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EFFECT OF INTERNATIONAL TRADE ON ECONOMIC DEVELOPMENT OF MOGADISHU, SOMALIA

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ABSTRACT

This study aimed at investigating the effects of international trade on economic development of Somalia. The study was guided by four objectives; to find out the effect of Exports on Economic development of Somalia, to investigate the effect of foreign direct investment on Economic Development of Somalia, to determine the effect of imports on the Economic Development of Somalia, to establish the effect of market expansion on the Economic development of Somalia. This study took a descriptive survey design. The researcher used a survey design method for the study. Survey design is a design in which data is collected using questionnaires. The researcher used the survey design to enable him describe or present a picture of the problem under study. This study was conducted in Mogadishu City, the capital of Somalia. In order to provide valid estimates, 384 respondents were selected with Simple random sampling and only those present at that time were chosen. The study found out that exports have a significant effect on economic development of Somalia. Regression analysis indicated that there is a significant effect of foreign direct investment on economic development of Somalia. The study findings indicated that imports have a significant effect on economic development. The study findings indicated that international trade opens new market for local goods which contributes to economic development. Basing on the results from the study it was concluded that international trade plays a significant role in the economic development of Somalia. It is in the government's best interest to keep the economy healthy by, among other things, ensuring an encouraging environment for international trade. To achieve this, the study recommended improvement of security in Somalia in order to attract foreign direct investment

Key terms: *Export, Foreign Direct Investment, Import, Economic Development*

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INTRODUCTION

There is no country in the world today which produces all the commodities it needs. Every country, therefore, tries to produce those commodities in which it has comparative advantage. It exchanges part of those commodities with the commodities produced by other countries relatively more efficiently. The relative difference in factor endowments, technology, tastes etc, among the nations of the world have greatly widened the basis of international trade (Adedeji, 2015).

International trade is simply known as the exchange of goods and services between nations of the world. At least two countries should be involved in the activities, that is, the aggregate of activities relating to trading between merchants across borders. Traders engage in economic activities for the purpose of the profit maximization engendered from differentials among international economic environment of nations (Adedeji, 2015).

Theory of comparative advantage make us to understand that countries trade with each other in goods and services because of the concept of differentials in the natural resources, human capital, financial capital and technical capabilities endowment of nations. Some countries are more endowed in these resources than others, even, many countries that are adequately blessed with good resources may not have the ability to manage and channel them to their advantage, hence, denying them the opportunity of achieving the necessary growth, development and good standard of living for their citizenry (United Nations , 2014).

The importance of international trade stems from the fact that no country can produce all goods and services which people require for their consumption largely owing to resources differences and constraints. As a result, this trade relationship suggests that economies need to export goods and services in order to generate revenue to finance imported goods and services which cannot be produced domestically (United Nations , 2014).

International trade can be interchangeably referred to as 'foreign trade' or 'global trade'. It encompasses the inflow (import) and outflow (export) of goods and services in a country. A country's imports and exports represent a significant share of her gross domestic product (GDP); thus, international trade is correlated to economic growth. In an open economy, development of foreign trade greatly impacts GDP growth (Li & Chen, 2015).

Countries would be limited to goods and services produced within their territories without international trade. International trade is directly related to globalization because increase in trade activities across border is paramount to the globalization process. The globalized nature of an economy enhances its direct participation in the world market consequently leading to market expansion (Li & Chen, 2015)

It can be said that the positive effects of International Trade (IT) on Economic Growth (EG) were first pointed out by Smith (1776). This idea prevailed until World War II (WWII), although with relative hibernation during the 'marginalist revolution'. After WWII, the introverted and protectionist Economic Growth experiments had some significance, especially in Latin America (Ulasan, 2015). From the 60's on, owing to the failure of those experiments and to the association of quick Economic Growth with the opening of International Trade and the consequent international specialization in several countries, as well as to the results of many studies based on the neoclassical theories of Economic Growth and International Trade, a new decisive role was given to International Trade as Economic growth's driving force (Ulasan, 2015).

Somalis have experienced decades of devastating conflict and debilitating poverty. The toll in suffering has been high: Some 43 percent of Somalis live on

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less than US$1.00 per day, and 73 percent live on less than US$2.00 per day, The country was ranked 161st out of 163 countries on the 2001 UN Human Development Report. Only 22 percent of primary school-age children are in school, 22 percent of children die before the age of five (United Nations, 2016).

International trade in Somalia was on the breakdown since 1991, Political instability has been a notable feature of Somalia since its independence in 1960. Somalia is frequently considered an archetypal failed state and terrorist safe haven. Since the overthrow of long-time Somali leader Siyad Barre in 1991, Somalia has experienced failed international involvements, large-scale refugee flows, and the ongoing deficiency of even rudimentary state services and institutions; Somalis exist in surroundings of predation and pervasive insecurity and deprivation (Menkhaus, 2016).

The incident of poverty within the Somalia economy has been on the increase for the past two decades and the scourge has particularly been high especially within the 1990s. The need to employ all available economic parameters towards linking economic growth with poverty reduction thus becomes important. The state of the development in sub-Saharan Africa is such that recent economic performance appears to be on the downward trend and in spite of the strides that have been made by a few African countries, the overall picture is that it is not likely that many of them will meet the targets and goals set in the Millennium Declaration (United Nations , 2014).

Following a brutal civil war and the downfall of the central government in 1991, the public infrastructure was left in ruins, social services collapsed, livelihoods and lives were shattered and scores of thousands of people were displaced. Despite this, the remarkable resilience of the Somali people has led to civil society, NGOs, religious groups, and the private sector doing an impressive job of maintaining certain services such as education, health, and water, though these services fall short of what is needed and many of them are working better in urban than in rural areas, the overall situation would have been even worse without them. Moreover, Somali ingenuity, together with large remittances, has been instrumental in creating new private sector initiatives in this uncertain situation and in preventing even deeper poverty. The results speak for themselves—eloquently. Exports in 2004 reached a record high of US$265 million—about 19 percent of GDP. Imports, fuelled by remittances, also reached a record high of more than US$400 million in the same year (United Nations, 2016).

The possibility of linking poverty reduction with the practice of trade policy is built on the premise that the efficacy of trade through import and export facilitation is aimed at sustained economic growth, as well as the development of productive capacities elucidating the importance of pure international trade theory. Trade is often referred to as the engine of growth, and the capacity of trade is so expected to rebuild the African economies. This will thus require the establishment of an indirect linkage between the practice of trade policy and poverty reduction. That is, the process by which openness to trade via the instrumentality of trade policies brings about the facilitation of increased productivity that allows countries to use more of their factor abundant endowment to enhance economic growth and thus bring about poverty reduction.

With the world having evolved into a global village, it is a precept for a nation to be in alliance with other nation(s). One of the coherent ways to create such an alliance between or among nations is via international trade. International trade allows for the exchange of goods and services cum foster healthy relations among countries irrespective of their level of economic development. A country involved in international trade need not have fear of hegemony or loss of its sovereignty because it is a mutual agreement to engage in trade across their border. A nation not participating in international trade is at risk of a slow pace of economic development due to the cogent fact that a country cannot be fully endowed with all the resources essential to be utilized for sustainable economic development (United Nations Development Programme, 2016).

Despite a widespread humanitarian crisis and, the lack of peace and security, the Somali people have shown remarkable resilience and the ability to adapt since the onset of civil war in the late 80's and the collapse of the central government. Since 1995, there has been intense reconstruction, especially in the urban centers of Mogadishu, Hargeisa and Bossaso. Due to remittances from the Diaspora and international aid, combined with community and private sector initiatives, some services such as communications, water supplies and electricity, transportation, schooling and health services have, in some locations, been re-established (Warsame, 2014)

There is no negotiation that Somalia is an import-dependent nation. Her most important export commodity is livestock. However, the Somali economy has grossly underperformed relative to its economic endowment and her peer nations. During the war, Somalia has been significantly isolated from the international trade which limited its access to foreign exchange (Warsame, 2014).

International trade is a powerful enabler of economic development. Empirical literature supports this with strong evidence that increased participation in international trade can spur economic growth, which itself is a necessary condition for broader development outcomes to be realized. By connecting global markets to developing-country producers and consumers, trade – both through exports and imports – provides a critical channel for the flow of finance, technology and services needed to further improve productive capacity in agriculture, industry and services. These are needed in turn for structural transformation of economies. A case in point is the recent development path demonstrated by developing countries in East Asia and South-East Asia. A fundamental factor behind their rapid economic growth has been their ability to strengthen competitive productive and export capacities, first in traditional agricultural and textiles/clothing sectors and then in labour-intensive manufactures which shifted at times swiftly into high technology manufactures such as electronics (John, 2015).

When properly harnessed, the opportunities brought by international trade can be a powerful force for creating jobs, enabling efficient use of resources, providing incentives to entrepreneurs and ultimately improving standards of living in all countries. Trade helps generate economic conditions that are favorable for achieving development goals and peace. It is against this backdrop that the study aimed at investigating the effects of international trade on economic development of Somalia.

Objectives of the Study

- To find out the effect of Exports on Economic development of Somalia
- To investigate the effect of foreign direct investment on Economic Development of Somalia
- To determine the effect of imports on the Economic Development of Somalia
- To establish the effect of market expansion on the Economic development of Somalia

LITERATURE REVIEW

Theoretical review

Comparative cost theory

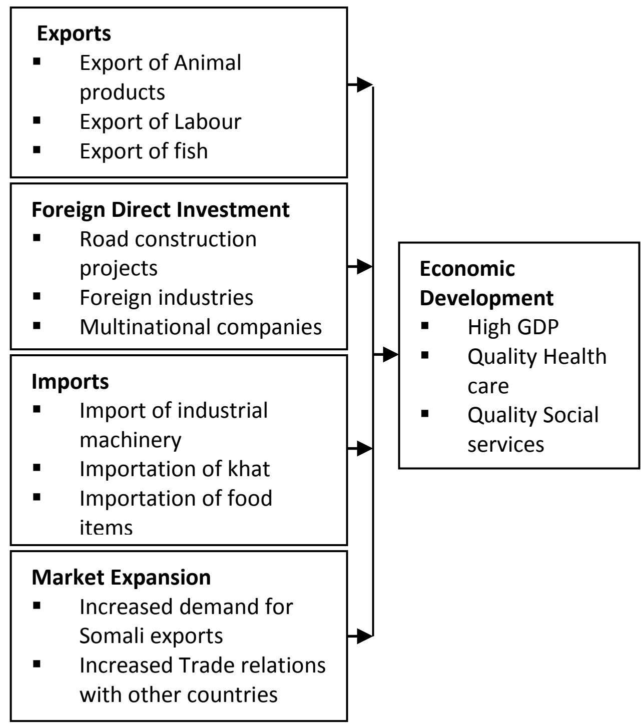
One reason why the amount of goods and services available to a country at a point in time can increase through trade is because it allows the country to buy goods and services from sources where it costs comparatively less to produce them. Local resources tied up in the production of these goods in the absence of trade are hence liberated so that comparatively more of other goods can be produced. If the United States can produce both computer chips and sugar but is much better at producing computer chips, while Brazil can also produce computer chips and sugar but is much better at producing sugar, then both countries can benefit from trade in these items. The total amount of resources used to produce the combined quantities of sugar and computer chips consumed by the United States and Brazil will be less for each country if Brazil specialized in the production of sugar and the United States in that of computer chips, with Brazilian sugar being traded for United States chips (David, 2017).

The gain from trade is shared between United States and Brazil. The way it is shared depends on the international price relation between computer chips and sugar, i.e. the rate at which they are traded - what economists call the external terms of trade**.** In the absence of trade, each country has its own domestic exchange ratio of sugar to chips; say one standard chip exchanges for 50 kg of sugar in the United States and for 100 kg in Brazil. Note that these exchange rates express the greater relative efficiency of producing sugar in Brazil and chips in the United States. The terms of trade will be contained between the exchange ratios of the United States and Brazil, since otherwise one of the countries would not be interested in trading. Trading will favour a country more; the farther away the international terms of trade are from its own exchange ratio (David, 2017).

Adam Smith's theory of absolute advantage

For Smith, international trade has the same underlying cause as all kinds of trade. In The wealth of nations, trade is the consequence of the human "propensity to truck, barter, and exchange one thing for another". That does not mean that trade has no selfish motive. On the contrary, whenever people trade with each other they pursue their own interests, not some altruistic ones. They must benefit from trade otherwise they would not pursue it. Thus, merchants carry on commerce internationally because they earn profits by it. However, Smith endeavors to show that not only single merchants but the society as a whole benefits from international trade (Schumacher, 2015).

Conceptual Framework



Independent variable **Dependent Variable**

Figure 1: Conceptual framework

Source: Author (2019)

Effect of Exports on Economic Development

In the long run, the key to the alleviation of poverty is economic growth. As noted by Winters (2014) in their review of trade liberalization and poverty, economic growth 'creates the resources to raise incomes, and even if "trickle-down" is insufficient to bring the benefits to the poor, governments will have scope for stronger redistributive measures when income is higher and growing faster (Jeppensen, 2015). Exporting is an important engine for growth. As noted by Shepherd and Haddad (2016) no countries in the past 50 years have managed to sustain high levels of growth and significant increases in per capita incomes without greatly expanding imports and exports (Sheperd, 2016).

Economic theory offers many reasons as to why we would expect exporting to have a positive impact on long-term growth rates. In the absence of exports, the growth of an economy is constrained by domestic demand. Especially for developing countries where domestic markets are small, foreign markets provide demand for production levels not sustained by the domestic economy. Access to larger markets allows individual producers to benefit from economies of scale, reducing unit-cost of production and increasing productivity, necessary for sustained economic growth (Wagner, 2016).

In the long run, the key to the alleviation of poverty is economic growth. As noted by Winters (2004) in their review of trade liberalization and poverty, economic growth 'creates the resources to raise incomes, and even if "trickle-down" is insufficient to bring the benefits to the poor, governments will have scope for stronger redistributive measures when income is higher and growing faster (Jeppensen, 2015). Exporting is an important engine for growth. As noted by Shepherd and Haddad (2016) no countries in the past 50 years have managed to sustain high levels of growth and significant increases in per capita incomes without greatly expanding imports and exports (Sheperd, 2016).

Effect of Foreign Direct Investment on Poverty Reduction

There is a widespread belief among policymakers that foreign direct investment (FDI) generates positive productivity effects for host countries. The main mechanisms for these externalities are the adoption of foreign technology and know-how, which can happen via licensing agreements, imitation, employee training, and the introduction of new processes, and products by foreign firms; and the creation of linkages between foreign and domestic firms. These benefits, together with the direct capital financing it provides, suggest that FDI can play an important role in modernizing a national economy and promoting economic development (Alfaro, 2016).

Many policy makers and academics contend that foreign direct investment (FDI) can have important positive effects on a host country's development effort. In addition to the direct capital financing it supplies, FDI can be a source of valuable technology and know-how while fostering linkages with local firms, which can help jumpstart an economy. Based on these arguments, industrialized and developing countries have offered incentives to encourage foreign direct investments in their economies (Chanda, 2016).

Effect of Imports on Economic Development

Imports increase on the country's GDP for example, import of capital goods supplies efficient machines that occupy new technology, which is obtained from the research and development in developed countries. Thus, diffusion of embodied technology to domestic industry from developed country is important to increase productivity growth throughout the economy and this raises domestic output, in turn, leading to growth of GDP (Azeez, 2014).

Imports act as an important channel for foreign technology and knowledge to flow into the domestic. New technologies are embodied in imports of intermediate goods such as machines and equipment and labor productivity that increase over time as workers acquire the knowledge to 'unbundle' the new embodied technology. Moreover, it is widely acknowledged that imports play a central role in the countries whose manufacturing base is built on export oriented industries, if foreign exchange accumulation is sufficient, the economic growth is promoted by importing of high quality goods and services, which in turn expand the production possibilities.

Importing allows countries to achieve higher standards of living by obtaining products and resources that cannot be obtained domestically and this is possible thru comparative advantage

Comparative advantage means lower-priced goods. Out of the many benefits of importing goods and raw materials, comparative advantage is the most common reason why companies choose to source products from overseas (Azeez, 2014).

Effect of Market Expansion on Economic Development

International trade is the exchange of goods and services between countries. This type of trade gives rise to a world economy, in which prices, or supply and demand, affect and are affected by global events. Political change in Asia, for example, could result in an increase in the cost of labour, thereby increasing the manufacturing costs for an American sneaker company based in Malaysia, which would then result in an increase in the price that you have to pay to buy the tennis shoes at your local mall. A decrease in the cost of labor, on the other hand, would result in you having to pay less for your new shoes.

International trade allows us to expand our markets for both goods and services that otherwise may not have been available to us. It is the reason why you can pick between a Japanese, German or American car. As a result of international trade, the market contains greater competition and therefore more competitive prices, which brings a cheaper product home to the consumer (Daneshjo, 2014).

International trade, as a major factor of openness, has made an increasingly significant contribution to economic growth. Chinese international trade has experienced rapid expansion together with its dramatic economic growth which has made the country to target the world as its market. Discussions of the role that international trade plays in promoting economic growth and productivity in particular, have been ongoing since several decades ago. A core finding from the comprehensive literature shows that internationally active countries tend to be more productive than countries which only produce for the domestic market. Due to liberalization and globalization, a country's economy has become much more closely associated with external factors such as openness (Adeleye, 2015).

METHODOLOGY

This study took a descriptive survey design. According to Coopers and Schindler (2003) descriptive studies are more formalized and typically structured with clearly stated hypothesis or investigative questions. The study involved subjects from diverse backgrounds both in culture and regions of Somalia. The researcher also used correlation and regression analysis to understand the relationship between the dependent variable and independent variables. The study used mean and standard deviation analysis for descriptive statistics while correlation and regression analysis were used for inferential statistics.

Regression Model;

$$\mathbf{Y=\beta+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\mu}$$

Where;

Y is Economic Development, β is the constant, X_1 is the effect of exports, X_2 is the effect of foreign direct investment, X_3 is the effect of imports, X_4 is the effect of market expansion and μ is the stochastic term.

Hypothesis testing

A hypothesis is an assumption about something. Hypothesis testing is about testing to see whether the stated hypothesis is acceptable or not (Saunders & Thornhill, 2015). Hypothesis testing was carried using the following formula below

$$z = \frac{\bar{x} - \mu_0}{\sigma/\sqrt{n}}$$

$\bar{x}$ = relevant statistic--sample mean

μ_0 = hypothesized parameter--population mean

$\sigma/\sqrt{n}$ = standard error of $\bar{x}$ which is the relevant statistic

σ is the population standard deviation and n is the sample size.

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FINDINGS

Effect of exports on Economic development of Somalia

The study findings indicated that majority of the respondents agreed that exports increase productivity in Somalia as shown by the mean value of 3.93 in the table below. Evidence suggests that exporting firms are generally more productive than non-exporters. They self-select, in that they were more productive before they enter export markets. Promoting exports is a high priority for most governments, on the assumption that it is good for productivity and growth.

The study also found out that majority of the respondents agrees to the statement that exports create employment opportunities; this is witnessed by a mean response value of 3.83 in the table below. Increasing exports would result in increasing employment. If a nation or as a state produces more goods and services for export, then that increased production translate into more jobs. Exports generally create jobs at home; imports generally create jobs abroad.

Results from the study further revealed that a large number of respondents agreed to the statement that exportation improves on the quality of goods sold in the country as shown by a mean response value of 3.92 in the table below. Firms produce high-quality goods to be competitive in international markets and this facilitates increased supply of quality products to the domestic market. Exporting is a form of international trade which allows for specialization which later facilitates quality improvements in the goods produced.

The study findings indicated that majority of the respondent agreed to the statement that export of agricultural goods bring in less revenue to the government as shown by a mean response value of 3.79 in the table below. Our continent has enormous potential, not only to feed itself and eliminate hunger and food insecurity, but also to be a major player in global food markets. This potential lies in its land, water and oceans, in its men and women, in its knowledge and huge markets. However Africa lost its status as a net exporter of agricultural products in the early 1980s when prices for raw commodities fell and local production stagnated. Since then, agricultural imports have grown faster than agricultural exports and there is less value addition to the exports leading to less revenue from the exports.

The study findings indicated that a large percentage of the respondents agreed to the statement that export of commodities provide revenue to the government as evidenced by a mean response value of 3.85 in the table below. Exports are a crucial component of a country's economy. Not only do exports facilitate international trade, they also stimulate domestic economic activity by creating employment, production and revenues to government and the country. The revenue earned helps in financing government expenditures.

Table 1: Effect of exports on Economic Development of Somalia

	N	Mean	Std. Deviation
Exports increase productivity in Somalia	384	3.93	1.017
Exports create employment opportunities	384	3.83	.770
Exportation improves on the quality of goods sold in the Country	384	3.92	.859
Export of agricultural goods brings in less revenue to the government	384	3.79	1.011
Export of commodities provide source of revenue to the government	384	3.85	1.044
Valid N (listwise)	384		

Effect of Foreign Direct Investment on the Economic Development of Somalia

The study results revealed that majority of the respondents agreed to the statement that foreign companies are investing Somalia evidenced by a mean response value of 3.99 in the table below. There is evidence of foreign companies in Somalia for instance after touching down at Aden Adde international airport in Mogadishu; arrivals enter a gleaming terminal run by Favori, a Turkish company. Private sector investment is paramount to development programs in fragile countries and is essential to stimulate economic growth and to create employment opportunities.

The study findings indicated that a large number of respondents agreed to the statement that foreign companies employ Somali people shown by a mean response value of 3.76 in the table below. Even before the onslaught of its ruinous civil war, Somalia was very poor by any standard. Today, it is in a much worse situation, and the poverty and unemployment of its people have increased enormously. As a result of Somalia's 25-year devastating civil war, and since the country has not yet witnessed any meaningful political stability or economic development, the unemployment situation in Somalia is especially heart-wrenching. It is of great importance that foreign companies employ Somalis in order to reduce on the massive unemployment in the country.

The study findings revealed that majority of the study respondents agreed to the statement that foreign companies pay tax to the government as shown by a mean response value of 3.85 in the table below. It is crucial for the government to raise its own revenue to be able to continue to improve security and roll out improved social services across Somalia. The government of Somalia after 25 years in civil war reintroduced taxes for both local and foreign companies operating from the Mogadishu International Airport. The new development signals the government's intention to regulate the activities of foreign companies and raise revenues for the conflict-torn country.

Findings from the study indicated that a large number of respondents agreed to the statement that foreign companies bring modern technology in Somalia; this is shown by a mean response value of 3.93 in the table below. Developing countries consider that FDI by multinationals give rise to technology diffusion and it is a major channel for gaining access to advanced technologies and knowledge of developed countries. FDI is the most important source of economic growth for developing countries, and they reveal that FDI flows from developed countries are an important channel through which technology transfers have been provided to local firms of developing countries.

The study findings further revealed that majority of the respondents agreed to the statement that foreign companies bring foreign exchange in form of dollars to Somalia; this is shown by a mean response value of 3.71 in the table below. Despite the lack of effective national governance, Somalia maintains an informal economy largely based on livestock, remittance/money transfer companies, and telecommunications. Somalia's government lacks the ability to collect domestic revenue. Agriculture is the most important sector, with livestock normally accounting for about 40% of GDP and more than 50% of export earnings (World Bank, 2018). In such situations, the foreign companies have provided an alternative source for foreign exchange inform of foreign direct investments in the country.

Table 2: Effect of Foreign Direct Investment on the Economic Development of Somalia

	N	Mean	Std. Deviation
Foreign Companies are investing in Somalia	384	3.99	.876
Foreign Companies employ Somali people	384	3.76	.888

	N	Mean	Std. Deviation
Foreign Companies pay tax to the government	384	3.85	.892
Foreign Companies bring modern technology to Somalia	384	3.93	.948
Foreign Companies bring foreign exchange in form of dollars to Somalia	384	3.71	1.001
Valid N (listwise)	384		

Effect of Imports on the Economic Development of Somalia

The study findings indicated that majority of the study respondents agreed to the statement that importation provides access to goods that are not manufactured in Somalia; this is shown by a mean response value of 4.08 in the table below. Imports provide countries with access to goods and services from other nations. Without imports, a country would be limited to the goods and services within its own borders.

Results from the study revealed that a large number of respondents agreed to the statement that importation provides revenue to government inform of taxes; this is represented by a mean response value of 3.92 in the table below. Import duties provide a source of revenue to government in financing sustainable development. A government can raise revenues from international trade in three major ways: (i) via tax on goods (and services) that are imported to the country; (ii) via tax on goods (and services) that are exported from the country; and/or (iii) directly receiving proceedings from exports.

The study findings indicated that a large number of respondents agreed to the statement that imports help in promoting international relations; this is shown by a mean response value of 3.89 in the table below. Trade strengthens ties between nations by bringing people together in peaceful and mutually beneficial exchanges and as such contributes to peace and stability.

The study findings further revealed that majority of the respondents agreed to the statement that imports contribute to inflation in the economy as shown by a mean response value of 3.64 in the table below. As the price of imports increase, prices of domestic goods using imports as raw materials also increase, causing an increase in the general prices of all goods and services.

The study findings indicated that majority of the respondents agreed to the statement that importation contributes to unemployment in Somalia as shown by a mean response value of 3.86 in the table below. If imports displace a domestic production, this will involve a fall in that sector's production, value added, and employment. Domestic firms will also reduce their orders to domestic suppliers, thus also other sectors will be touched. If imports completely substitute domestic production in certain areas, entire industries will not start and develop.

Table 3: Effect of Imports on Economic Development of Somalia

	N	Mean	Std. Deviation
Importation provides access to goods that are not manufactured in Somalia	384	4.08	.902
Importation provides revenue to government inform taxes	384	3.92	.727
Imports help in promoting international relations	384	3.89	.822
Imports contribute to inflation in the economy	384	3.64	1.061
Importation contributes to high unemployment in Somalia	384	3.86	1.047
Valid N (listwise)	384		

Effect of Market Expansion on Economic Development of Somalia

The study findings indicated that a large number of respondents agreed to the statement that international trade opens new market for local goods as shown by a mean response value of 3.88 in the table below. International trade allows us to expand our markets for both goods and services that otherwise may not have been available to us. It is the reason why you can pick between a Japanese, German or American car. As a result of international trade, the market contains greater competition and therefore more competitive prices, which brings a cheaper product home to the consumer.

Results from the study revealed that majority of the respondents agreed to the statement that international trade enables consumers to buy goods at lower prices; this is indicated by a mean response value of 3.89 in the table below. Free trade enables lower prices for consumers, increased exports, benefits from economies of scale and a greater choice of goods.

When a firm or an individual buys a good or a service produced more cheaply abroad, living standards in both countries increases. Increased efficiency, greater consumer choice and lower prices are the resulting benefits from international trade. These benefits are driven by economies of scale and increased competition.

Results from the study revealed that a large number of respondents agreed to the statement that international trade expands the tax base of the government; this is indicated by a mean response value of 3.89 in the table below. Taxation is the only practical means of raising the revenue to finance government spending on the goods and services that most of us demand, international trade, typically through import duties is one of the ways to raise government revenue.

Results from the study revealed that a large number of respondents disagreed to the statement that unrestricted importation may lead to collapse of local industries as shown by a mean response value of 1.79 in the table below. Somalia lacks natural resources and faces major development challenges; its economy is pastoral and agricultural, with livestock--principally camels, cattle, sheep, and goats--representing the main form of wealth. The country lacks indigenous industries and also foreign companies are few and this is why many respondents did not agree that unrestricted importation can lead to collapse of local industries.

The study findings indicated that majority of the respondents agreed to the statement that excessive importation has led to dumping in Somalia; this is indicated by a mean response value of 4.9 in the table below. During the Somali civil war hazardous waste was dumped in this African nation by industrialized countries. Some firms took advantage of Somalia's lack of a functioning government to dump waste off its coast for years.

Table 4: Effect of Market Expansion on Economic Development of Somalia

	N	Mean	Std. Deviation
International trade opens new market for local goods	384	3.88	1.054
International trade enables consumers to buy goods at low prices	384	3.89	1.061
International trade expands the tax base of the government	384	3.89	1.063
Unrestricted importation may collapse local companies	384	1.79	.833
Excessive importation has led to dumping in Somalia	384	4.11	.869
Valid N (listwise)	384		

Table 5: Correlation Coefficients

		E D	EXP	FDI	IMP	MXP
E D	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	198				

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EXP	Pearson Correlation	.828**			
	Sig. (2-tailed)	.000			
	N	198			
FDI	Pearson Correlation	.803**	1		
	Sig. (2-tailed)	.000			
	N	198	198		
IMP	Pearson Correlation	.720**	.013	1	
	Sig. (2-tailed)	.000	.786		
	N	198	198	198	
MXP	Pearson Correlation	.783**	.027	.013	1
	Sig. (2-tailed)	.000	.352	.952	
	N	198	198	198	198

**. Correlation is significant at the 0.01 level (2-tailed).

Regression Analysis

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.954[a]	.910	.908	.010

a. Predictors: (Constant), Market Expansion, Imports, Foreign Direct Investment, Exports

Table 7: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	148.196	4	37.049	974.973	.001[b]
	Residual	14.577	379	.038		
	Total	162.773	383			

a. Dependent Variable: Economic Development

b. Predictors: (Constant), Market Expansion , Imports, Foreign Direct Investment, Exports

Table 8: Regression Coefficients

Model	Un standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.510	.206		21.860	.000
Exports	.320	.030	.064	10.667	.031
Foreign Direct Investment	.451	.034	.076	13.264	.020
Importation	.731	.037	.104	19.756	.001
Market Expansion	.572	.025	.034	22.88	.000

a. Dependent Variable: Economic Development

From the regression analysis, the substitution of the regression values into the model was;

$Y= 4.664+0.030X_1+0.034X_2-0.037X_3+0.025X_4$

Where Y was the dependent variable (Economic Development), X_1 was the effect of Exports, X_2 was

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effect of Foreign Direct Investment, X_3 was effect of Imports and X_4 was effect of Market Expansion.

Hypothesis testing

Hypothesis 1

$H0_1$: Exports have no effect on economic development of Mogadishu, Somalia

β = 0,

H_A: Exports have effect on economic development of Mogadishu, Somalia

β ≠ 0,

Referring to the results above it was indicated that exports have a significant effect on economic development of Mogadishu, Somalia. This was indicated by 0.031 level of significance which was lower than 0.05. This therefore led to rejection of the null hypothesis which said that exports have no effect on economic development.

The study therefore accepted the alternative hypothesis that exports have a significant effect on economic development of Mogadishu, Somalia.

Hypothesis 2

$H0_1$: Foreign direct investment has no effect on Economic development of Mogadishu, Somalia.

β = 0,

H_A: Foreign direct investment has effect on Economic development of Mogadishu, Somalia.

β ≠ 0,

Referring to the results above it was indicated that foreign direct investment has effect on Economic development of Mogadishu, Somalia. The regression analysis indicated that foreign direct investment has effect on Economic development of Mogadishu, Somalia. This was shown by a p-value (significance level) of 0.020 in which was lower than 0.05. This led to the rejection of the null hypothesis which said that foreign direct investment has no effect on Economic development of Mogadishu, Somalia. Therefore the study accepted the alternative hypothesis that foreign direct investment has effect on Economic development of Mogadishu, Somalia

Hypothesis 3

$H0_1$: Local government community planning has no significant effect on community development in Banadir region in Mogadishu, Somalia.

β = 0,

H_A: Local government community planning has effect on community development of Mogadishu in Somalia

β ≠ 0,

Referring to the results above it was indicated that Local government community planning has effect on community of Mogadishu, Somalia. The regression analysis further showed that Local government Community planning has an effect on community development as indicated by a p-value (significance level) of 0.001 which was lower than 0.05. This led to the rejection of the null hypothesis which said that Local government community planning has no effect on community development. The study accepted the alternative hypothesis that Local government community planning has effect on community development of Mogadishu, Somalia.

Hypothesis 4

$H0_1$: Local government community budgeting has no significant effect on community development in Banadir region in Mogadishu, Somalia.

β = 0,

H_A: Local government community budgeting has effect on community development of Mogadishu in Somalia

β ≠ 0,

Referring to the results above it was indicated that Local government community planning has effect on community of Mogadishu, Somalia. The regression analysis indicated that local government budgeting has a significant effect on community development as shown by a p-value of 0.000 which was lower than 0.05. This led to the rejection of the null hypothesis which said that Local government budgeting has no effect on community development. The study accepted the alternative hypothesis that Local government budgeting has effect on community development of Mogadishu, Somalia.

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CONCLUSION

From the study it was shown that international trade has a significant effect on economic development of Somalia. Export growth is important because of its effect on internal trade and economic stability. Even more, the rate of economic growth and the distribution of income and wealth in a country are closely related to export growth. Growth of an economy is directly related to exports. If exports increase at a faster pace as compared to imports, nothing can stop an economy from being a developed one.

On the other hand, the instability in exports can adversely affects the process of economic development. Lower exports mean low foreign exchange and lower foreign exchange in turn means a small purchasing capacity of a nation in the international market. Fluctuations in export earnings introduce uncertainties in an economy. These uncertainties influence economic behavior by adversely affecting the level and efficiency of investment and in turn have a negative effect on growth.

Foreign direct investment as an aspect of international trade has a significant role it plays in the economic development of Somalia. Over the last few years, foreign direct investment has helped the economy of Somalia to obtain a launching pad from where it can make further improvements. It has often been observed that the economically developing as well as underdeveloped countries are dependent on the economically developed countries for financial assistance that would help them to achieve some amount of economical stability. The economically developed countries, on their part, can help these countries financially by investing in these countries. This financial assistance can be channelized into various sectors of the economy.

International trade promotes market expansion for goods and economic development. International trade allows Somalia to expand its markets for both goods and services that otherwise may not have been available to it. It is the reason why we can pick between a Japanese, German or American car. As a result of international trade, the market contains greater competition and therefore more competitive prices, which brings a cheaper product home to the consumer.

RECOMMENDATION

Foreign trade plays very important role in the economic development of any country. Somalia also exports a lot of agricultural product to other countries but also imports a lot of agricultural goods and capital goods from other countries. However this has contributed to massive loss of foreign exchange as the country exports less and imports more. The study recommended government improvement in security to create a stable environment for foreign direct investment.

International trade has also damaged the economic development of Somalia, since the country normally export raw materials and import already manufactured products, and the price of raw materials is lower than that of already manufactured products. The government of Somalia needs to address this challenge by improving the social and economic infrastructures such as security, electricity and roads that are necessary for industrialization so that the country exports finished commodities not raw materials

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