



Effects of External Trade Financing on Economic Growth

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Abstract

The paper examined the effect of external trade financing on economic growth in Nigeria. Time series data from 1982 to 2022 sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin and Annual reports formed one of the major information for the study. The Nigeria Export Import Bank, NEXIM publications were also consulted. The study employed autoregressive distributed lag (ARDL) model in its estimation. Deposit money bank loans to export trade (DMBLE), deposit money banks loans to import trade (DMBLI), Nigeria export and import (NEXIM) credit, letter of credit (LOC) and exchange rate (EXR) were the independent variables in the study, whereas, Gross domestic product growth rate (GDPGR) is the dependent variable. It was revealed in the study that bank's loan to export trade stimulates economic growth in the short run but negative in the long run. Banks loan to import trade expand economic growth in the short run and a decrease in the long run. Increase in exchange rate was found to shrink economic growth. On the contrary, insurance letter of credit (LOC) decreases economic growth in the long run. The study conclude therefore, that external trade financing has an overall negative effect on economic growth in the long-run. Thus, recommend that deposit money banks should increase the volume of loans to export trade, specifically, for the manufacturing industry. Import trade should be channeled to the importation of those commodities which bears comparative disadvantage to us in term of production, such as machinery. Financial institutions should also promote policies and programs that will enforce the judicious use of loans for import trade in order to protect and promote infant industries.

Keywords: Gross Domestic Product Growth Rate, Deposit Money Banks loans to Export, Deposit Money Banks to Import.

JEL: F13, F14, F43, F31

1. Introduction

Over the years, external trade has flourished in Nigeria so much so that it has become one of the major sources of revenue in the national economy. Financing external trade is made possible only through private lending or commercial banks loans. Others are letter of credit, Export-Import bank (NEXIM) credit, and insurance for shipment and delivery of products and services. In order to enhance the growth of external trade in Nigeria, government prescribed a package of incentives for the export industries which included a clear directives to banks to grant facilities to exporters. Apart from commercial banks that provide credit to the Nigeria's exporting sectors both for oil and non-oil exports, there are other bodies or agencies involved in financing export trade in Nigeria. This include; Nigeria Export-Import Bank (NEXIM), Nigeria Export Promotion Council (NEPC), Nigeria Export Processing Zone Authority (NEPZA), etc. The efficacy of these strategies is dependent on how the loans are being applied to support economic growth. According to Oluwasola and Olumide (2012), the basis for international commerce is premised on the reality that nations differ in resource endowment, preferences, technology, and production therefore, must take advantage of its potentials and promote international trading activities. Kehinde et al. (2012), opined that external trade can promote growth from the supply side only if the balance of payments are favorable to the exporter or the supply side costs reduces the availability of imported inputs that enter export products, forcing the exporters to use expensive imports of double quality. Consequently, countries participate in commerce to benefit from a variety of commodities and services it does not produce and to also raise their citizen's welfare level.

2. Literature Review

Conceptual Clarifications

Trade financing is a broad word for a variety of financial instruments of banks and businesses fashioned to facilitate trade transactions.

According to Ahn et al. (2011), it connotes a wide range of bank products which enable importers and exporters in prosecuting international payments. Consequently, the phrase "external trade finance" usually, is associated with bank products that are expressly related to international trade transactions and typical to short term maturities. However, trade in capital goods may be backed by longer-term credits.

There are two forms of external trade finance, namely; equity financing and debt financing. The primary benefit of equity financing is that there is no responsibility to repay the money obtained via interest. Equity financing entails selling an interest in your company in exchange for a cash investment. Equity funding need not repaid, unlike a loan. Instead, investors buy stock in a company in order to get dividends (a percentage of earnings) or to benefit from the eventual sale of their shares. Debt financing is the process through which a business raises money by offering investors debt instruments. The opposite of equity financing, which includes issuing stock to raise money, is debt financing. Debt financing on the other hand occurs when a business offers fixed income securities like bonds, bills, or notes to a lender or when an investor borrows to finance the business. An initial public offering, small company investment firms, angel investors for equity financing, mezzanine financing, venture capital, royalty financing, or equity crowd funding are all examples of external trade financing through equity.

The risk of international commerce are reduced by establishing letters of credit (LC), since the buyer's bank guarantees payment to the seller for the items shipped. However, the buyer is also safeguarded given that payment will not be made unless the seller meets the requirements of the LC. In order to consummate a transaction, both sides must uphold their end of the bargain. Exporters might be provided with export finance or working capital. Insurance may be used for shipping and delivery of products, as well as to safeguard the exporter against buyer's nonpayment. In the framework of this study, external trade finance will be measured by credit to export trade, credit to import trade, letter of credit, and NEXIM bank credit. These variables are predicted to have a plus on economic growth being an injection in the system.

Ahn et al. (2011), all of export financing instruments entail at least one of the parties borrowing at an interest rate that is impacted by changes in monetary policy and trade finance. Financing also makes use of the fact that some people in an economy will have a surplus money that they are desirous to put to work and earn profit, while others will need money to invest thereby, creating a money market. As a result, indicators measuring financial sizes such as credit intermediation or stock market capitalization have risen dramatically over the last half-century and the structure of financial activities has also changed considerably, particularly in the destination of private credit, which has shifted

from business loans to mortgages. These long-term shifts in the financial environment have occurred at a period when economic development sluggish in many countries (Cournède and Denk, 2015).

Stiglitz and Weiss (1983), Diamond (1984), opined that a well-developed financial market allocates an economy's savings to successful investments. Greenwood and Jovanovic (1990), assert that financing lowers the cost of information thus, lead to improved capital allocation and reduces the cost of corporate governance.

According to Das et al. (2008), credit allocation through the financial system serves as a pathway between the financial and real sector, and it can cause increase in the external trade over time. To a large extent, this indicates that financing and economic growth are inseparably linked and encourages foreign commerce. External trade financing therefore, is the methods through which import and export trade are financed. It is enhanced by commercial bank credit for imports and exports, as well as NEXIM bank credit.

Theoretical Review

Absolute Advantage Cost Theory:

The capacity of a nation to create products and services per unit while consuming fewer resources than other nations is considered to be Adam Smith's absolute advantage (Deliarnov, 1995). In 1776, Adam Smith wrote a classic treatise, the *Wealth of Nations* wherein, he advanced the idea of absolute advantage cost. The theory was developed in response to criticism of mercantilism. He felt that the best course of action for the countries of the world was free trade. In his opinion, free trade might allow one country to specialize in the production of a commodity for which it could produce more effectively than the other countries, while importing the ones that they could create less impart and efficiency. The increase in global output, which would be shared by trading nations, would result from this global specialization of manufacturing components. As a result, one country need not gain at the expense of another; rather, all countries can gain simultaneously.

The thesis states that a nation should focus on producing or exporting goods in which it has a lower cost or a clear cost advantage over rivals. On the other hand, the same nation should import a good with a higher price or a significant cost disadvantage.

Theory of Comparative Advantage:

Trade between two countries can benefit both countries if each country exports goods that have a comparative advantage (Krugman et al., 2012).

The absolute advantage does not consider whether a country has a comparative advantage in the production of two items or not. Trade is still beneficial to both countries. David Ricardo (1772-1823) was the one who established that external trade stems from a difference in comparative advantage rather than a difference in absolute benefit. He referred the comparative advantage as *Greater advantage*. Thus, in a two nations and two commodities scenario, trade would still take place even if one country would be more efficient in producing both commodities, as long as the degree of advantage over the other would not be similar for both commodities. Ricardo founded two nations, two goods and one factor of production, labor. He believed that the workforce was fully employed and stationary on a global scale, and that product and price factors were competitive. There are no transportation costs or other trade barriers. He further discovered that a country would have a tendency to export a commodity which it was in a relatively disadvantageous position in a model with two countries, two commodities and one factor of production.

His theory now suggests that a country will tend to export a commodity with a lower comparative cost of production and a higher comparative cost in pre-trade isolation. The idea also assumed that the technological level of both nations was constant. Different countries may use different technologies, but all enterprises in one country use the same production process for each item. Trade is also considered to be sustainable and money flows freely between countries. Trade has little effect on the distribution of income in the country, this theory appears impractical. The idea is based on the labor theory of value, which assumes that the price of a commodity is equivalent to or can be inferred from, the quality of the time invested in its production process. The laboratory theory of value assumes that labor is the only component of production. In the production of all goods, labor is used in the same fixed proportion. Again, this is quite unrealistic since labor are sub-divided into skilled, semi-skilled and unskilled and there are other factors of production. Despite the shortcomings, the law of comparative advantage cannot totally be spurned as it has been applied in the science of economics.

Hecksher – Ohlin Trade Theory:

Eli Hecksher and Bertil Ohlin, proposed the theory that addressed major problems that Ricardo's theory could not explain; what factors determine comparative advantage and what impact international trade has on factor income in trading countries. Eli Heckscher (1919) and Bertil Ohlin (1933), study the effects of early commodity factors on international trade. Their model are widely referred as the Heckscher-Ohlin model (Widodo, 2010). The Hecksher-Ohlin hypothesis considers that discrepancies in the relative resource of factors and their pricing among nations are the most important drivers of trade (taking the same or similar technology and consumer tastes). Hecksher- Ohlin advanced that the origin of factors influencing his comparative advantage. This serves as the basis for the idea known as the factorial equipment theory. Their work investigated the variability of equipment variables in international specialization and based on two assumptions; firstly, a country specializing in the production and export of goods, the production of which requires an intensive use of rich resources. This suggests that the ratio requirements for different items are not the same. Secondly, nations differ in their factor endowments. Some countries have more capital per worker than others, etc. As the starting point for trading, the Hecksher-Ohlin model discovered differences in the prices of pre-trade products across countries. Pricing in trading countries are determined by the production possibilities curve on the supply side, preceded by tastes and preferences on the demand side. Similarly, the capacity curve is determined by technology and resource endowment.

As as a matter of fact, a country should develop and export products that makes extensive use of relative endowed resources. Such country should also import item that make up large proportion of its relatively rare and expensive items. In event where the resource are in abundance, it costs less than where it is scarce. This allows for a competitive advantage. The effect of factor endowment on comparative advantage are, namely; discrepancies in relative resource endowment lead to differences in relative resource prices, and in turn lead to differences in relative resource prices among relatives. The concept assumes that less developed countries with abundant labor force should concentrate on the production of basic commodities, particularly for agricultural products, since agriculture has high demand for labor, except automated agriculture. On the other hand, less developed countries should import capital-intensive products, mainly manufacturing from emerging countries. Hecks -Ohlin model was built on the premise of two nations, two commodities and two factors. Both the factor and product markets are completely competitive. It was further estimated that the factor inputs for both nations are labor and capital, and were homogeneous. The production function is also characterized by a continuous return to scale. The production possibilities curve is concave to origin. The proponents of this theory however, faced severe criticism on grounds the concept of the theory was built. This was on the premise that input factors do not have the same quality and cannot be quantified in homogeneous units. Furthermore, the quality and variety of equipment with components differ. There is no such thing as perfect competition in the real world. The products are quite distinct. The differences in the relative endowment of the factors reflect the relative valuation of the factors. Thus, in setting factor prices, supply dominates over demand. According to the Hecksher-Ohlin, trade increases total output, and accord benefits among trading partners. It also enables countries to source capital and consumer products from different regions of the world. In totality, promotes or acts as an engine room for growth (Usman, 2011).

Empirical Review

Deposit Money Banks Loans to Export Trade and Economic Growth

Ningi (2013), noted that oil exports accounted for 4% of the Nigerian economy and that growth in the Nigerian export sector was very low as a result of insufficient access to financing from bank deposits. Through questionnaires sent to 120 non-oil exporting companies. Data were analysed using multiple means regression and standard deviation methodology. The multiple regression indicates that financing of non-oil exports by banks significantly explains a little bit of 16% of the variance of non-oil exports, and the beta coefficient shows that the perceptions of companies on banks' attitudes towards the risk of financing exports of non-oil products are highest Beta value followed by The cost of bank financing, when affected by exchange rate fluctuations and the size and access to credit , shows little relationship with non-oil exports and establishes that governments must develop the financial sectors of their economies to improve exports of goods and services.

Sajo and Li (2017), examined the relationship between financial development, exports, and economic growth in Nigeria using the ADF and PPF test model. The study analysed the co-integrating variables and applied the Johansen co-integration test to investigate the long-term relationship between the variables. The study employed Time series data from 1994- 2013, Granger causality test and Ordinary Least Square (OLS) to investigate the relationship between the variables. The study affirmed that Nigeria cannot develop economically without expanding exports and

transportation. The study found that export and transportation development had a significant and positive impact on economic growth in Nigeria. Therefore, it can be concluded that there is a positive relationship between exports and transport, which in turn has a significant impact on the GDP.

Du and Girma (2007), examined the relationship between export intensity, bank credit, and foreign direct investment (FDI) for more than 28,000 manufacturing firms in China using longitudinal data from the Industrial Firms Annual Report database from 1999-2002. The study found that bank credit is positively linked to exports at the firm level. This finding suggests that access to bank loans or credit is crucial for financially unstable companies to stimulate export volumes.

Acaravci, Ozturk and Ali (2009), studied the relationship between financial development and growth in the SSA. They examined the relationship between growth and financial development in the period and the integration tests. The outcome of their study revealed that there is no link between financial development and long-term economic growth. Empirically, the results of the panel survey of 24 sub-Saharan African countries show a two-way causal relationship between real GDP per capita growth and domestic banking sector credit.

Bellona et al. (2010), in their research which data was spanned from 1993 to 2005 examined the influence of financial factors on the intensity of exports of 25 thousand French manufacturing companies. Based on data from the Enquête Annuelle 'Entreprise and DIANE databases, the authors find no evidence of a positive relationship between financial condition and firms' share of exports. This result suggests that access to finance is marginal in stimulating exports at the firm level.

Using data from the World Bank Enterprise Surveys from 1998 to 2004, Berman and Héricourt (2010), studied the impact of financial factors on the export decisions of 5,000 manufacturing firms in 9 developing and emerging countries. Their results confirmed that access to finance is not essential to increasing exports at the firm level.

Paravisini et al. (2011), investigated the relationship between bank loan and the export volume of panel of Peruvian companies from 2007 to 2009. Results show that 10 percent decrease in the supply of bank loans translates into a decrease of 2.3% annual export volume. The finding, therefore, underlines the need for adequate access to external financing in order to increase the export volume of companies.

Shahbaz, Rahman, and Abdul (2012), examined the relationship between financial development, international trade and economic growth in Australia. The study adopted multivariate frame analysis test and included, a 45 year case study from Australia from 1965 to 2010. It adopted the ARDL limit test approach to cointegration. The statistical analysis showed that capital, financial development and international trade are key drivers of economic growth both in the short and long term. The study further confirmed that there is a feedback effect between international trade and economic growth.

Gupta and Keshari (2013), assessed export trade finance in India with focus on commercial banks relative to funds provision for exports, both before and after shipment. Ordinary least squares OLS, was employed and the results obtained show that increasing the inflow of bank loans to the export sector and restructuring interest rates improve export performance. Thus, requires coordination between the banks and other financial institutions in terms of financing of the export sector. However, little attention has been paid to the impact of deposit loans at money banks on the overall performance of Nigeria's exports.

Pradhan et al. (2017), studied financial and development relations in the ASEAN region between 1991 and 2011. The study used four different indicators of financial development, bond market development, stock market development of securities and the development of the insurance sector. Their results show that the development of the banking sector, stock market, bond market, insurance and per capita economic growth are linked in the long run. However, in the case of causality, their results are sensitive to the use of the financial development index. They explained the one-way causality from banking sector development to economic growth and the two-way relationship between stock market development and economic growth and insurance sector development and economic growth.

3. Methodology

Specific statistical techniques were brought to focus here to deal with data collected for the study. Ex-post facto research design was employed in this study to examine the relationship between the independent and the dependent variables chosen for the study viz; Gross domestic product growth rate, Deposit money banks' loans to export trade, Deposit money banks' loans to import trade, Nigeria export and import credit, Letter of credit, Exchange rate.

GDPGR _t	=	$\alpha_0 + \beta_1 \text{NEXIMC}_t + \beta_2 \text{DMBLE} + \beta_3 \text{DMBLI} + \beta_4 \text{LOC}_t + \beta_5 \text{EXR} + \mu_t$
Apriori,	=	$\beta_1 < 0, \beta_2 < 0, \beta_3 < 0, \beta_4 < 0, \beta_5 < 0$
Where:		
GDPGR	=	Gross Domestic Product Growth Rate.
DMBLE	=	Deposit Money Banks' loans to Export Trade
DMBLI	=	Deposit Money Banks' loans to Import Trade
NEXIMC	=	Nigeria Export and Import Credit
LOC	=	Letter of Credit
EXR	=	Exchange Rate
Mt	=	Error term

Table 1: Unit root test result

	Level		1st Difference		Order
	T.Stat	Critical val.	T.Stat	Critical val.	
GDPGR	-2.203613	-3.529758	-11.81329	-3.529758	I(1)
LOG(DMBLE)	-4.548545	-3.526609	-	-	I(0)
LOG(DMBLI)	-2.833207	-3.529758	-6.983483	-3.533083	I(1)
LOG(NEXIMC)	-3.406342	-2.938987	-	-	I(0)
LOG(LOC)	-2.929488	-3.526609	-5.510141	-3.529758	I(1)
EXR	-0.300962	-3.526609	-4.351756	-3.529758	I(1)

Sources: Authors compilation from E-views 10.05

Table 1. illustrates the stationarity test for the inquest into the effect of external trade financing on economic growth in Nigeria. It can be inferred that, LOG (DMBLE) and LOG (NEXIMC) were stationary at level. This also means that, the variable in question were mean reverting while other variables became stationary after first differencing. Hence, there is a mixture of series of different order of integration 1(1) and I(0), this justified the application of Author-Regressive Distributed lag (ARDL).

Table 2: Bounds Cointegration Test

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	8.993842	10%	2.26	3.35
K	5	5%	2.62	3.79
		2.5%	2.96	4.18
		1%	3.41	4.68

Sources: Authors compilation from E-Views 10.05

Table 2. indicates a bounds cointegration test for external trade financing and economic growth relationship in Nigeria using time series data for the period 1982 to 2022. The result indicates the presence of a long run relationship given that, the F-statistic value of 8.993842 is greater than 3.79 upper bounds test. Therefore, the null hypothesis of no long run relationship is hereby rejected while the alternative hypothesis is accepted. There is a long run coefficient among the variables in the model. In the event of the presence of a long run association, we therefore proceed to estimate the long coefficient of their association through the ARDL long run and short run estimate.

Table 3:ARDL Error Correction Regression (Short Run)

ECM Regression

Case 3: Unrestricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	375.6874	46.11742	8.146324	0.0000
GDPGR(-1)	0.951282	0.156092	-6.094383	0.0000
DLOG(DMBLE(-1))	1.443314	0.609816	2.366804	0.0272
DLOG(DMBLI)	24.10109	7.313056	3.295625	0.0033
DLOG(DMBLI(-1))	48.74092	8.723510	5.587306	0.0000
DLOG(DMBLI(-2))	16.83557	6.227817	2.703285	0.0130
DLOG(NEXIMC)	3.025799	2.007118	1.507534	0.1459
DLOG(NEXIMC(-1))	-11.93106	2.031475	-5.873099	0.0000
D(EXR)	-0.074783	0.019713	-3.793594	0.0010
D(EXR(-1))	-0.052524	0.028444	-1.846561	0.0783
CointEq(-1)*	-0.951282	0.116893	-8.138021	0.0000
R-squared	0.795072	Mean dependent var		0.131818
Adjusted R-squared	0.719173	S.D. dependent var		4.723128
S.E. of regression	2.502932	Akaike info criterion		4.910001
Sum squared resid	169.1461	Schwarz criterion		5.384039
Log likelihood	-82.29002	Hannan-Quinn criter.		5.078660
F-statistic	10.47537	Durbin-Watson stat		2.259315
Prob(F-statistic)	0.000001			

Sources: Authors compilation from EViews 10.05

Table 3. Presents the error correction mechanism and the short-run causation for the empirical examination of the effect of external trade financing and economic growth in Nigeria using time series data set spanning from 1980 to 2020. Specifically, the R² square value is 0.795072 while the adjusted R-Square is 0.719173. This implies that about 71% of the variation in economic growth in Nigeria were caused by the variables in the model while the remaining 31% is captured in the error term. The Durbin Watson statistic value of 2.259315 shows the absence of first-order autocorrelation. F-statistic value of 10.47537 and its probability value of 0.000001 shows error correction term appeared with the normal sign (-) and it is statistically significant at 5%. Therefore, the past disequilibrium will be adjusted at the speed of 95% annually.

In the short run, the coefficient of the past value of the dependent variable (RGDPGR (-1)) has a positive effect on GDPGR on the dependent variable and is statistically significant. This implies that economic growth has been sustainable over the study period. On the other hand, it could also mean that output growth has been the main driver of the short-run growth in Nigeria. This is consistent with the theoretical expectation of the researcher's value. In the short-run, the coefficient of the lag deposit money banks credits to the export section DMBLE(-1) has a positive effect on the dependent variable (RGDPGR) and is statistically significant given that the probability value of the series is less than the 5% threshold. Therefore, an increase in deposit money banks loans to the export section will, all things being equal amount to a 1.443314 unit growth rate of gross domestic product (GDP) in Nigeria. This implies that the past values of deposit money banks' loans to the export sector determine the level of economic growth in Nigeria over the study period and loans taken from the deposit money banks for export purposes may have been the reasons for the growth in the gross domestic product (GDP) in Nigeria. This assertion is in line with theoretical expectations. The economic theory stipulates that an increase in a saving-investment relationship will stimulate output, when output is stimulated, it will increase economic growth.

In long run, the coefficient of deposit money bank loan to the import trade has a positive effect on gross domestic product growth (GDP) and it is statistically significant since the probability value of 0.0033 is less than the 5% threshold. Therefore, an increase in DMBLI will, all things being equal amount to a 24.10109 unit increase in economic growth in Nigeria. This implies that loans to the import trade can increase the volume of Nigeria's output. This satisfies our *apriori* expectation. Economic theory postulate that exchange of goods and services between one

country and another will lead to a favorable trade balance when a country specializes in the production or export of goods and services in which they have a comparative advantage and purchase or import of those in which they have a comparative disadvantage. The outcome of this study enables us to rethink increasing the volume of loans to import trade in Nigeria, especially at a time when insecurity has threatened the peaceful coexistence of the country. On the other hand, the coefficient of the lagged value of deposit money banks loans to the export trade DMBCI (-1) and DMBC (-R) has positive effects on the dependent variable (GDPGR) and they are statistically significant since their probability value are less than the 0.03 threshold. An increase in the first and second year's values of deposit money banks credit to the import trade will all things being equal amount in 48.74092 and 16.83557 respectively. This implies that deposit bank loan-to-export trade has a stable positive effect on economic growth in Nigeria. This exposition is consistent with theoretical expectations.

Contrary to the above, the coefficient of NEXIM bank credit to economic growth has a positive effect on the real gross domestic product growth rate (RGDPGR) but it is not statistically significant in the short run. Hence, the NEXIM bank credit to the international trade (export and import) has no direct short-run effect on output in Nigeria. On the contrary, the past value of NEXIM bank credit to the external trade causes a decline on economic growth and is statistically significant at 5%. An increase in the past value of NEXIM (-1) will, all things being equal amount to an 11.93106 unit decrease in economic growth in Nigeria. The main reason for the establishment of the Nigeria export-import bank (NEXIM) credit is to finance international trade (export and import) on non-oil-based commodities. When the past value of NEXIM credit exhibits a negative effect on economic growth, it could mean that the credit allocation to external trade was not used for the purpose it was released in the first instance. Hence, we assert that NEXIM credit has an unstable effect on economic growth in the short run.

In the short-run, the coefficient of the exchange rate (EXR) decrease real gross domestic product growth (RGDGR) and it's statistically significant at 5%. An appreciation of the exchange rate will all things being equal amount to a decline in economic growth by 0.774783 while its one-year lagged value emits 0.052524 of the total variation on economic growth but is not statistically significant at 5%. Hence, exchange rate appreciation has effect on economic growth. According to the theory of exchange rate, an appreciation of the exchange rate will amount to a reduction in productivity.

Table 4: Long-Run Results

Levels Equation

Case 3: Unrestricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(DMBLE)	0.822596	1.378996	0.596518	0.5569
LOG(DMBLI)	-27.72462	9.534676	-2.907768	0.0082
LOG(LOC)	-3.353122	1.427755	-2.348527	0.0282
LOG(NEXIMC)	-0.355942	2.174494	-0.163690	0.8715
EXR	0.014315	0.019394	0.738085	0.4683

EC = GDPGR - (0.8226*LOG(DMBLE) -27.7246*LOG(DMBLI) - 3.3531

*LOG(LOC) -0.3559*LOG(NEXIMC) + 0.0143*EXR)

Sources: Authors computation EViews 10.05

In the long run, the coefficient of deposit money banks' loans to the export trade (DMBLE) has a positive effect on RGDPGR and it is not statistically significant at 5%. This implies that the export base of Nigeria does not enhance economic growth. Reasons for these anomalies may not be unconnected to the fact that the country's export sector attracts very poor foreign exchange into the country, given the fact that this dwells on the production and exportation of raw materials whose prices are determined by the buyers in most cases. Before the discovery of crude oil in commercial quantity in Oloibiri in 1956, the agricultural practice was the main source of revenue for Nigeria and

despite the influence of oil exploration; the region is still in the business of producing raw materials instead of capital intensive goods and services. Hence, the reason why the path to Nigeria's development has been slow over time.

In the long run, the coefficient of deposit money banks' loans to import trade (DMBLI) had a negative effect on RGDPGR and it is statistically significant at 5%. Therefore, an increase in loan to import trade will, all things being equal lead to a 27.72462 reduction in economic growth in Nigeria. This implies that when the importation of goods and services increase based on loan obtained from deposit money banks, it will cause a reduction in productivity by 2.772462 units. This not consistent with theoretical expectation. Specifically, an import trade increase is expected to improve the domestic economy especially when it has to do with the importation of capital assets, such as machinery and equipment. Also, domestic consumers will benefit from the importation of goods and services since it provide consumers with alternatives to what they wished. Import trade on economic growth estimated above indicates that importation has caused more harm than expected in the country, this is not consistent with economic theory. It could also mean that the import trade discourages infant industries in Nigeria as it occasioned the importation of those items that are domestically produced. In event therefore, people prefers to buy foreign-made goods over locally made ones. Foreign made goods and services in consequence, appears cheaper than local ones. In the event of the above, the morale of local investors will be low, hence investment drive will decline leading to a decline in output and subsequently, economic growth.

In the long run, the parameter of letter of credit negatively affected RGDPGR and it is statistically significant. A percentage change in LOC will, all things being equal amount to a 3.353122 reduction in economic growth in Nigeria. This implies that documentary credit or banker's commercial credit does not provide a positive signal to their customer banks overseas. Reasons for such a situation may be that the foreign banks failed to honour the document from the local bank of the business in Nigeria. It could also mean that Nigerians always device other means of getting a cheap letter of credit to avoid the official procedure that required 10% of their total contract sum. Hence, banks abroad tried to avoid involving themselves in business that will destroy their image. These can be possible in the presence of corruption.

The effect of Nigeria's export and import bank (NEXIMC) credit on a real gross domestic product is negative in the long run but not statistically significant. This means that credit from NEXIM bank has not maintained sustainability enough to drive economic growth. Reasons for this anomaly could be that loans are either not enough to stimulate productivity or that they were given to people that do not know what to do with them. In some cases, it could also mean that the NEXIM bank loan is not given on merit but political or ethnic favoritisms. Hence, we assert that Nigeria's export-import bank credit (NEXIMC) is either not enough or it has lost its glory in stimulating economic growth due to corruption and nepotism/favoritism. Finally, the exchange rate of the dollar to the naira has a positive effect on GDPGR but it is not statistically significant at 5%.

Conclusion

The study concludes that external trade financing improved economic growth in the short-run and that its highest impulse comes from deposit money banks' loans to import trade and it lagged value before a loan to export trade. In the long run, external trade financing reduces economic growth. This is seen in the finding of the statistical results above. This relationship is majorly on the deposit money banks credit to import trade in Nigeria and the issuance of letters of credit. Hence, external trade financing has had an unstable influence on economic growth in Nigeria throughout the study but its most significant impact has been its permanent negative effect through deposit money banks' loans to import trade. This could mean that Nigerians import more of the domestically produced goods and services from foreign firms at cheap prices to the extent that the domestic companies especially the infant ones are crowded out of business since they cannot face the inherent competition with countries like China, India, Cuba, etc. where labour is cheap. The dominance of import trade in these estimations implies that Nigeria's external trade is channeled more on importation rather than exportation. This appears to be the reason behind the present spate of Nigeria food crises and prices of commodities

Recommendations

Government should take drastic decision against the importation of goods that can be domestically produced. Adequate measures should be put in place to enhance sustainability and growth of the infant industries. Deliberate economic policy is necessary to enhance access to funds by the small and medium scale business organizations in the

country. In so doing, the small businesses will strive and be insulated from the emasculation of the big businesses who through importation of goods crowd out the young domestic industries.

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