



SOMALILAND'S TRADE PATTERN WITH THE REST OF THE WORLD: AN ANALYSIS OF EXPORTS AND IMPORTS

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Abstract

Somaliland got an independent economy since its breaks away from Somalia in 1991. This study aims to explain the trade pattern between Somaliland and the rest of the world, livestock export is the main in Somaliland economy accompanied to those other commodities like hides and skins gums and water melon for some times, though the country heavily dependent on imports, like food, construction material, fuel, spare parts and accessories, also Kat and tobacco. Somaliland livestock sector have the highest percentage share for economic contribution, it faces many challenges, including successive drought conditions, absence of internationally certificate for animal health, poor domestic financial system, and dependent of one or two foreign markets.

Keywords: exports, imports, livestock, trade, GDP.

1. Introduction/Background

Since Somaliland declared its independence in May 1991, state building process started through reconciliation process, social solidarity and government institutions building. Somaliland's government system is a democratic that led the way to happen successive free and fair elections. Somaliland economy was revived after the peace and stability restored. In addition to that political reconstruction.

Due to shortage of skilled human resource, government lacks capacity and resources also lacks targeted policies and strategies for most government institutions, and absence of infrastructure, which all together became obstacle for the supply adequate quality service in order the citizens meet their needs, (Danial R. Forti (2011)). Somaliland adopted to develop National Development Plan in consultation with many international agencies, Civil Society Organization, and experts of Macro-economic management. The National Development Plan was aimed to create a foundation to expand people's wants, and process of getting well-built public institution, well developed infrastructure, and the plan of obtaining skilled and provisional labor force, (MoPND)

Somaliland population estimated by four 4,171,898 million, GDP has been estimated to be 3,348 billion in 2021 (MoPND), the country's Per Capita Income (PCI) was estimated by \$775. Somaliland trade dependent on export and import, export is mainly dominated by livestock and other commodities and import of food and other consumer goods. In general Somaliland economy is open economy according to its trade with other countries, though it does not develop industries and still relies on primary sectors like agriculture and livestock. In addition to that Somaliland

economy depend remittances from the abroad. Foreign companies are not allowed to invest Somaliland because of the absence of the international recognition. Berbera is the only port of which the export and import transactions takes place. In 1964 Soviet Union was built Berber port, after 20 years United State of America was made an extension in 1982. (Warsame M. ahmed and finn stepput at. (2019). In 2017 it was held an investment agreement between Somaliland government and Dubai Port Company to rebuild the port, currently it was completed an extension of 400 meter for the port.

Ministry of Finance Development is the responsible institution for economic in general in particular taxation, financial legislations, in addition to that it have the responsibility of carrying out government public policies and budgeting, recording the data of export and import is one of the main activities the ministry mandates, as reported from the ministry of finance in 2021 trade deficit was \$2,346,793,407, with a total value of exports in USD \$ 269,991,507 and a total of imports of \$ 2,616,784,914. Usually trade deficit is financed from the aid and remittances from the abroad. Aid and remittances are not included the calculation of GDP as they were from abroad. This study was aimed to enlighten international trade pattern of Somaliland and its counterparts.

2. External Trade

International trade can be defined exchange of goods and services within foreign countries. Today international trade become one of the most important topics of global economy, that many countries make a move from state - run to market driven economy (Alan M Grugman et al. 2006). The growth of international trade partly revived after the General Agreement on Tariffs and trade (GATT) declined the trade barriers and restrictions between trading countries, of which GATT set a regular negotiation between the member countries to reduce import taxes on imported goods (Andy Schmitz 2012). In 1995, World Trade Organization or (WTO) formally commenced as a replacement institution on GATT. Furthermore, WTO prohibited trade discrimination between trading countries, but offer environmental protection and national security. In general countries engage international trade for two reasons. First, they earn benefits in accordance to their differences on each other, in which each country produces the commodity for which they have the greatest relative advantage (comparative advantage theory). Second, countries trade between themselves to achieve economic of scale for their production (Paul R Krugman et al. 2003).

Somaliland economy largely depends on livestock (camels, sheep, and goats) export to Gulf Arab State, especially to Saudi Arabia. The other main exports of Somaliland economy are hides and skins, fish and water melon for some seasons. However, Somaliland imports products like food, petroleum products, construction material, consumer goods, machinery and other essential equipment, motor vehicles, and tobacco (Ministry of Finance Development, Annual Trade Statistics Report, 2019). Khat trade forms the basis for an industry that generates income and employment to thousands of people, in addition to that, Kat is the main source of government revenue. Berbera port is the backbone for Somaliland economy, have a strategic location that attract the interest of global powers.

3. Export

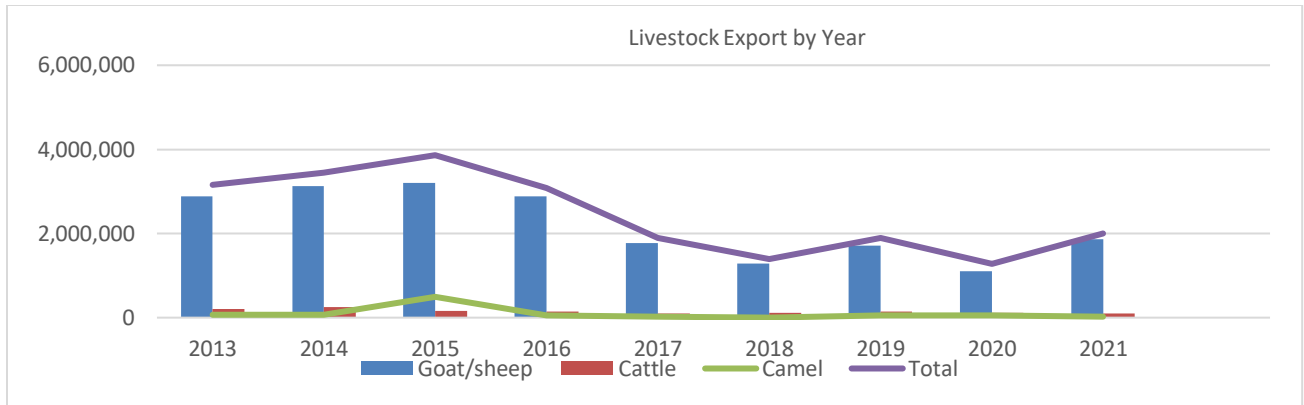
One of the main characteristics of the developing countries is the great dependent on export of a few commodities for e sales. (E. Wayne Nafzgar 2006). Though the underdeveloped transportation systems and trade institutions and the technological deficient are the main challenges make developing countries export little and import more. (Todaro & Smith 2012). Somaliland like many developing countries, livestock export is the backbone of the economy, with primary types of camels, cattle and sheep and goats. In addition to that Somaliland exports other commodities like Skins, hides, gums, fish and water melon. (Ministry of Finance Development 2019). In 2021, livestock export value recorded 182,817,662 million USD, compared to 2020, of which the value was about 170,783,822.40, (Ministry of Finance Development). The majority five livestock markets (Seylad) with the country, Burao, Hargeisa, Berbera, Erigavo, and Las Anod. The Burao market and Hargeisa are the largest ones. The main challenges face Somaliland livestock sector is, the dependence of one single foreign market and market price fluctuations also multiple taxation, and poor financial systems.

Table 1: Total livestock exports through Berbera Port: 2013 – 2021 (heads)

	Goat/sheep	Cattle	Camel	Total
2013	2,884,148	202,333	75,314	3,161,795
2014	3,125,979	252,670	61,144	3,439,793
2015	3,209,142	158,649	494,306	3,862,097
2016	2,875,770	142,303	56,826	3,074,899
2017	1,770,968	95,474	28,254	1,894,696
2018	1,280,252	116,705	509	1,397,466
2019	1,710,646	136,846	50,939	1,898,431
2020	1,105,054	113,109	59,734	1,277,897
2021	1,867,665	102,346	27,960	1,997,971

Somaliland livestock is mainly export to Saudi Arabia through Berbera Port. Where the animals exported between 2013 and 2021, was estimated to be around 22,005,045 million heads. The livestock export during that time achieved the highest in 2015 with about 3.8 million heads while the lowest was in the year 2020 recorded around 1.2 million heads. During the last five years livestock production decreased compared to previous years, this because for many challenges, Saudi Arabia livestock ban for health reasons related to Rift Valley Fever is the main, and the droughts effects.

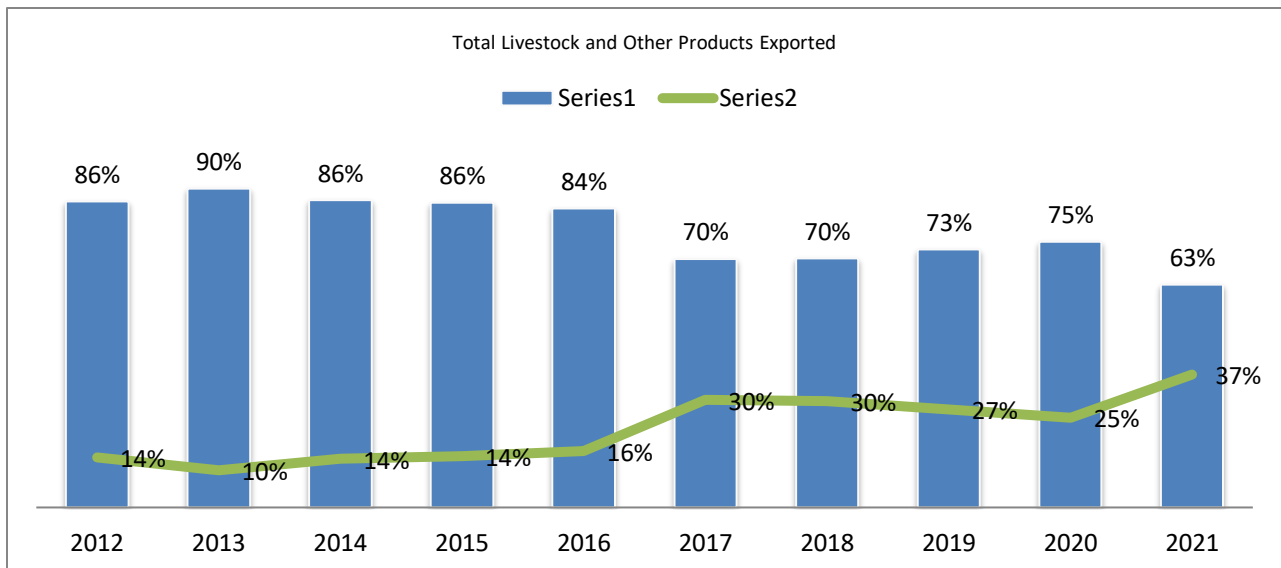
Figure 1: Livestock Exported by Year



4. Other Exports

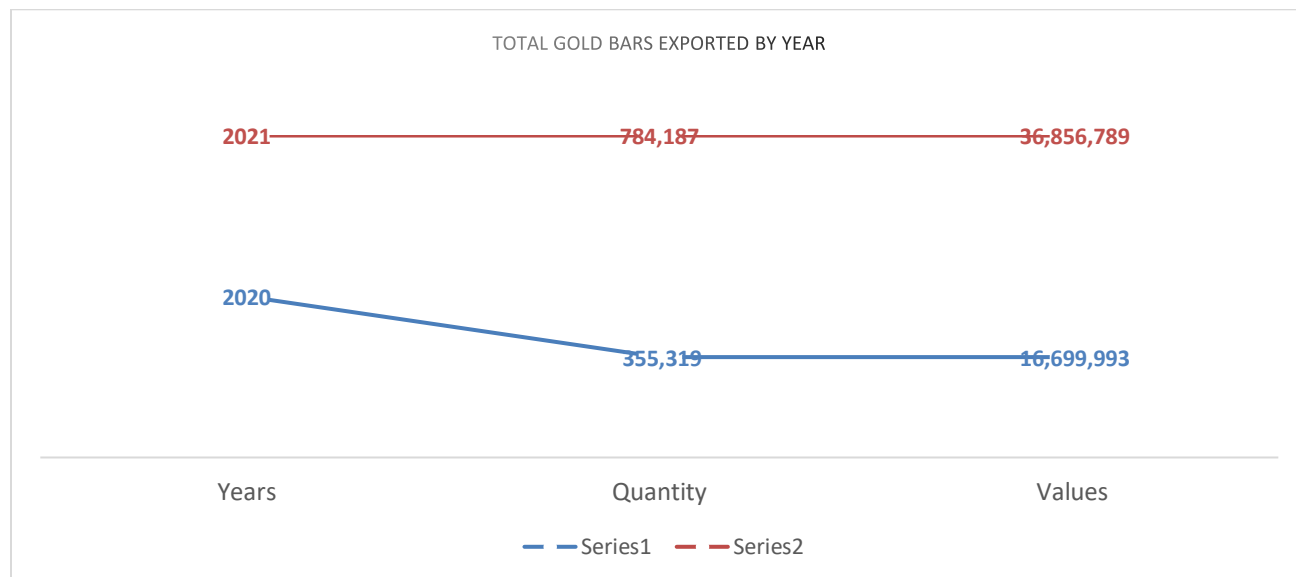
Somaliland exports others than livestock as we mentioned before. Frankincense is the second source of export following the livestock, where thousands of people traded it, this is after the international buyers' demand of frankincense increased for the last 10 years. (Anjanette DeCarlo, et al. 2018). Further of that Hides and Skin holds an important position of the export sector, where the revenues obtain from the export of Hides and Skins can be competitive of livestock sector. (Francis Wanyoike et al. 2018). Further of that Somaliland fish sector is not fully developed, only less than one percent of the population engages, usually is harvested out of Loado/Zeila, Berbera/Karin and Las Qorey. It is difficult to obtain statistical information about the exact fish were harvested. (Ahmed H. O. Gulaid "Omane" 2004). In addition to that water melon exports for some seasons (Ministry of Finance Development).

Figure 2: Total Livestock and Products Exported by Year



In Somaliland there is many minerals found close to the surface. Diamond, sapphire and other precious metals are some examples. Paint is also rich at the coastal areas near; easily you can see when you travel from Berbera to Sheikh. The Gold is another potential source for Somaliland trade while the government coordination central of gold activity (Ministry of Energy) is not active. In 2021, it was estimated that gold exported increased the highest record around 784,187 grams, with a total value about to \$ 36,856,789 million USD, as shown figure below (Ministry of Finance Development 2021). Somaliland gold mining areas mostly located in Sanaag region, Irshida village where the last years many people rushed to those areas for gold prospect purpose, In addition to that Arabsiyo and Abdul Qadr areas. The important of this sector can appear when the government set appropriate policies and mining code cover the international standard and attract foreign mining companies. The current code of mining is the one in 1984 former Somali government. (Ministry of Planning and National Development 2011).

Figure 3: Total Gold Bars Exported by Year



5. Import Activities

Imports play a major role in the Somaliland’s economy. While the country registering a large and increasing trading deficit. One of the largest imported commodities is food, in 2021; total food quantity imported was about 380,819,350 Tons. For the last years consumers demand for food has been increasing steadily, total foodstuff quantity imported from 2015 to 2021 has been increased 40 percent. The most construction material quantities imported increased in 2021 compared to 2020. Gas oil (Diesel), Butane Gas, Petrol and Kerosene and other fuel categories import also increased, due to the incredible demand for fuel, for the last four years as shown table below. Further of that, total spare parts imported have been increasing in 2020. Khat imports continually increasing, while Somaliland government doubled taxes levied on Khat. Also Somaliland Government generate a considerable revenue from Khat import.

Figure 4: Total Quantity Imported by Year

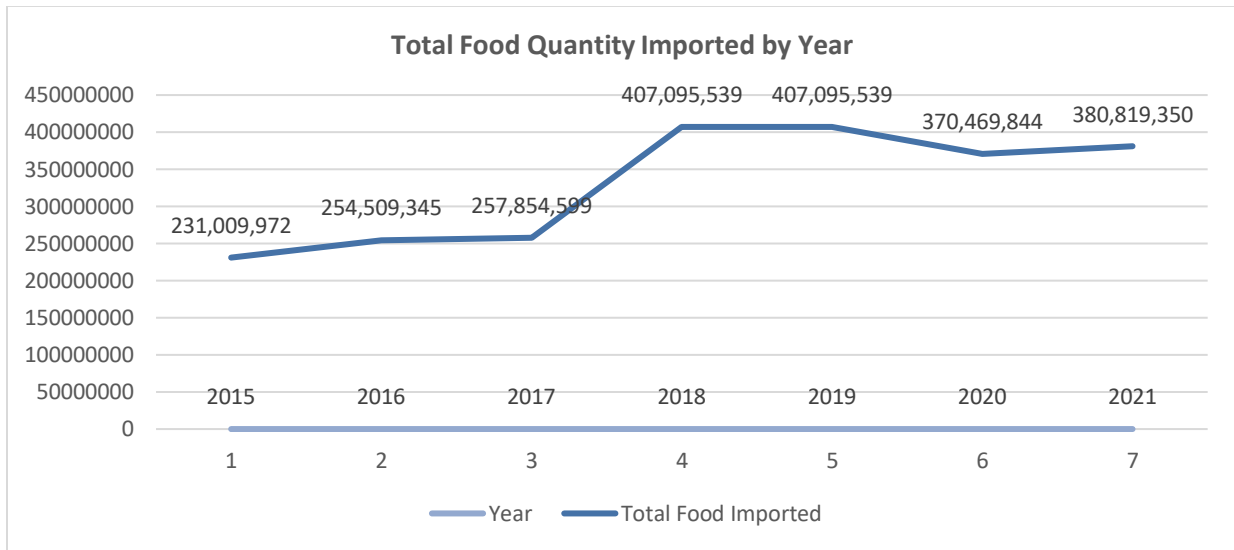


Figure 5: Total Construction Material Quantity Imported by Year



Figure 6: Total Fuel Quantity Imported by Year

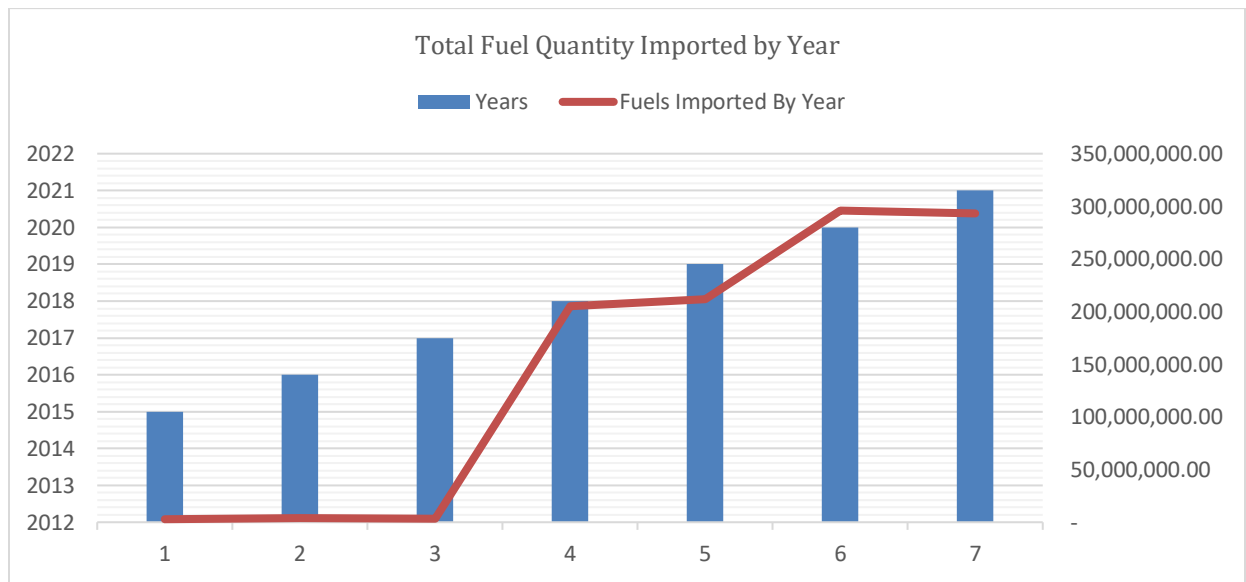
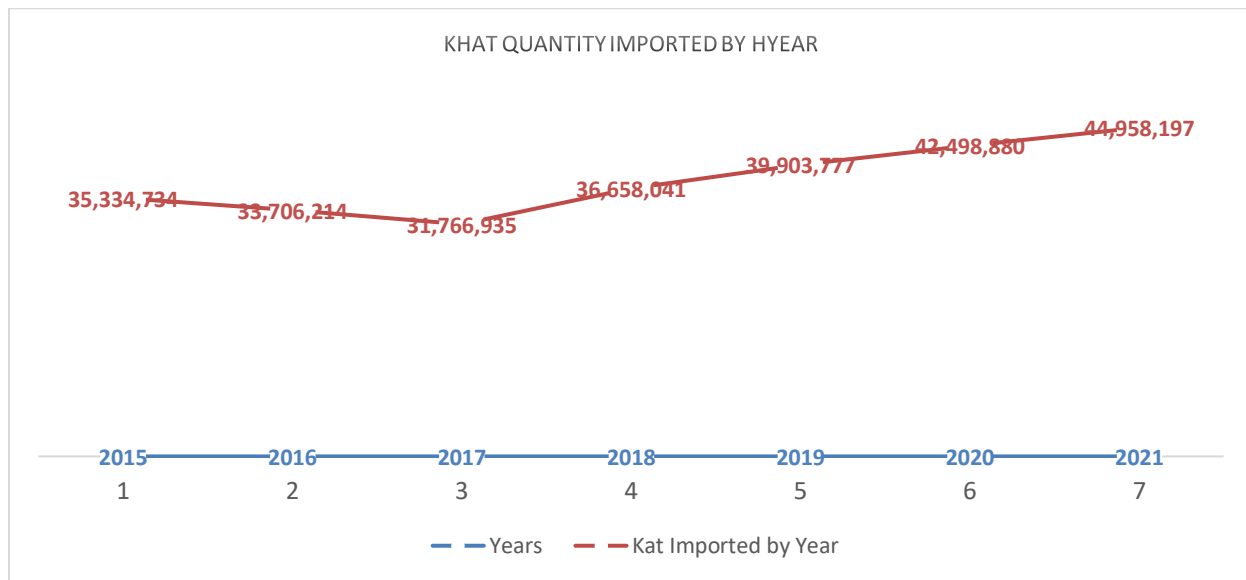


Figure 7: Khat Quantity Imported by Year



6. Somaliland Trade Valuation Overview

Valuation means determining value of goods when they entering in to the customs, export and import is an example. In most cases customs duty charged as a percentage of the goods value being imported, in order to calculate it, customs authority firstly must establish duty payable. Also, it is important to set standards or rules for goods valuation process. In most countries of the world customs are the sources of information. While current method of Somaliland custom values is

really complicated, they use imaginary values for their valuation procedures. In addition to that, Somaliland custom authorities use fixed exchange rate at 7000 SLS/USD in which the goods valued and duties are paid instead of the rate of the market. In 2019, Ministry of Finance Development re-adjusted values of imported goods with help Central Statistics Department at Ministry of National Planning and Development, using formula, $MV=LMP-CPL$, where MV = Marginal Value, LMP = Local Market Price and CPL = Cost Profit and Loss. Approximately, Ministry of Finance used the cost, insurance and freight of the price of imported items 60%, while the invoice price of imported goods was estimated to be 40%. Previously the value was based on the customs valuation book, which to some extent used figures below the current value of commodities, also leads underestimation of both trade statistics reports provided by the Ministry of Finance Development and Gross Domestic Product calculation produced by Ministry of National Development and Planning.

7. Conclusion

Somaliland economy growth is on rise, and heavily dependent on trade (export and import). It is clear from the GDP report produced by Ministry of National Planning in 2021, that exports represent 9 percent, while imports represent more 45 percent. The major export product is livestock followed by few other commodities like skins, hides, fresh fish and gold bars. On the other hand, imports of food, construction material, spare parts and fuel have shown increasing trends from year to year causing yearly consecutive trade deficits. During livestock ban imposed by Saudi Arabia due to health concerns, there was a dramatic depreciation on local currency and fluctuations to market price goods. In addition to that, severe drought in Somaliland between 2015-2017, had a catastrophic effect on people's living and economic growth in general.

Recommendations

From the findings of the study, it is observed that trade create economic opportunities, increase jobs and reduce poverty and inequality, in light of this, possible recommendation may be the followings:

1. Improve country enabling environment in terms of infrastructures, regulation, access to finance, insurance and fiscal policies, in order to rise exports and build stronger trade systems.
2. Strengthen the strategic cooperation between private and public sectors and among domestic producers, exporters, and government.
3. Improve domestic productivity and technological innovations, and provide incentives to nurturing innovation.
4. Facilitate accessibility of credit through the support of financial institutions.
5. Enhance the relationship between the ministry of finance development and central bank through the support of designed monetary and fiscal policies.
6. Harmonize the parallel trade information coming from the ministry of trade and investment, ministry of finance and chamber of commerce.
7. Custom department staff in the Ministry of Finance Development should be trained on procedures of gathering data and estimating values of livestock and the other main commodities.

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Appendexes:

Imported Values in Dollar

Total Values of Imported Goods	2015	2016	2017	2018	2019	2020	2021
Food	163,347	193,720	174,465	224,743	320,319	705,178	1,277,374
Construction materials	135,011	147,724	129,306	178,318	222,132	1,669,842	1,942,134
Fuels	25,122	23,216	24,447	175,111	170,719	1,421,490	1,519,360
Spare parts and accessories	90,550	101,685	96,928	146,100	144,158	491,791	1,368,395
Qat and tobacco	101,919	123,235	107,765	126,372	217,453	443,384	2,656,026

Source: Ministry of National Planning and Development

Imports of food and non-food items through Berbera port for the years 2015 – 2021. (Tones and M3)

Years	2015	2016	2017	2018	2019	2020	2021
Food	231,009,972	254,509,345	257,854,599	280,249,761	407,095,539	370,469,844	380,819,350
Construction Material	261,367,997	243,078,025	171,349,423	231,119,422	262,252,655	335,683,706	337,821,028
Fuel	2,863,602	4,098,896	3,556,405	205,398,888	211,509,731	295,959,230	293,137,415
Spare Parts and Accessories	124,456,504	134,611,597	129,711,475	172,723,243	181,670,297	253,622,998	227,196,479
Kat (KGs)	35,334,734	33,706,214	31,766,935	36,658,041	39,903,777	42,498,880	44,958,197
Cigarette	4,264,268	4,029,858	3,489,663		3,651,128	5,403,664	6,753,934

Source: Ministry of National Planning and Development