FAILING TO BRIDGE THE GAP: SOMALIA'S PERENNIAL TRADE DEFICIT (1960-1990)

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I. Introduction

Throughout the three post-independence decades (the 1960s, 70s, and 80s), the Somali economy was characterized by a considerably alarming foreign aid dependency[1] and an ever-growing external borrowing.[2] Even though other factors shall not necessarily be ruled out, the most plausible economic explanation of this phenomenon is that the government used the external aid and debt to finance its chronic balance of payments deficits.

The balance of payments, in simple terms, is where the records of the nation's international transactions (payments to and receipts from foreign countries) are kept for a certain period of time, often a year.[3] A nation's balance of payments is composed of the current account, financial account, and capital account. The current account keeps the record of the balance of goods and services (trade balance), investment income, and unilateral transfers,[4] and it is the most important (and often the largest) of the three accounts while the capital account is the smallest. Although trade balance includes the balance of both goods and services, we mainly focus on the merchandise trade balance (the balance of goods/commodities) in this paper. Similar to the majority of the developing countries, Somalia exported primary products and imported manufactured and capital goods, among other commodities. Thus, the available exports and imports data is primarily that of goods or commodities. The data do not capture the services that the country likely imported in this period.

Developing countries greatly rely on commodity exports which account for a substantial share of their GDPs and a sizable portion of their export earnings. However, such commodity exports reliance is associated with greater uncertainties due to volatile markets and prices. We will see in a moment how changes to the banana prices in the global markets massively affected the Somali banana industry in certain times. On the contrary, developing economies' acute dependence on manufactured, consumer, and capital goods imports for local consumption and production, usually coupled with lower revenues, also resulted in a balance of payments problems – chronic current account deficits, often offset by capital account surplus (external debt and investment) became the norm.[5] The Somali economy suffered from a persistent balance of payments deficits in most of the period under study. In 1985, for instance, the balance of payments deficit was US$300 million or, to put it another way, 22 percent of the GDP.[6] However, while underlining that the statistics reported by the government were flawed in a number of ways, the World Bank (1981) report emphasized that the economy enjoyed a favorable balance of payments position in the early 1970s. Whilst Somalia's balance of payments difficulties could have been unique and had their own causes, the balance of payments of the developing countries deteriorated in the 1980s and 1990s on the ground of a decline in commodity prices, intensifying protectionism in the advanced countries, recessions shrinking the international trade, and inadequate exchange rate policies often leading to currency overvaluation in certain developing nations.[7] The next sections will demonstrate whether Somalia shared these reasons with the rest of the developing economies.

his article aims to examine Somalia's trade deficits in 1960-1991 and particularly focuses on the merchandise trade balance. The study covers the period between the independence (1960) and the state collapse (1991) and attempts to understand the role Somalia played in the global economy, especially global trade, during those three decades the Somali people witnessed a functioning state of theirs.

II. Foreign Trade

The Somali economy has always been a highly open economy as the exports and imports accounted for a substantial portion of the country's Gross Domestic Product (GDP) – an average of 55 percent between 1970 and 1990.[8] Despite trading with the rest of the world, Somalia's "role in the world economy has long been that of a supplier of primary products and an importer of manufactures."[9] The agricultural and pastoral sectors are the most significant sectors of the Somali economy serving as primary sources of production and export earnings. In the period under study, over 90 percent of the total export earnings were generated by the livestock and banana exports, livestock being the dominant export product which accounted for 40-85 percent of earnings.[10] Livestock exports were so essential to the Somali economy that they accounted for 91 percent of the country's hard currency inflow in 1981.[11] If we add fishing to these two sectors, the role is even bigger. According to Abdi Samatar (1988:89), "[t]he rural sector (pastoral, agriculture, and fisheries) is the largest in the Somali economy, accounting for two-thirds of the gross national product (GNP), four-fifths of the labour force, and about 98% of the exports." However, notwithstanding the rhetoric of aiming for food sufficiency by the successive Somali governments, chiefly the military regime, the local production in Somalia, particularly in the area of food, often failed to meet the increasing domestic consumption. As a result, between the mid-1970s and the late 1980s, "Somalia has become alarmingly, and more than any other country in Sub-Saharan Africa, dependent on imported food."[12]

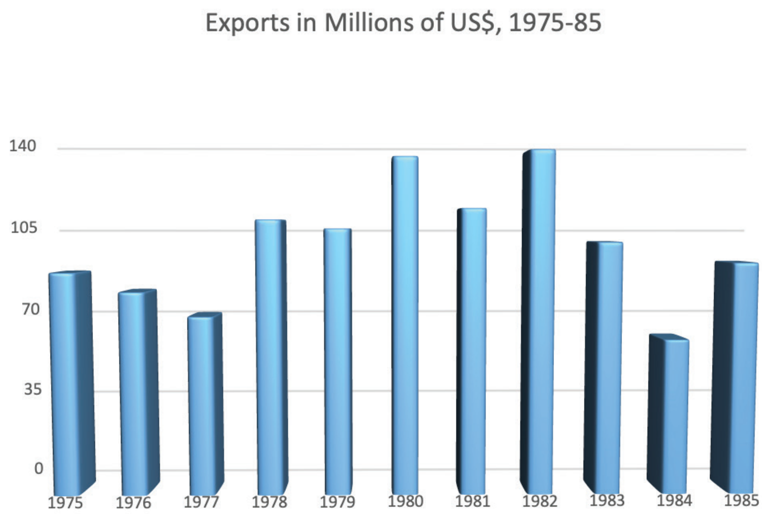
Somalia exported live animals to the Gulf Countries and banana to Europe. In spite of these two primary products, hides and skins, frankincense and myrrh, meat and meat products, and fish and fish products were also exported as elaborated in the next sections. In contrast, Somalia imported food, fuel, machinery, electronics, transportation, and medicine, among other things from different parts of the world.

III. Exports

Livestock and banana, as already mentioned, are the primary export products and account for over 90 percent of export earnings. They are also crucial for the domestic employment, income generation, and government revenues. Other livestock products – hides and skins, meat and meat products – also trivially contributed to the export earnings. Frankincense, myrrh, and fish exports played a minor role in export earnings as well. Apparently, pastoral and agricultural sectors remained to be the most important sectors of the Somali economy.

In the period of 1975-1985, export earnings peaked in 1982 with USD 137 million and hit rock bottom in 1984 with just USD 62 million. Furthermore, export earnings were USD 71.3 million in 1977 but almost doubled and soared to USD 134 million in 1980 (Figure 1).

Figure 1: Source: World Bank (1987)



Livestock

Livestock has always been the mainstay of the Somali economy and remained a primary source of livelihood, predominantly in the North where majority of the population were nomadic pastoralists. On average, around 60 percent of the Somali people relied on livestock for their subsistence.[13] Similarly, livestock production offered around two-thirds of employment and about half of the country's GDP.[14] Livestock remained the chief export commodity over the course of the modern history of the Somali State and dominated the nation's export earnings and hard currency inflow. A number of studies recorded the share of livestock exports in Somalia's total export earnings as follows: 45 percent (together with the banana exports);[15] around two-thirds (66 percent);[16] more than 80 percent;[17] below 50 percent in the late 1960s and approximately 90 percent in 1978;[18] over 70 percent in a given year and 91 percent in 1981 alone;[19] roughly 80 percent;[20] around 98 percent (together with other livestock products, agricultural products, and fish);[21] and 40-85 percent.[22]

Somali livestock was exported to the Gulf Countries and Saudi Arabia in particular. The largest number of heads were exported during the Hajj season – when Muslims from all corners of the globe travel to Saudi Arabia to perform the Hajj (the annual Muslim pilgrimage). The Somali livestock exports soared in the 1970s due to Saudi Arabia's oil boom[23] and an increased number of Muslim pilgrims to Saudi Arabia thanks to improved modes of transport.[24] As a result, the livestock exports became largely vulnerable to external shocks from Saudi Arabia. When Saudi Arabia banned Somali livestock imports in 1983 (or largely limited its imports until 1988), Somalia's total export earnings dropped by 40 percent in 1983 and 44 percent in 1984 as Saudi Arabia imported about 90 percent of the Somali livestock prior to the ban.[25]

While livestock exports mostly remained over one million heads in the 1970-78 period, seldom fluctuations resulted in exports of below one million and over two million in certain years. For instance, exports were 2.3 million heads in 1975 followed by only 0.86 million heads in 1976 (Table 1).

Table 1: Somalia: Livestock Exports, 1970-78
In Thousand Heads

Year	Sheep	Goats	Cattle	Camel	Total
1970	546	605	45	26	1,222
1971	608	576	56	24	1,264
1972	789	828	77	21	1,715
1973	684	639	70	28	1,421
1974	655	556	27	24	1,262
1975	1550	754	39	33	2,376
1976	374	374	76	37	861
1977	461	442	54	35	992
1978	728	723	74	21	1,546

Source: World Bank (1981)

Livestock production and exports were also affected by natural calamities, specifically droughts. Droughts led to the perishing of life animals and in turn reduced their population which also meant a decrease in the volume of exports. Somalia underwent a serious drought every 10 to 15 years and the most remarkable one in the period under study was *Dabadheer* in 1973-74 whose effect on the livestock population was so enormous that "about 1,000,000 cattle (25% of total stock), 500,000 camels (6% of the total stock), and 5,700,000 goats and sheep (20% of the stock) were estimated to have perished."[26] By the same token, a World Bank report recorded that in 1978 (five years after the drought), the volume of livestock exports was still lower than that of the pre-drought years and did not recover fully.[27]

Livestock exports were also crippled by poor government policies. When Somalia embraced "scientific socialism" in 1970, livestock and banana – the two principal export commodities – remained in private hands amid the nationalization of all other economic activities.[28] The government policy responses were unsuccessful in encouraging and subsidizing livestock exports to utilize the expeditiously rising demand in Saudi Arabia. Relying on tariffs for revenue, "the central government's tax revenue from trade taxes was 65%, on average" in the 1970s; similarly, "the ratio of international trade taxes to the gross domestic product was 6-7%."[29]

Berbera Port, in the North, was where the majority of the livestock were exported. For instance, roughly 80 percent of Somalia's total livestock exports were administered by Berbera Port in the period of the late 1970s and early 1980s.[30] However, as a result of the civil war in the Northern regions in the late 1980s, the port became out of operation.

Table 2: Somalia: Livestock Exports from Berbera Port, 1967-73

Year	Sheep	Goats	Cattle	Camel	Total
1967	534,432	340,944	29,412	26,786	931,574
1968	741,078	483,763	38,377	17,781	1,280,999
1969	653,526	669,399	31,042	23,542	1,378,281
1970	517,211	540,869	41,648	24,314	1,124,042
1971	552,781	519,872	47,386	22,629	1,142,668
1972	753,669	749,432	73,385	18,676	1,595,162
1973	601,742	593,339	61,930	27,507	1,284,518

Source: World Bank (1975)

Banana

Banana, the second most important export product after livestock, is grown in the fertile land along the Juba and Shabelle rivers in Southern Somalia. Colonial Italy created, expanded, and modernized banana production through sizable plantations and irrigation schemes, laying the foundation for commercial exports. Consequently, the Somali banana was first exported to Italy in 1927.[31] Following Somalia's independence in 1960, Somali farmers were given access to the banana farms, but Italians still had bigger plantations and produced a considerable share of the exported banana.[32] In the early 1960s, the banana industry employed roughly 25,000 people.[33] Despite some progress in the banana industry in the early 1970s (increased production and cultivated areas), the industry experienced ample setbacks under the socialist regime. Even though the government established the National

Banana Board–which turned out to be ineffective–the total output dwindled over two-thirds while the cultivated area shrunk over half between 1973 and 1981.[34] Similarly, export earnings from banana fell considerably in the same period, and Farzin (1988:10) explains the decline as follows:

> This poor export performance was partly due to increased competition in export markets, but principally reflected the dramatic decline in the area planted and hence in domestic output as a consequence of inadequate domestic price incentives and shortages of inputs, fuel, and tractor services during 1975-81.

Figure 2

Source: World Bank (1975)

Given that the banana was produced mainly for exports, as the local banana consumption was minimal, the level of production depended on the external demand.[35] In consequence of the 1981 SAP (Structural Adjustment Program) agreement by the Somali Government and the International Monetary Fund (IMF), banana exports recovered and increased dramatically except two years (1984 and 1985) of flooding and crop loss. However, Abdi Samatar who studied the impact of SAPs on the banana industry and Somali economy in general, argues that the liberalization of the banana sector improved the production and exports of the industry but the Somali people were not the primary beneficiaries of this program:

> Liberal reforms in the banana sector did not lead to development, however, as nearly 75 percent of earnings from exports were realized by overseas interests, depriving Somalia of an important source of capital for reinvestment (40).

Table 3: Somalia: Banana Production and Exports, 1975-85

Year	Production (in Thousand Tons)	Exports (in Thousand Tons)	Exports (in Millions of Somali Shillings)[1]
1975	106.0	81.8	80.9
1976	96.6	72.5	85.1
1977	65.2	53.8	64.7
1978	69.7	57.5	70.2
1979	72.2	55.5	68.5
1980	60.4	35.4	46.6
1981	59.0	34.4	66.2
1982	78.7	50.7	153.6
1983	98.9	62.4	234.4
1984	62.2	47.9	283.9
1985	60.0	45,3	871.0

Source: World Bank (1987)
[1]*Average official exchange rate for 1985 was US $1=So. Sh. 40.175*

Other Export Products

Having a coastline of over 3000 km (the longest on mainland Africa) and largely pastoralist population, Somalia's fisheries sector is highly unexploited. The fisheries share in the GDP is below one percent while the sector employs around two percent of the population.[36] Accounting for merely two percent of the total export earnings, exports of fish and its byproducts grew throughout the 1970s as a result of Soviet Union assistance, but both production and exports dropped in the first quarter of the 1980s due to the breakdown of the Somalia-Soviet relations in 1978 coupled with tough control on pricing and marketing by the government.[37] Italy and Australia filled the Soviet Union's shoes and supported the fishing cooperatives after 1978, but they were not profitable.[38] Larger exploitation of the sector started after the 1973-74 *Dabadheer* drought when many nomadic pastoralists were resettled in fishing cooperatives. As depicted in Table 4, fish exports were high between 1974 and 1976 where exports exceeded 3000 metric tons in 1976.

Table 4: Somalia: Fish Exports, 1972-78

Year	**Exports (Metric Tons)**	**Exports (Thousands of Somali Shillings)[1]**
1972	1,343	5,198
1973	1,796	12,461
1974	2,002	15,242
1975	2,392	11,583
1976	3,250	15,616
1977	1,186	9,388
1978	1,207	2,607

Source: World Bank (1981)
[1]*Official exchange rate: US$1 = So. Sh. 6.295*

Hides and skins were other animal products exported by Somalia. Although their share in the total export earnings was negligible, they generated between 9 and 50 million So. Sh. in the period of 1973-78; their share in total export earnings ranged between 1.8 and 8.6 percent in the same period.[39] Likewise, they generated a mere 11 million So. Sh. in 1984 but 294 and 704 million So. Sh. in 1985 and 1986, respectively.[40] Government policies also undermined the expansion of this sector which could be a significant source of export earnings. The government's Hides and Skins Agency (HASA) had a monopoly in gathering and exporting the hides and skins, as well as imposed very low prices on them which discouraged any private involvement in this industry.[41]

Meat and meat products exports were also trivial and their export earnings were valued between 0.3 and 44 million So. Sh. in 1973-78; their share in total export earnings ranged between 0.1 and 9.2 percent in the same period (1981). Furthermore, their exports generated 6.5 and 2.7 million So. Sh. in 1980 and 1983, respectively.[42]

Frankincense and myrrh, also insignificant export commodities, were known for Somalia as early as ancient times – Somalia was known as the Land of Punt. Myrrh, for instance, generated roughly 230 and 253 million So. Sh. of export earnings in 1987 and 1988, respectively.[43] Government policies partially crippled this industry as the government-sponsored cooperatives were given a monopoly for exporting frankincense and myrrh.[44]

IV. Imports

Being a highly open economy, Somalia imported raw materials, intermediate products, and finished goods as well. Among the wide-ranging import commodities included food, textile, medicine, transportation, cement and building materials, equipment, iron and steel, machinery, petroleum, agricultural inputs, etc.[45] Despite the government's rhetoric on achieving food self-sufficiency, the local production often failed to keep up with the rapidly increasing consumption. Consequently, between the mid-1970s and the late 1980s, "Somalia has become alarmingly, and more than any other country in Sub-Saharan Africa, dependent on imported food."[46] This was a striking fact given that Somalia primarily had an agricultural and pastoral economy and should have logically been food self-sufficient, even though it sometimes enjoyed a food grain sufficiency. Farzin, who is one of the few who deeply studied this topic, captures the reality of Somalia's shocking food import dependency in the 1970s and 80s as follows:

> Indeed, even with the exclusion of the years of war and drought from the sample period, the value of food import shows a trend that has been growing at an annual rate of more than 21 percent. The extent of Somalia's dependency on food import is better

> understood when it is noted that the share of food import in total volume of food consumption rose from less than 33 percent on average for 1970-79 period to over 63 percent during the 1980-84 period, implying a trend growth in Somalia's food import dependency at the average rate of 8.3 percent per annum during the 1970-84 period.50

The 1973-74 catastrophic *Dabadheer* drought and 1977-78 Ethiopian-Somali war refugees also paved the way for food aid and in turn made Somalia food aid dependent. This foreign food dependency affected the consumption habits of the population, those in urban areas in particular, as they became more interested in imported cereals (rice for example) than locally produced maize and sorghum. In addition, the government partly contributed to this problem as its policies favored the urban dwellers and hurt the local farmers. The National Trading Agency (also known as ENC) was mandated to import food to fill the gap between the local production and consumption, subsidize food imports, and control the local prices to not be higher than their import parity prices.[47] The irony here is bewildering – the government promoted a food self-sufficiency rhetoric while at the same time discouraging domestic food production.

In spite of always being higher than the exports, imports were often restricted by the government either directly or through higher taxes to address the worsening balance of payments. In the early 1970s, the imports of certain commodities were cut – tea by 57 percent, wheat flour by 52 percent, and pasta products by 45 percent.[48] However, as a result of the liberalization policies adopted in the early 1980s, few products needed prior approval for importation by the mid-1980s; among them were petroleum, alcohol, explosives, medicines, precious metals and minerals, and tobacco.[49] By the same token, the government's import tariffs, motivated by revenue generation, were high and their structure was described as irrational and complicated.[50] Mubarak (1996:133) agrees – "The *ex post facto* average effective rates were 29% and 21% in 1975–80 and 1981–88, respectively." Given that imports were always higher than the exports, the government used external aid and debt to fill the gap. What portion of the imports were financed by aid/loan in the 1980s is summarized here:

> During the 1980s, the bulk of merchandise imports constituted official grants, mostly in kind, and imports for PIP [Public Investment Program]. In the 1981–88 period, about 41 % of total imports (including transfer costs) were grants in kind, while about 22% were financed by loans of PIP. The remainder of the imports, about 37 %, were cash imports.[51]

As far as the trade partners are concerned, Somalia imported from different parts of the World. Here are Somalia imports' major countries of origin in 1973-78, according to the World Bank (1981): Italy, the Federal Republic of Germany, France, United Kingdom, USSR, Kenya, Ethiopia, China, Japan, Thailand, Hong Kong, Saudi Arabia, the People's Democratic Republic of Yemen, and the United States. If we compare the import value (in millions of So. Sh.) of the regions of these countries, using the same data and taking 1975 as an example, it looks like this: Western Europe (499), Eastern Europe (83), Africa (100), Asia (196), Middle East (62), and Western Hemisphere (33).

V. Trade Balance

The Somali economy experienced chronic trade deficits in the period of 1960-91 as the value of imports exceeded that of exports at all times. In 1985, exports were a quarter of imports while the ratio of trade deficit to GDP was 21 percent.[52] As illustrated in Table 5, the economy suffered from negative trade balances and remained in trade deficits in 1975-85. Imports were four and half times, six and half times, and four times more than exports in 1983, 1984, and 1985, respectively.

Table 5: Somalia: Exports, Imports, and Trade Balance Millions of US$

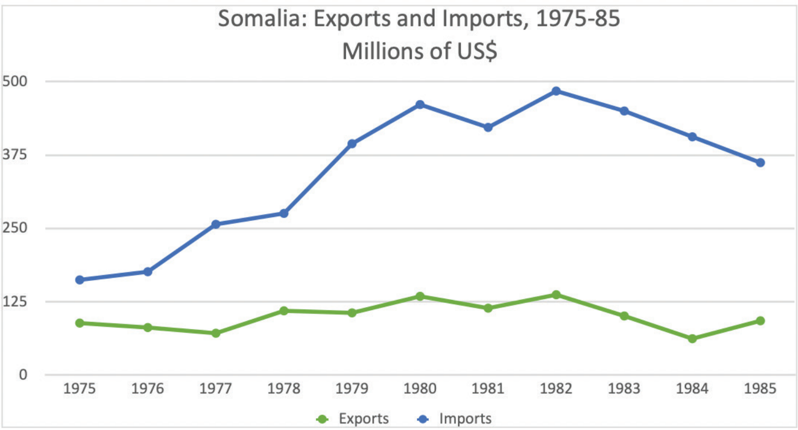
Year	Exports	Imports	Trade Balance
1975	88.6	162.2	-73.6
1976	81.0	176.1	-95.1
1977	71.3	256.9	-185.6
1978	109.5	275.5	-166.0
1979	106.0	15,616	-288.2
1980	134.2	394.2	-326.8
1981	114.0	461.0	-308.0
1982	136.9	422.0	-347.1
1983	100.7	484.0	-349.3
1984	62.0	450.0	-344.0
1985	92.5	362.0	-269.5

Source: World Bank (1987)

It turns out that the nation's export products and their earnings could not set off the total imports for a number of reasons. As already discussed, the Somali livestock economy was dependent on a single market – Saudi Arabia – which made it vulnerable to the external shocks from that market – Saudi Arabia's bans on Somali livestock imports hardly hit the Somali economy. Additionally, livestock production suffered from natural disasters (chiefly droughts), which reduced the livestock population. The government policies were not in favor of the sector as well. The banana industry, on the contrary, suffered from poor management and lack of investment but then most of the export profits were acquired by foreign interests when the industry was invested by SAPs. This was coupled with rapidly increasing domestic consumption and preference for imported food, mainly in urban areas. Even though the official rate of the Somali Shillings often appreciated against the other currencies and Somalia enjoyed improving terms of trade, which increased cash imports, the economy also suffered from occasionally declining terms of trade. In most of the available data from this period, you will come across highly valued official rates of the Somali Shillings, not to mention that the liberalization policies embraced in the early 1980s mandated the devaluation of the Somali Shillings.

These perennial trade deficits, which were part of a larger balance of payments deficits, compelled the Somali Government to rely on external aid and borrowing for deficit financing.

Figure 3



VI. Conclusion

This article examined the trade deficits of Somalia in 1960-91. The study found that Somalia experienced chronic trade deficits throughout the three post-independence decades. Despite food self-sufficiency rhetoric by the government, the local production failed to keep up with the rapidly increasing domestic consumption which led to rising levels of imports and food import dependency. Similarly, exports were undermined by external shocks, inadequate policies, and natural disasters. Due to the perennial balance of payments deficits, including trade deficits, Somalia used external aid and borrowing to finance the deficit.

Notwithstanding some degree of debate, most of the mainstream economists agree that trade a deficit is not a bad thing *per se*. According to Lawrence (2018), "trade deficits are not necessarily bad, do not necessarily cost jobs or reduce growth, and are not a measure of whether foreign trade policies or agreements with other countries are fair or unfair." He also contends that since international trade enables countries to purchase goods and services at a price lower than the cost they would be if produced locally or to sell their goods and services at higher prices in overseas markets than they could be sold local markets, "a trade deficit that is associated with large volumes of both imports and exports could actually be more beneficial than a trade surplus in which trade volumes are low." Gould and Ruffin (1996) also conclude that trade deficit has a trivial impact on the long-run economic growth. On the contrary, Mankiw (2006) argues that the trade deficit is not a problem *per se* but an indication of low levels of national savings. Similarly, Alessandaria (2007) contends that a trade deficit is a good signal as it implies that the country is borrowing for investment. Trade balance – be it a deficit or a surplus – is therefore an implication of a nation's international borrowing/lending position.[53]

It is true that Somalia's foreign debt went through the ceiling in the period under study, but there is no evidence that those loans were used for productive and profitable investments. They were invested in some public infrastructure and the correcting deficits. Here lies a large part of the reasons why trade deficits had persisted.

Notes

1. Muhumed 2020.
2. Laitin and Samatar 1984; Mets (Ed.) 1993; Mubarak 1996, among other studies.
3. Krugmen and Obstfeld 2009; Salvatore 2013.
4. Gerber 2014.
5. Todaro and Smith 2012.
6. World Bank 1987.
7. Todaro and Smith 2012.
8. Mubarak 1996.
9. Laitin and Samatar 1984, p.58.
10. Mubarak 1996.
11. Samatar, Salisbury and Bascom 1988.
12. Farzin 1988, p.1.
13. World Bank 1975.
14. World Bank 1981.
15. World Bank 1964.
16. World Bank 1975.
17. World Bank 1981.
18. Laitin and Samatar 1984.

19. Samatar, Salisbury and Bascom 1988.
20. Farzin 1988.
21. Samatar 1988.
22. Mubarak 1996.
23. Mubarak 1996.
24. Samatar, Salisbury and Bascom 1988.
25. Mubarak 1996.
26. Mubarak 1996, p.24.
27. World Bank 1981.
28. Samatar 1988.
29. Mubarak 1996, p.133.
30. Mubarak 1996.
31. Laitin and Samatar 1984.
32. Samatar 1993.
33. World Bank 1964.
34. Samatar 1993.
35. Mubarak 1996.
36. World Bank 1981.
37. Farzin 1988.
38. Mets (Ed.) 1993
39. World Bank 1981
40. Mets (Ed.) 1993
41. World Bank, 1987
42. World Bank, 1987
43. Mets (Ed.) 1993
44. World Bank 1987
45. World Bank 1987; Mets (Ed.) 1993
46. Farzin 1988, p.1
47. Mubarak 1996
48. World Bank 1975
49. World Bank 1987
50. World Bank 1987
51. Mubarak 1996, p.80-81
52. World Bank 1987
53.- Gould and Ruffin 1996

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