an average mean value of 1.9365 and a maximum value of 30.073, with a

standard deviation of 6.4392. The average mean of Somali exports is 9.9166, with a maximum value of 33.179 and a standard deviation of 8.6866.

The average mean of Somali imports is 27.970, with a maximum value of 88.487 and a standard deviation of 26.745. The average mean value of trade openness is 37.886, with a maximum value of 121.66 and a standard deviation of 34.5066.

Therefore, economic growth has the lowest average mean, with a value of 1.9365, whereas trade openness has the highest average mean, with a value of 37.886.

4.2 Trend Analysis on the Variables of the Study

The study used trend analysis to show how the variable changed and present a figure of the variable's shift across the period.

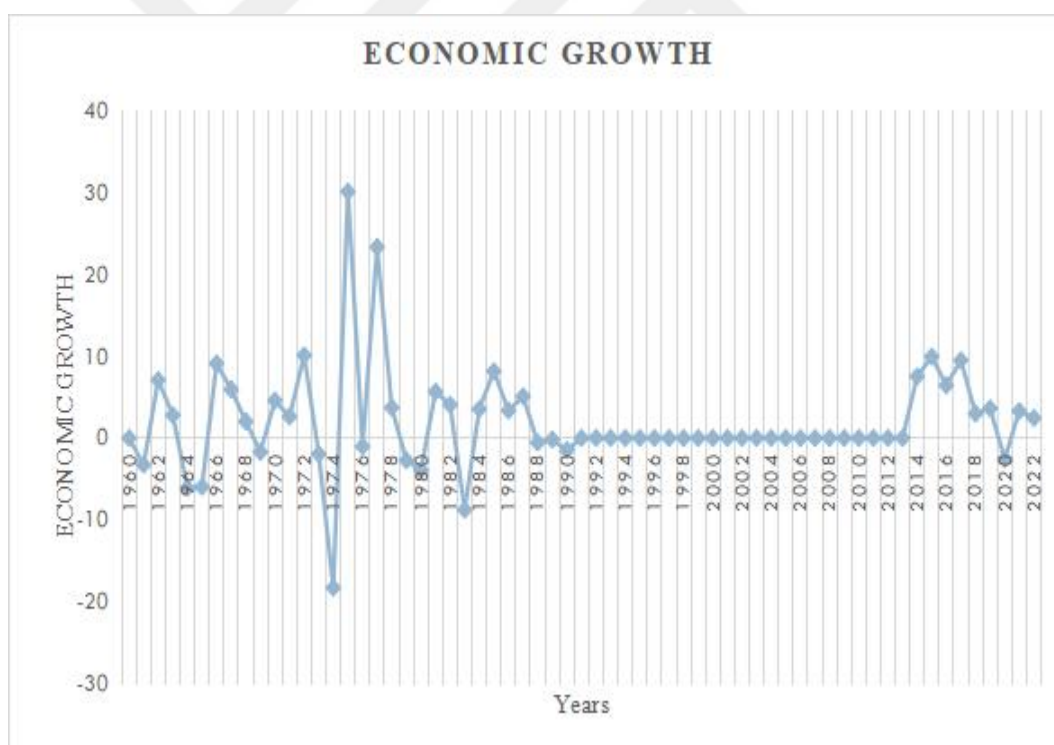


Figure 4.1 Economic Growth in Somalia

Source: World Bank Indicators (1960–2022)

Figure 4.1 indicates how the economic growth of Somalia changed over the study period. The highest rate of economic growth was reported in 1974, whereas the

lowest rate of economic growth was reported in 1973. Recently, Somalia's fragile economy experienced a negative impact from COVID-19 in 2020, which caused an aggregate of supply and demand shocks that affected real GDP growth. Real GDP growth declined to 1.7% in 2022 from 2.9% in 2021. Large-scale, protracted civil conflict, state collapse, and budget imbalances contributed to Somalia's ongoing severe impoverishment. Somalia's social programs are still scarce. Access to education is among the lowest in the world, with almost two-thirds of school-age children not attending school because their families cannot afford to send them to school.

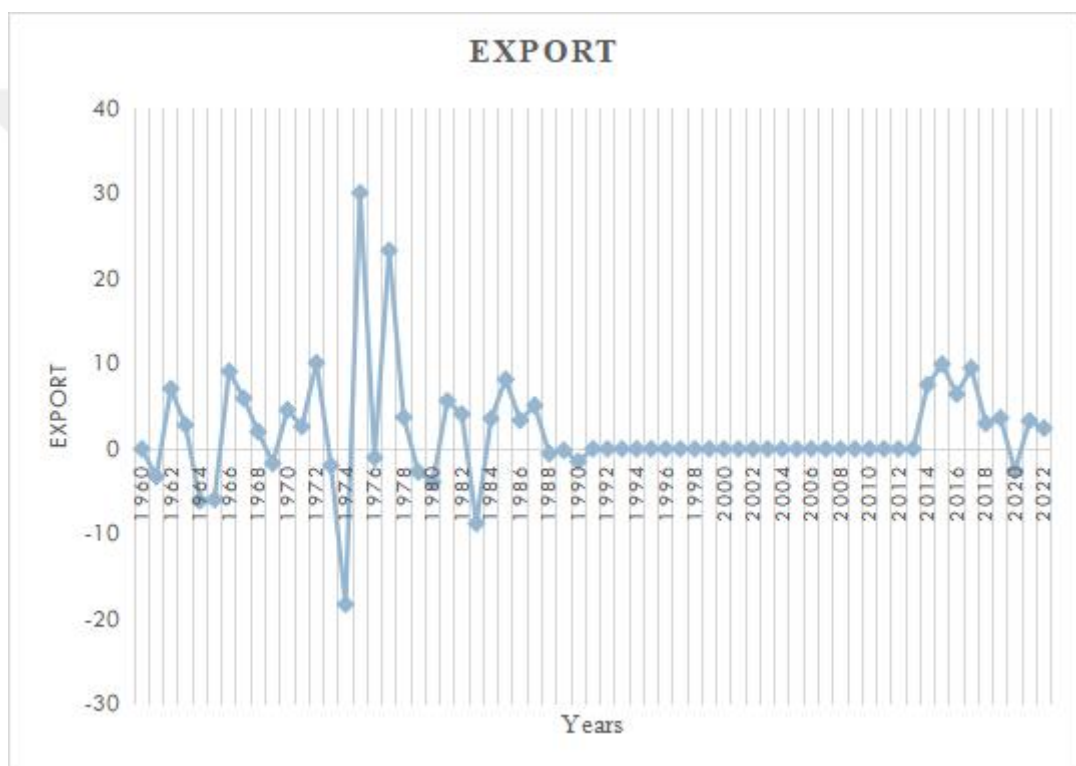


Figure 4.2 Export of Somalia

Source: World Bank Indicators (1960–2022)

Figure 4.2 demonstrates that Somalia's exports were erratic and not stable. The years with the highest and lowest rates of Somalia's exports were reported in 1974 and 1973, respectively. Exports have increased over the past ten years, and livestock was the country's main export.

The graph line declined when the country experienced either a drought or when Gulf states and other trading partners-imposed sanctions on Somali livestock

exports. According to total exports and total imports, Somalia's economy ranked 167th and 140th, respectively, in the world in 2022. Sheep and goats are Somalia's sectors of significant specialization. While the United Arab Emirates, Oman, and Kuwait are the top destinations for Somalia's exports.

However, Somalia already has some degree of success in exporting two goods: sesame seeds and full frozen fish, for which there is a substantial global market and significant untapped revenue potential. The primary source of income in Somalia, accounting for 45% of the country's GDP and 80% of the agricultural GDP, is livestock.

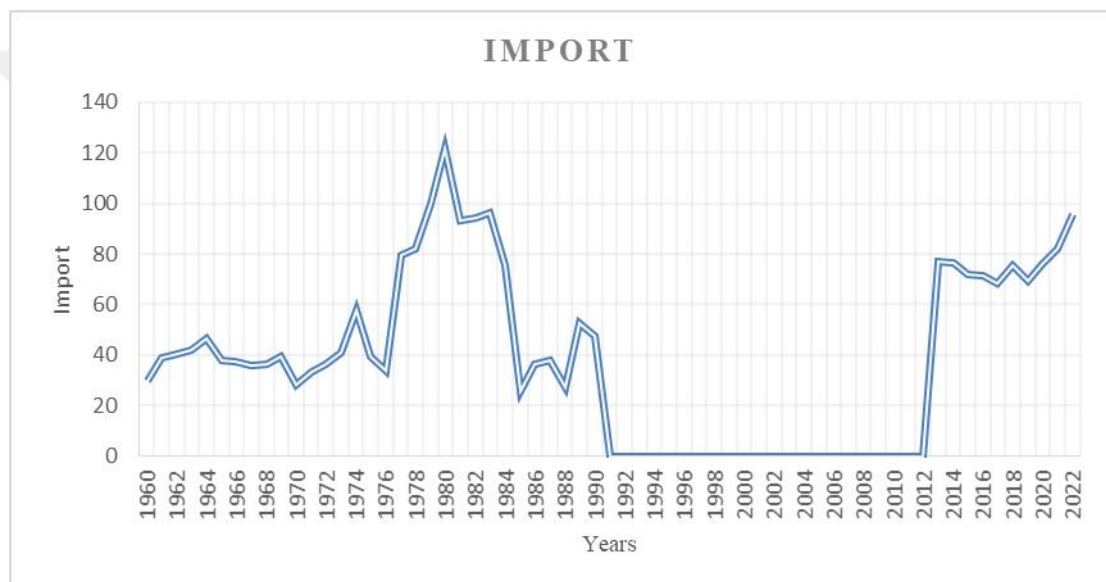


Figure 4.3 Import of Somalia

Source: World Bank Indicators (1960–2022)

Figure 4.3 illustrates how imports to Somalia have fluctuated over time. The highest and lowest import values were reported in 1980 and 1990, respectively. Now, Somalia's economy and government revenue are heavily dependent on imports, driven predominantly by market demand for foreign goods.

The combination of booming imports and impoverished exports indicates that Somali consumers spend more money on foreign goods than Somalia's locally produced goods. However, if one import or export grows faster than the other, it can have a negative impact on the economy.

The significant level of foreign goods has an impact on the country's GDP, interest rates, inflation rate, and exchange rate. In addition, the Somali shilling has depreciated against the US dollar. Prices of local goods have risen, while imported commodities have become more affordable for households and business entities as they have become more economical.

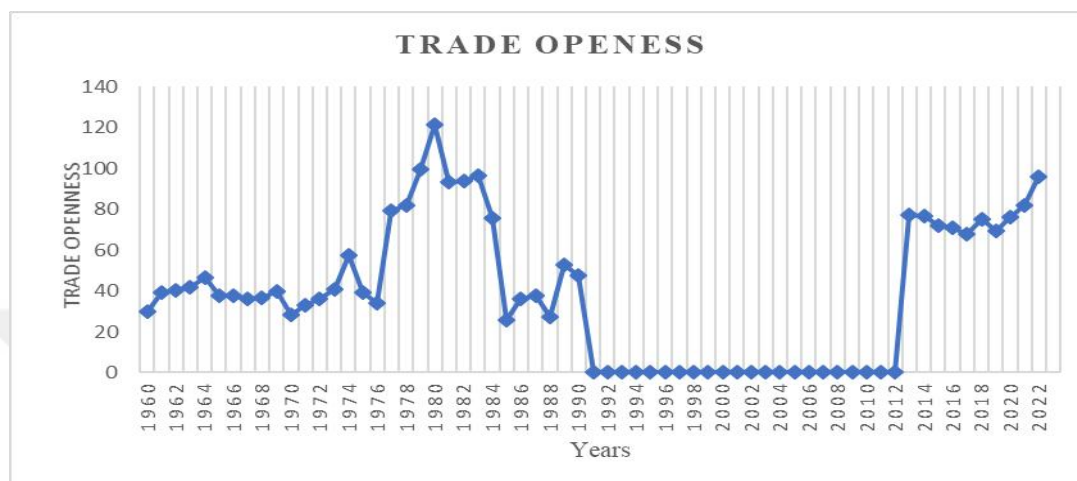


Figure 4.4 Trade openness of Somalia

Source: World Bank indicators (1960–2022)

Figure 4.4 indicates the trend of trade openness in Somalia. The initial period, which ran from 1960–1976, shows a short-term decline and small growth caused by elasticity and demand.

Furthermore, the trend shows the maximum boost in trade openness from 1976 to 1980. Between 1982 and 1990, Somali trade dramatically declined; however, Somali trade openness has gradually improved in recent years.

The outbreak of civil war in Somalia in 1993 led to significant economic ramifications, such as a substantial decrease in exports and a reduction in gross domestic product (GDP) caused by disruptions in trade routes and infrastructure damage. This decline was compounded by an increase in the population's dependence on imported goods as local production capacities suffered amidst the conflict. Despite the emergence of numerous small-scale enterprises amid these adversities, their resilience was constrained by the war-affected economic landscape. Additionally, Somalia's economic prospects were hindered by a growing foreign debt

burden, limiting its capacity to draw foreign direct investment and impeding domestic investment and development.

Consequently, Somalia encountered economic vulnerability exacerbated by a negative balance of payments and restricted access to external resources. These obstacles underscored the necessity for collaborative endeavors to bolster economic resilience, attract investment, and facilitate sustainable development.

The research formulates the following hypothesis:

- i. **Null Hypothesis (H0):** The data conforms to a normal distribution.
- ii. **Alternative Hypothesis 1:** The data does not conform to a normal distribution, suggesting possible skewness or heavy tails.

The null hypothesis assumes the data adheres to a normal distribution, a common condition for statistical methods. Conversely, the alternative hypothesis posits deviations from normality, which could indicate skewed or heavy-tailed distributions. Testing these hypotheses estimates the validity of assuming normality, which is essential for reliable statistical analyses. Rejecting the null hypothesis implies a significant deviation from normality, potentially affecting analysis reliability.

4.3 Model Parameter Estimation

Table 4.2 Model parameter Estimation

Dependent Variable: GDP Method: Least Squares Date: 03/24/24 Time: 13:17 Sample (adjusted): 1961 2022 Included observations: 62 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.13E-15	7.43E-16	1.518496	0.1343
EXPORT	1.000000	7.61E-17	1.31E+16	0.0000
IMP	9.89E-16	1.44E-16	6.874238	0.0000
TRADE	-7.72E-16	1.11E-16	-6.930752	0.0000
R-squared	1.000000	Mean dependent var		1.913540
Adjusted R-squared	1.000000	S.D. dependent var		6.489169
S.E. of regression	3.82E-15	Sum squared resid		8.48E-28
F-statistic	5.86E+31	Durbin-Watson stat		0.539135
Prob(F-statistic)	0.000000			

According to the model parameter estimation, exports and imports have a positive coefficient and a statistically significant relationship with economic growth, revealing that a one percent increase in exports and imports yields a 1.0 percent and 9.89 percent increase in economic growth, respectively. Conversely, Trade openness has a negative relationship with economic growth. Trade openness has a probability of being statistically significant, with a negative coefficient within the parameter estimation model. The estimated model indicates that trade openness does not adequately estimate economic growth.

The study findings indicate that exports play a positive role in driving economic growth in Somalia. Export earnings are crucial for maintaining economic stability and balancing payments. Industries such as agriculture, livestock, and fishing serve as vital sources of income for many Somali citizens, which provide employment and sustenance. Despite obstacles such as political uncertainty and trade barriers, fostering export-oriented development is crucial for Somalia's enduring economic prosperity and resilience.

Similarly, Somali imports are crucial for both the local economy and international trade. In the local economy, imports supply essential consumer goods, industrial inputs, and materials for infrastructure development. Imports also contribute to technology adoption, healthcare provision, and economic growth. In international trade, imports diversify Somalia's trade portfolio, support export processing, and cater to consumer preferences. It also facilitates economic growth, fosters diplomatic relations, and promotes integration into the global economy. Overall, imports play a vital role in sustaining Somalia's economy and its participation in the international trade arena.

Conversely, an adverse relationship between trade openness and economic growth suggests that increasing international trade engagement may harm economic growth. Overreliance on foreign markets can leave the country vulnerable to downturns, causing economic decline. Persistent trade deficits can drain foreign reserves and lead to debt accumulation, weakening the currency and sparking inflation, further hindering growth. Inadequate institutional frameworks may impede the benefits of trade, fostering inefficiencies and corruption. Additionally, exposure to external shocks like financial crises or pandemics can disrupt trade and investment,

curtailing economic activity. Despite the benefits of trade, careful policy and planning are essential to maximize gains and mitigate the risks of international trade.

The values of the R-squared factors explain 1.0 percent of the variance in the variable that is dependent. To analyze adjusted R-squared, the independent factors, which are exports, imports, and trade openness, determine 1.0 percent of the dependent variable.

Furthermore, the F-statistic of 5.86, which corresponds to the prob (F-statistic) of less than 5%, demonstrates that the whole model utilized in predicting the model of the dependent variable, which is economic growth, is adequate and acceptable. The dependent variable is simplified jointly by the three independent factors. The Durbin-Watson stat is 0.53, thus there is a positive auto correlation.

4.4 Model Diagnostics

4.4.1 Normality Test

The study conducted the normality test to determine that the error term is normally distributed. The model tested in this study is presented in the figure below to verify that the distribution of the data is normally distributed. As a conclusion, the model has validity since the probability is greater than 5%. Therefore, the null hypothesis was approved by the proposed model.

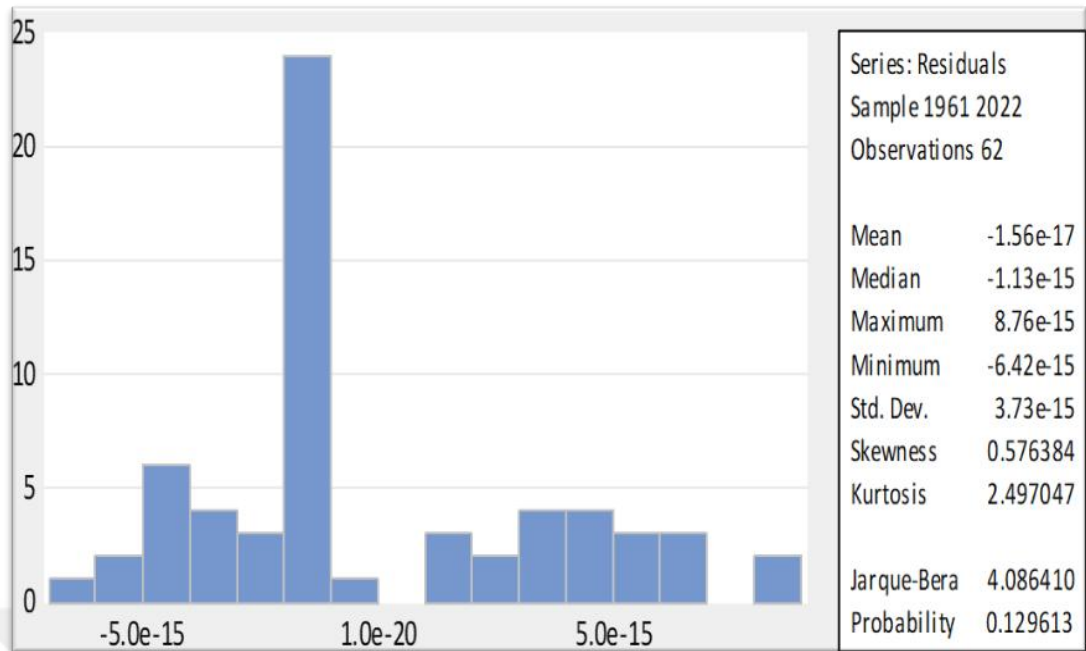


Figure 4.5 Shows the Normality Test

4.4.2 Stability Test

The residual is found between the two horizontal lines, confirming that the model is properly explained, and the figure exhibits 5% crucial limits, indicating that the dependent variable, which is economic growth, is a stable variable.

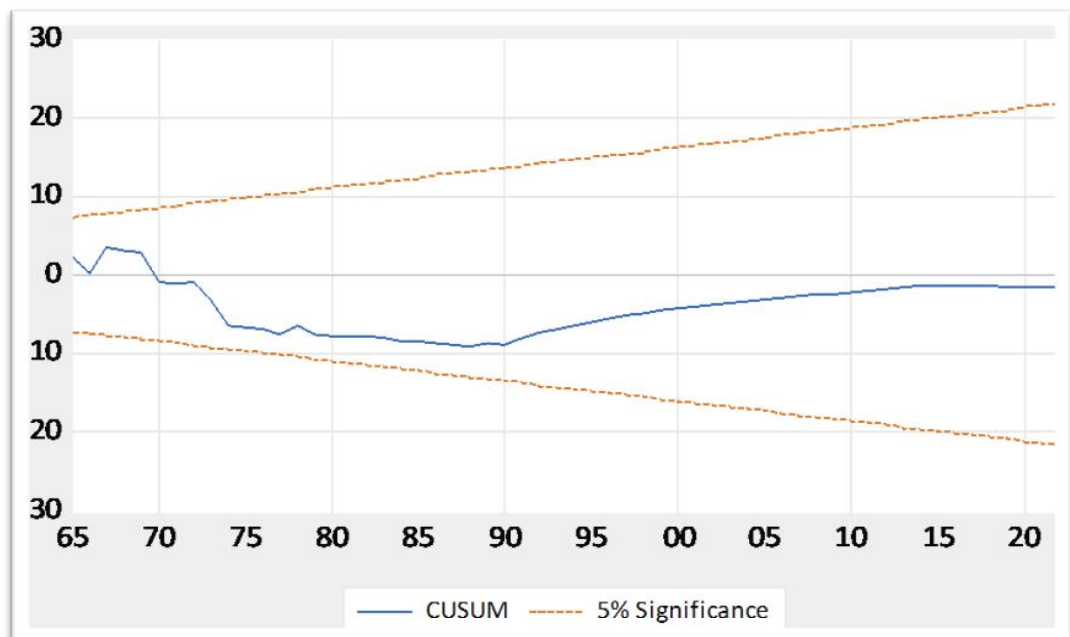


Figure 4.6 Shows the Stability Test

4.4.3 Multicollinearity Test

Multicollinearity occurs when two independent factors have a strong correlation. Multicollinearity undermines the significance of an insignificant indicator by raising its standard error. As the standard error grows, the t-value lowers, leading to a high p-value. The assessment of correlation in the table below demonstrates that import and trade openness have the highest correlation coefficient (0.99), while trade openness and export have the lowest correlation coefficient (0.12), indicating no significant correlations between all independent variables. Thus, Table 4.3 reveals no series multicollinearity between variables.

Table 4.3 Correlation Matrix

	EXPORT	IMPORT	TRADE OPENESS
EXPORT	1.000000	0.131775	0.129575
IMPORT	0.131775	1.000000	0.991983
TRADE OPENESS	0.129575	0.991983	1.000000

4.4.4 Heteroskedasticity Test

Heteroskedasticity variance occurs when the variances of the error terms are not similar or consistent. Table 4.4 indicates that the model is functioning properly and has no heteroscedasticity, as the probability value is not statistically significant at the 5% level. This implies that the model has been approved as a null hypothesis and homoscedasticity, demonstrating a useful regression analysis model.

Table 4.4 Heteroskedasticity: Breusch Pagan Godfrey

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Null hypothesis: Homoskedasticity			
F-statistic	0.223504	Prob. F(3,36)	0.8794
Obs*R-squared	0.731391	Prob. Chi-Square(3)	0.8658
Scaled explained SS	1.765928	Prob. Chi-Square(3)	0.6224

Test Equation:
 Dependent Variable: RESID^2
 Method: Least Squares
 Date: 03/25/24 Time: 11:58
 Sample: 1960 2022
 Included observations: 40

4.4.5 Autocorrelation Test

Autocorrelation is an indication of the similarity of the independent variables or occurs when an error term is attached. Since the diagnostic test p-values are higher than 5% and the model accepts the null hypothesis, Table 4.5 reveals no autocorrelation, indicating the model's acceptance. Therefore, the model's estimated variables are accurate and may contribute to foreign trade policy recommendations.

Table 4.5 Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:			
Null hypothesis: No serial correlation at up to 3 lags			
F-statistic	1.138193	Prob. F(3,33)	0.3480
Obs*R-squared	3.750782	Prob. Chi-Square(3)	0.2897

Test Equation:
 Dependent Variable: RESID
 Method: Least Squares
 Date: 03/25/24 Time: 12:01
 Sample: 1960 2022
 Included observations: 40
 Presample and interior missing value lagged residuals set to zero.

5 CONCLUSION AND POLICY RECOMMENDATIONS

The main objective of this thesis was to examine the impact of international trade on economic growth in the Somali economy. This objective was accomplished with the support of four distinct objectives. To investigate the impact of exports on economic growth in Somalia. To examine how imports impact economic growth in Somalia. To discover how the trade openness phenomenon effects economic growth in Somalia. To establish a solid foundation for public policy founded on an innovative international trade approach that considerably boosts the country's economic growth over the long term.

Therefore, the thesis employed time series data from 1960 to 2022. Both descriptive and econometric methods concentrated on explanatory variables, including exports, imports, and trade openness. According to OLS estimates, a number of indicators show that both exports and imports have a positive impact on economic growth. The research findings show that exports and imports have a statistically significant influence on economic growth, showing that a one-unit increase in exports and imports results in an increase in economic growth.

The study also found a negative relationship between trade openness and economic growth. Trade openness has a statistically significant probability, but it has a negative coefficient within the parameter estimation model. A negative coefficient indicates that the dependent factor tends to drop as the independent variable increases. Therefore, it is fundamentally contingent upon international trade gains or losses. In addition, the study conducted the normality test to determine whether the error term is normally distributed. The study found that normality is normally distributed since the probability is greater than 5%. Therefore, the null hypothesis was approved by the proposed model.

The study examined the stability modal using diagonal testing methods. The study indicated that residuals fell within a defined range between two horizontal lines, which means that the dependent variable, which is economic growth, is a stable variable. Furthermore, no evidence of heteroscedasticity was observed.

The study's conclusion states the absence of autocorrelation within the model, supported by diagnostic test p-values exceeding 5%, and the acceptance of the null hypothesis, affirming the validity of the estimated model.

The study's findings contributed to the policy recommendations listed below, which should be taken into account by public policy decision-makers.

Somalia has experienced trade deficits since it imports more goods than it exports. Therefore, the government of Somalia should begin export-oriented policies that stimulate exports and economic growth. This can be done by developing agricultural and livestock production and trade zones.

The government of Somalia should explore new markets for exports to reduce its reliance on a few trading partners. Conduct market research to discover emerging opportunities and consumer preferences in diverse regions. Develop trade agreements with countries offering growth potential for the country's exports.

The government should develop infrastructure to support export activities, such as ports, roads, and logistics networks. Invest in technology and innovation to improve productivity and reduce production costs for export-oriented industries. Support education and training programs to develop a skilled workforce capable of driving export-led growth.

The government of Somalia should identify sectors where domestic production can substitute for imports. Offer incentives to domestic industries, like the agricultural sector, which should be modernized and industrialized as a way to become a more market-driven economy. The government should implement import tariffs or quotas on goods that can be produced domestically to protect local industries.

The government of Somalia should Invest in research and development to enhance product quality and innovation. Provide subsidies or tax incentives to export-oriented industries. Facilitate access to financing for exporters, which will boost Somalia's economic progress.

The government of Somalia should encourage industries to move up the value chain by producing higher-value goods and services. Support research and development efforts to innovate and differentiate products in global markets. Foster collaboration between industry and academia to develop cutting-edge technologies and products.

The government of Somalia should encourage import substitution by promoting domestic production of goods that are currently imported. Somalia should implement policies to reduce unnecessary imports and encourage consumption of domestically produced goods. Negotiate with trading partners for better terms of trade or trade agreements that benefit domestic industries.

The government should manage exchange rates to ensure the competitiveness of exports without causing destabilizing effects on the economy. Adopt policies to prevent excessive currency appreciation that could make exports less competitive.

The Somali government should Attract FDI in sectors that can contribute to export growth and import substitution. Offer incentives to foreign investors, such as tax breaks, streamlined regulations, and access to skilled labor.

The government of Somalia should Collaborate with international organizations and trading partners to address global trade imbalances and promote fair trade practices. Participate in multilateral trade negotiations to advocate for the interests of the country's exporters and address trade barriers.

In conclusion, the government of Somalia should address structural issues in the economy that may hinder export competitiveness, such as regulatory burdens, corruption, and inefficiencies in the business environment. Implement reforms to improve governance, transparency, and the rule of law to create a conducive environment for trade and investment.

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7 APPENDIX

Appendix A Descriptive Statistics

Variables	Mean	Median	Maximum	Minimum	Std.Dev.
Economic Growth	1.9365	0.0000	30.073	-18.266	6.4392
Export	9.9166	12.049	33.179	0.0000	8.6866
Import	27.970	22.573	88.487	0.0000	26.745
Trade Openness	37.886	36.411	121.66	0.0000	34.5066

Source: World Bank Indicators (1960–2022)

Appendix B List of Figures

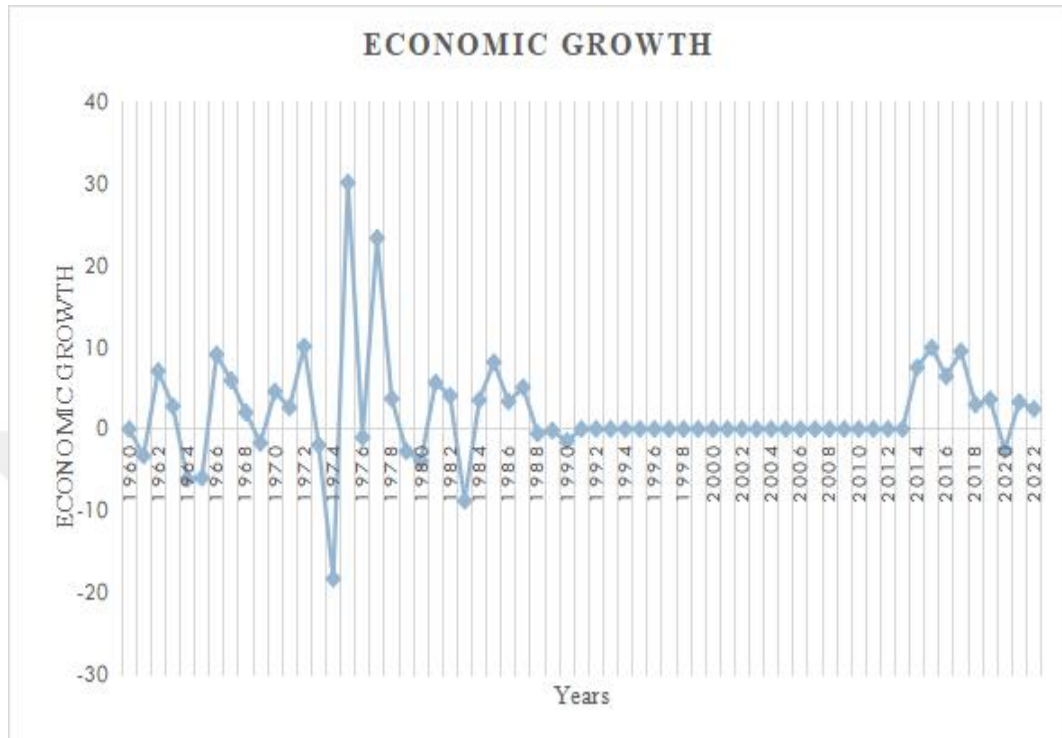


Figure A. 1 Economic Growth in Somalia

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