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THE IMPACT OF COMMERCIAL BANKS ACTIVITIES ON INTERNATIONAL TRADE FINANCING: EVIDENCE FROM NIGERIA

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ABSTRACT

The paper examines the impact of banks' activities on international trade financing and Nigerian Gross Domestic Product. Also to determine the extent to which the management of small scale enterprises should be stewardship to the shareholders through their international trade financing policy adopted. It identifies some of the key problems facing international trade financing in Nigeria and gives an overview of the management international trade financing in the country. The population and the sample of the study were all the Commercial banks in Nigeria. The study utilized data from secondary source. Data were obtained from the Central Bank of Nigeria's (CBN) Statistical bulletin. The time frame for the study is ten (10) years, covering the period of 2000 to 2009. The technique of analysis used in testing the data was Linear Regression Analysis. The study established that Commercial banks activities have significant effect on Gross Domestic Product of the economy. It also revealed that banks operation in the area of international finance is significant. The work recommends that banks should maintain a stable International Trade financing so that the equity portions finance of both internally and externally is possible. At the same time, the banks management should maintain high target to both the International Trade and domestic trade. The work concludes that effective and consistent international trade financing will enhance the profitability of the banks and help to achieve the overall objectives and this must also be vigorously pursued by government as well.

KEYWORDS
Commercial Banks Activities, International Trade, Gross Domestic Products, Export and Import.

1.0 INTRODUCTION

The country's economy today is dominated by oil sectors which accounted for over 90% of export earning, 80% of government revenue and about 33% of gross domestic product (GDP). Before the increase in the price of oil in the early century, agriculture dominated the economy and export earnings from what sector financed was of the immediate post independence development programmes. For this reason, Nigeria has since the attainment of independency been at the vanguard of exportation of goods and services subsequent to the discovery of crude oil (World Bank, 2008)

It is not worthy that little was known by economic planners about export promotion, financing and its development. Export activities were limited to a range of agricultural commodities and these were solely financed by the marketing board in industrial sector, import substitution was the cornerstone of industrialization policy. The policy whose main objectives was after protection to infant industries, replace imported goods and thereby conserving foreign exchange.

The economic problem could be traced to the world economic depression. The tall of over export earning was used by the mono-product nature of external trade. Misplacement of priorities by our frivolous spending pattern of the civilian administration caused by the money illusion we had over the years had led to unemployment problem, low production capacity in our manufacturing sector and low demand for goods and services, which brought about difficulties in balance of payment. With all these problems, the country then realized the needs to work beyond the oil sector for the purpose of generating more earnings on export; it is for their purpose that the Nigeria Export Promotion Council (NEPC). Nigerian Export and Import Bank (NEXIM) and Nigerian Association of Exporters (NAE) were established to improve the differences between the exports and imports.

Foreign exchange market is another area where international commercial banks play vital role. Foreign exchange market serves two main functions, convert the currency of one country into the currency of another and provide some insurance against foreign exchange risk. Multinational corporations constantly need various currencies for their operations and to hedge against foreign exchange risk. International banks provide foreign exchange services to their commercial business clients to complete their business transactions. These banks act as a broker between commercial customer and foreign exchanges around the world.

International businesses receive payments in foreign currencies for their export, the income it receives from foreign investments and income received from licensing agreements with foreign firms. International business use foreign exchange market to pay foreign firms for its products and services and when it makes direct investment in foreign country. International banks play major roles in these transactions.

Many commercial banks offers short as well as long term loan financing to international businesses. Many countries have form banks backed by government funding to provide fund for exporters and importers. In United States, Export-Import bank, an independent agency of the US government, provides financial aid to facilitate export and import of goods. NEXIM bank also guarantees repayment of loans that US commercial banks make to foreign borrowers for purchasing US exports (Petersen and Rajan, 1997)

As a developing country, the expansion of export financing mechanism is hindered by some limitations in the availability of foreign exchange because of the high propensity to import arising from an expansion of domestic credit resulting in a greater demand for imports.

Most commercial banks in the country centralize their export credit decision making in the cities, to the extent that their rural offices do not enjoy the benefits of lending to the exporters in the hinterland. They do not take into consideration the timing of export operation for required manpower development, to enhance export finance arrangement especially in the rural areas.

The problems of obtaining finance by both their existing and prospective exporters depend partly on the firm/company that is concerned. While only few companies/firms mostly multinationals have both the capabilities and the resources that can be obtained from banks, there are a number of small firms that are knowledgeable in export activities but lack the necessary and adequate resources and collaterals to qualify them for bank credit.

Some 80% to 90% of world trade relies on trade finance, and there is little doubt that as of mid-2009, the trade finance market is experiencing difficulties that will contribute to the global economic malaise. Public-backed institutions are responding, but they are not doing enough. The potential damage to the real economy of shrinking trade finance is enormous (IMF, 2003). To this end, the paper is structured into four major parts. Section one is the Introduction, section

two which follows this introduction present, the literature review, section three discusses the methodology, while section four presents the conclusion and some recommendations.

2.0 LITERATURE REVIEW

2.1 THE CONCEPTUAL ISSUES ON INTERNATIONAL TRADE FINANCE AND INTERNATIONAL BANKING

Exchange takes time. For example, when a seller receives a purchase order that stipulates payment after delivery, the seller has to produce and ship a product before the buyer pays. This requires financing over short horizons because the seller may need to borrow working capital to complete the order or may purchase credit insurance to protect against counterparty defaults. That is the essence of trade finance. It is often described as the lifeline of business transactions because more than 90% of transactions involve some form of credit, insurance or guarantee (International Trade Centre, 2009). It was, however, not until the recent financial crisis that trade finance came to the attention of academic researchers.

The financial crisis of 2008–2009 is the most severe world macroeconomic shock since the Great Depression. During the crisis period, the collapse of international trade was much swifter and greater than the decline of GDP: world GDP fell by about 5%, while world trade contracted by about 30% (Baldwin, 2009). Similarly, while U.S. GDP in this period contracted by 3.8%, U.S. trade contracted much more sharply, by around 20% (Levchenko, Lewis, and Tesar, 2010). This "great trade collapse" has led economists to suspect that trade finance had a role. This paper presents the theory that answers the question, "What is the specific role of trade finance in explaining the great trade collapse?" There are good reasons for thinking that trade finance may be an important part of the story.

Growing evidence suggests that international trade finance experienced severe adverse effects in terms of price as well as availability during the same period. The IMF-BAFT survey reports that approximately 90% of the banks raised the price of international trade finance facilities at the onset of the great trade collapse (Dorsey,2009; Asmundson et al., 2011), and in some cases the price of letters of credit jumped from 10s15 basis points to 250s500 basis points above LIBOR (Auboin, 2009). Banks in emerging markets also reported that international trade finance transactions declined by 6% on average during the period. Behind the evidence lies the hypothesis that international trade finance is more sensitive to economic fluctuation or financial crisis than domestic trade finance (Chauffour and Farole, 2009).

Price data corroborates this hypothesis. Haddad, Harrison, and Hausman (2010) find that U.S. import prices actually rose in manufactured goods, especially in those sectors highly dependent on external finance. Ahn, Amiti, and Weinstein (2011) report that export price increased by 2.5s 6% relative to domestic price in European Union countries, Japan and the U.S. These facts are strong evidence that supply side shocks played an important role in the great trade collapse. This view is supported by various empirical studies. For example, Amiti and Weinstein (2011), using the uniquely matched database between Japanese listed firms and their main banks, find that firms contract export-to-domestic sales ratio when their main banks become unhealthier, and such a pattern is stronger for smaller firms, non-multinational firms, and industries that export primarily by sea. Iacovone and Zavacka (2009) provide the historical evidence that exports in financially vulnerable sectors were hit harder during banking crises.

For the recent global recession period, Chor and Manova (forthcoming) confirm that trade finance is indeed a critical factor for trade activity by showing that countries experiencing higher growth in inter-bank loan rates tend to decrease exports to the U.S. even more, and this is more pronounced in financially dependent sectors. Firm level studies also report that financially constrained firms had greater adverse impacts on exports during this period (Paravisini, Rappoport, Schnabl, and Wolfenzon, 2011), and U.S. inter-firm trade (i.e., trade with payment default risk) with Asian countries declined more sharply than intra-firm trade (i.e., trade with no payment default risk) during the Asian crisis period (Bernard, Jensen, Redding, and Schott, 2009).

Despite the ample empirical evidence, there is a lack of theoretical foundation for understanding the nature of trade finance. In particular, there is no theoretical model in which the asymmetric structure, domestic versus international, of trade finance has been derived from first principles. That is what the current paper achieves. This paper contributes to the literature by examining how international trade finance reacts differently than domestic trade finance during crisis periods. To answer the question, the paper begins with a more fundamental question of what makes international trade finance different from domestic trade finance, and then shows how such difference leads to the great trade collapse.

International trade is more costly than domestic trade; hence the volume of international transactions will be smaller than domestic transactions. Firms borrow from local banks. Banks need to gather information about whether loans will be repaid. They need not only worry about the firm they loan to, but also any other firms on whose solvency repayment depend. Banks invest more in learning about firms with which they have a larger volume of transactions, which in turn makes them more knowledgeable about these firms. Since banks are involved in larger transactions with domestic than foreign firms, they will also be more knowledgeable about them. This makes international trade finance loans riskier than domestic finance loans.

When a crisis hits, information becomes more important because a crisis raises uncertainty about firms' performance. Having accumulated less information, banks become disproportionately more uncertain about foreign than domestic firms. This translates to the costs of trade financing, and as a result, the relative price of export to domestic goods will rise, and the volume of international transactions will drop more sharply than the volume of domestic transactions during a crisis. The following describes this mechanism in more detail.

The basic model incorporates payment systems used for business transactions. When payment is made by a buyer after delivery (i.e., open account system), a supplier is exposed to non-payment risk from the buyer. As a result, if the supplier borrowed working capital from a bank, the loan performance depends not only on the supplier's credit risk but also on the buyer's credit risk. Likewise, when a buyer makes advance payment to a supplier (i.e., cash-in-advance system), the buyer is subject to non-delivery risk from the supplier. If a bank provided the advance payment, the loan repayment is contingent on the successful performance of both the supplier and the buyer. From the banks' perspective, therefore, it becomes a serious concern to evaluate such creditworthiness of both borrowers and their trading partners to insure loan repayment.

Banks assess this overall transaction risk through screening tests for the borrower's trading partner as well as the borrower. By investing in information acquisition, banks can improve the precision levels of screening tests, and hence the loan repayment probability of the transactions that pass the screening tests. The optimal precision levels of screening tests are determined by comparing costs and benefits. When screening tests are domestic or foreign firm specific, marginal gains from improving the screening test for domestic firms is proportional to the volume of domestic transactions, and the same is true for the foreign screening. All else being equal, since costly trade results in a larger volume of domestic transactions than international transactions, banks will maintain a higher precision level of screening test for domestic firms than foreign firms.

Accordingly, the screening of foreign firms yields a less accurate outcome than domestic screening, making international transactions a relatively higher risk with lower loan repayment probability. Therefore, costs of financing international transactions will be higher, i.e., trade finance premium. Moreover, the resulting trade finance premium features a counter-cyclical movement. Although an increase in the default risk during a recession will raise the average default rate of firms that passed either screening test, the default rate will raise relatively more for the less precisely screened foreign firms. This is simply because an inferior foreign screening is more sensitive to the changes in the default risk due to a larger share of vulnerable firms among the firms passing the screening test. That is, during a recession, the average default rate for international transactions rises relatively more than the one for domestic transactions, as do the costs of financing international transactions. Once the costs of financing pass through to the final goods price, an elastic demand dictates that a fall in trade will dominate a fall in output through the price channel, generating pro-cyclical export-to-output ratio consistent with empirical patterns.

The asymmetric nature of the screening tests for domestic and foreign firms gives rise to a letter of credit system exclusively for international transactions. Under a letter of credit system, both a buyer's bank and a supplier's bank participate in the transaction as intermediaries. The buyer's bank promises to pay the supplier's bank on behalf of the buyer as long as the goods are delivered from the supplier, and the supplier's bank guarantees to pay the supplier whether the buyer's bank actually pays or not. From the view of the supplier's bank, this essentially switches the non-payment risk from the buyer to the buyer's bank, and thus can replace an inferior screening test for foreign firms by the supplier's bank with a superior screening test for domestic firms by the buyer's bank. This is the gain from using a letter of credit system for international transactions.

At the same time, however, since the supplier's bank has only limited, imperfect information on the credit risk of the buyer's bank, it incurs additional inter-bank informational friction. As long as the gains from a letter of credit outweigh the costs, a letter of credit would be chosen as the optimal payment system for the international transaction. On the other hand, this will not be true for domestic transactions because it only incurs additional costs without any gains. The inter-bank dimension inherent in a letter of credit system provides another channel that adversely affects international trade during a recession or financial crisis.

An increase in the bank default risk worsens the informational friction between banks, leading to a higher price charged on a letter of credit. Since the model shows that a letter of credit can be used only for international transactions, such an additional adverse effect is thus unique to international transactions. To sum up, the price channel effect and the letters of credit effect lead to a great decline in international trade than in domestic sales.

Commercial Banks play an important role in international trade. Commercial Banks act as intermediaries between importers and exporters. They have insight and wide practical experience in foreign trade coupled with legal knowledge of provision in different countries. Banks have correspondents in most countries, through whom they deal with the counter parties. Some banks may have their own branches in other countries.

As banks are major financial institutions, they are trustworthy and can be relied upon by their customers. They provide advisory services on various subjects to their importing and exporting customers. They collect payment from overseas countries from importers in foreign countries and also remit funds to the exporters abroad on behalf of their customers. Banks offer various types of services to local and international business communities. These services include financial facilities to exporters and importers by way of loans and overdrafts, discounting and purchasing of bill of exchange. There are many more inherent risks in buying and selling goods overseas than locally. Some of the risks in foreign trade are explained in brief hereunder.

Banks that are serving international trade, understand the crucial role they are required to play. Many large banks maintain worldwide correspondents to provide quick delivery of actual currency, wired money or drafts. You may choose your bank for international trade account on the basis of whether the bank can extend advances against the account receivables. Bank may, however, require your account secured through export credit insurance provided by Export Import Bank of United States. Banks also let you enter into forward exchange contract with your bank and fix the amount of the foreign exchange you receive when you are dealing in convertible currencies.

2.2 NIGERIA'S CURRENT TRADE POLICY

Nigerian government like many other developing countries considers trade as the main engine of its development strategies, because of the implicit belief that trade can create jobs, expand markets, raise incomes, facilitate competition and disseminate knowledge. (WTO 2005). The thrust of trade policy is therefore the enhancement of competitiveness of domestic industries, with a view to, inter alia, stimulating local value-added and promoting a diversified export base. Trade policy also seeks (through gradual liberalization of the trade regime) to create an environment that is conducive to increased capital inflows, and to transfers and adoption of appropriate technologies.

The government pursues the liberalization of its trade regime in a very measured manner, which would ensure that the resultant domestic costs of adjustment do not outweigh the benefits. The reforms which accompany this policy direction are also aimed at re-orientating attitudes and practices towards modern ways of doing business. However, the instruments of trade policy such as the tariff regime are designed in a manner which allows a certain level of protection of domestic industry and enterprise. While this is the main trade policy framework to guide economic growth, the trade expansion, employment generation and poverty alleviation dimensions are now subsumed in a new overarching economic development policy blueprint adopted in 2003, the National Economic Empowerment and Development Strategy (NEEDS).

2.3 TYPES OF TRADE FINANCING INSTRUMENT

The main types of trade financing instruments are as follows:

a) Documentary Credit: This is the most common form of the commercial letter of credit. The issuing bank will make payment, either immediately or at a prescribed date, upon the presentation of stipulated documents. These documents will include shipping and insurance documents, and commercial invoices. The credit arrangement offers an internationally used method of attaining a commercially acceptable undertaking by providing for payment to be made against presentation of documentation representing the goods, making possible the transfer of title to those goods. A letter of credit is a precise document whereby the importer's bank extends credit to the importer and assumes responsibility in paying the exporter. A common problem faced in emerging economies is that many banks have inadequate capital and foreign exchange, making their ability to back the documentary credits questionable. Exporters may require guarantees from their own local banks as an additional source of security, but this may generate significant additional costs as the banks may be reluctant to assume the risks. Allowing internationally reputable banks to operate in the country and offer documentary credit is one way to effectively solve this problem.

b) Countertrade: As mentioned above, most emerging economies face the problem of limited foreign exchange holdings. One way to overcome this constraint is to promote and encourage countertrade. Today's modern counter trade appears in so many forms that it is difficult to devise a definition. It generally encompasses the idea of subjecting the agreement to purchase goods or services to an undertaking by the supplier to take on a compensating obligation. The seller is required to accept goods or other instruments of trade in partial or whole payment for its products.

Some of the forms of counter trade include:

• Barter – This traditional type of countertrade involving the exchange of goods and services against other goods and services of equivalent value, with no monetary exchange between exporter and importer.

• Counter purchase – The exporter undertakes to buy goods from the importer or from a company nominated by the importer, or agrees to arrange for the purchase by a third party. The value of the counter purchased goods is an agreed percentage of the prices of the goods originally exported.

• Buy-back – The exporter of heavy equipment agrees to accept products manufactured by the importer of the equipment as payment.

c) Factoring: This involves the sale at a discount of accounts receivable or other debt assets on a daily, weekly or monthly basis in exchange for immediate cash. The debt assets are sold by the exporter at a discount to a factoring house, which will assume all commercial and political risks of the account receivable. In the absence of private sector players, governments can facilitate the establishment of a state-owned factor; or a joint venture set-up with several banks and trading enterprises.

d) Pre-Shipping Financing: This is financing for the period prior to the shipment of goods, to support pre-export activities like wages and overhead costs. It is especially needed when inputs for production must be imported. It also provides additional working capital for the exporter. Pre-shipment financing is especially important to smaller enterprises because the international sales cycle is usually longer than the domestic sales cycle. Pre-shipment financing can take in the form of short term loans, overdrafts and cash credits.

e) Post-Shipping Financing: This is financing for the period following shipment. The ability to be competitive often depends on the trader's credit term offered to buyers. Post-shipment financing ensures adequate liquidity until the purchaser receives the products and the exporter receives payment. Post-shipment financing is usually short-term.

f) Buyer's Credit: This is a financial arrangement whereby a financial institution in the exporting country extends a loan directly or indirectly to a foreign buyer to finance the purchase of goods and services from the exporting country. This arrangement enables the buyer to make payments due to the supplier under the contract.

g) Supplier's Credit: This is a financing arrangement under which an exporter extends credit to the buyer in the importing country to finance the buyer's purchases (Nzotta, 2005).

2.4 THE ROLE OF COMMERCIAL BANKS IN INTERNATIONAL EXCHANGE MARKET

Commercial banks play central role in the foreign exchange market. They buy and sell foreign currency, which is a major weapon in international trade. The commercial banks also help traders to eliminate or minimize their foreign exchange exposure in a number of ways:

a) Forward Exchange Contract: This is entered into between a bank and a customer, the bank fixes the rate of exchange at which a foreign currency will be bought or sold. The exchange rate may fluctuate during and at the time of maturity but it will not have any effect on the forward contract agreed between the bank and the customer. Through forward exchange contracts both the importer and exporter know the exact amount of their payables and receivable in foreign currency thereby covering against fluctuation of any exchange rates during the period. Forward exchange contract is a legal contract to receive or deliver foreign currency at the agreed date.

b) Foreign Currency Transactions: When payments are made between countries there is no physical movement of currency notes, but instead the transactions are accounted for and recorded in the books of accounts of the banks. Almost all the commercial banks operating in one country maintain accounts with other banks operating normally in the main cities of foreign countries

c) Bank's Accounting System: For example, if a payment is to be made to a British exporter by a German buyer, depending upon the method of payment adopted, either the Euro account of the British (exporter's) bank will be credited or a GB Pound account of the German (importer's) bank will be debited. The exporter will be paid value of the exports in GB Pound, or in the GB Pound equivalent of the Euros by the exporter's bank in the UK. Commercial banks are involved in thousands of foreign currency transactions each business day on behalf of their customers, in respect of visible and invisible trade. They maintain a careful check on the transactions made on their Nostro and Vostro accounts, and buy/sell foreign currency in the foreign exchange market as per their and their customers' need.

d) Foreign Exchange Market: In the United Kingdom there is no foreign exchange market by way of physical structure or a building. Rather the foreign exchange market comprises the foreign exchange departments of a large number of banks and other authorized dealers. They have an efficient telecommunication network between one another and are able to maintain an up-to-date exchange rate.

2.5 ACTIVITIES OF COMMERCIAL BANKS IN INTERNATIONAL TRADE FINANCING

Banks are in the business of facilitating new and existing relationships with International Banks and Financial institutions with the aim of forming strategic alliances and accessing funds for the entire Asset Portfolio. They ensure that they are better leveraged to structure large ticket transactions for their Corporate Banking, Public Private Partnerships, Investment Banking and Development Finance Customers. They have been successful in raising their profile and creating some presence with top tier financial institutions in the international markets.

They are positioned as a Bank in their capacity to raise funds to cater for their numerous clienteles as they encourage investors and clients to participate with them in emerging lucrative projects.

Their Role

i. The International funding team specializes in raising finance that has a long-term debt capital requirement. The long-term tenure of these projects generally require reciprocally tenured loans, this structuring often times reduces the default risk when the Loans are due for repayments. It is vital that the loan maturity is long enough to take into consideration the years of constructing such projects before its cash flow is activated.

ii. In view of the predominant Trade transactions in the Bank, the International Funding team established Trade Finance Lines with Triple A rated Financial Institutions for the use of the Corporate Banking Group and the Bank as a whole for the following:
   a. LC Confirmation
   b. Re-finance of trade transactions
   c. Guarantees

iii. The International funding team hedge against FX Risk; an important aspect of the Loan or finance attribute is the exposure to currency risk, most project finance in developing countries are financed with a typical financing mix consisting of equity & debt. However, cash flows from the project revenues are often generated in local currencies; while repayments of the Loans are normally in the foreign currency the loan is denominated in. Adverse movements in foreign exchange rates can substantially increase the cost of foreign exchange loans, and loans that appear financially profitable in local currency can very quickly be seen as loss making after conversion to original Loan denomination currency.

iv. In Nigeria, time and experience has demonstrated the difficulty of maintaining a stable exchange rate within a restricted fluctuation limit. Effective policies are needed to manage the repercussions of exchange rates, this would help the Skye bank and their international partners investing in Nigeria's Infrastructure to become far more competitive and also help improve the local investors access to finance.

3.0 METHODOLOGY

This study is aimed at evaluating whether or not the Banks' Activities have an impact on international trade financing and also to examine whether or not financial institutions activities have an effect on Gross Domestic Product of the economy. For the purpose of this research work, descriptive method is utilized to describe the phenomena in contest and to shed more light on the research questions.

In this study, secondary data were used. Our data were sourced from the published data of the Statistical Bulletin of the Central Bank; various issues. Other relevant secondary data were collected from various journals and periodicals of institutions such as the Federal Office of Statistics (FOS), Central Bank of Nigeria (CBN), among others. Library research materials and other miscellaneous write-ups on the subject matter were consulted for the assistance they could render.

In the light of these, our evaluation will be made using two models as follows:

1. ITC = f (BAC).
2. GDP= f(BAC)

The Factor used as explanatory variable for the determination of International Trade Financing and Gross Domestic Product is outlined and explained as.

Banks' Activities (BAC): In this study, Banks' Activities is measured by the summation of all sectoral distribution of loans by banks in Nigeria.

Dependent variables: International Trade Financing (ITC) is given by the total of the addition of Export and Import and Gross Domestic Product (GDP) is given by the total Gross Domestic Product.

The alternate econometric method (model) using the regression equations identified, are presented as follows

$ITC = \beta0 + \beta1BAC + Ut$

$GDP = \beta0 + \beta1BAC + Ut$

Where Ut is the stochastic error or error term

TABLE 1: AGGREGATE VALUES OF BANK ACTIVITIES DISCLOSURE IN RELATION TO INTERNATIONAL TRADE FINANCING AND GROSS DOMESTIC PRODUCT

YEAR	BAC	ITC	GDP
2000	508,302.2	25,307.4	329178.7
2001	796,164.8	34,532.5	356994.3
2002	954,628.8	26,709.2	433203.5
2003	1,210,033.1	34,467.4	477533.0
2004	1,519,242.7	31,347.0	527576.0
2005	1,976,711.2	26,427.3	561931.4
2006	2,524,297.9	52,686.3	595821.6
2007	4,813,488.8	66,551.1	634,251.14
2008	7,799,400.1	75,192.3	672,202.55
2009	8,912,143.1	45,870.5	718,977.33

Sources: CBN Statistical Bulletin, 2010

Note:
BAC= Banks' Activities
ITC= International Trade Financing
GDP= Gross Domestic Product

The model is a functional relationship between Banks' activities and International Trade Financing in Nigeria. The model one is thus restated below:

ITC = β0 + β1BAC + Ut

Where Ut is the stochastic error or error term

As earlier mentioned, here too the Ordinary Least Square (OLS) technique of empirical analysis was employed. The analysis was carried out and the result generated from the analysis can be summarized below:

Dependent Variable: ITC

Method: Least Squares

Date: 07/12/12 Time: 21:05

Sample: 2000 2009

Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	28612.53	5892.185	4.856013	0.0013
BAC	0.004287	0.001392	3.080832	0.0151
R-squared	0.542636	Mean dependent var		41909.10
Adjusted R-squared	0.485465	S.D. dependent var		17684.05
S.E. of regression	12684.96	Akaike info criterion		21.91108
Sum squared resid	1.29E+09	Schwarz criterion		21.97160
Log likelihood	-107.5554	F-statistic		9.491527
Durbin-Watson stat	1.565661	Prob(F-statistic)		0.015098

REGRESSION	COEFFICIENTS	STANDARD ERROR	T-VALUE
INTERCEPT	28612.53	5892.185	4.856013
BAC	0.004287	0.001392	3.080832

Dependent variable= ITC

R squared = 0.542636

Adjusted R squared = 0.485465

Standard Error of Regression = 12684.96

Mean dependent variable = 41909.10

S.D. dependent variable =17684.05

F-statistic = 9.491527

Prob (F-statistic) = 0.015098

Durbin-Watson = 1.565661

The above result can be represented in an equation form as shown below:

ITC = 28612.530.004287BAC

S.E = (5892.185) (0.001392)

T-Val= (4.856013) (3.080832)

The above result is a product of time series analysis concerning the values of functional relationship between Banks' activities (BAC) and International Trade Financing (ITC) in Nigeria. And from the model, there exist a positive relationship between Banks' activities (BAC) and International Trade Financing (ITC). This shows that Banks' activities (BAC) do or can wholly explain the causes of any variation in International Trade Financing (ITC).

Therefore, for every N1million increase in International Trade Financing (ITC), Banks' activities (BAC) increase by N 0.004287million i.e. for every N0.004287million increase in Banks' activities (BAC), International Trade Financing (ITC) increase by N1million.

In reality, if International Trade Financing (ITC) will have to be increase, Banks' activities (BAC) will definitely increase because the higher the International Trade Financing (ITC), the higher the Banks' activities (BAC) and vice versa.

DISCUSSION OF FINDINGS

This paper examines whether explanatory variable has significant impact on the International trade financing and our F calculated 9.491527in the regression analysis is greater than F tabulated of 4.96, the test revealed banks operation in the area of international finance is significant and the independent variable (BAC) is good and reliable indicator of the dependent variable International Trade Financing ITC. Thus, since the observed F-value is greater than the critical value of F at the 5% level of significant, we accept the alternate hypothesis 1 and reject the null hypothesis. The study also investigates the separate utility of banks size, growth and the industry on Gross Domestic Products. And in this case, our F calculated 23.86841is greater than F tabulated 0f 4.96, the test is significant and the independent variable BAC is a good and reliable indicator of the dependent variable GDP.

4.0 CONCLUSION

The overall objective of the study is to investigate need for the creation of vital export incentives, facilities of international trade finance that would help in boosting the finance for international trade with the view to improve our foreign exchange reserves, this study was able to achieve its conclusion on this objective by using the variable banks activities and which was tested using T-test with T-values of (3.080832) and (4.885530) which are greater than the T-tabulated of 2.010. Therefore a banks activity is statistically significant for international trade finance and Gross Domestic Product. So, we conclude that Nigerian Banks reacts efficiently to international trade finance and Gross Domestic Product.This study through its findings discovered that the reactions which create favourable atmosphere for Gross Domestic Product in Nigeria can be examined using the variable Banks activities which in turn has significant impact on the International Trade Financing.

The work recommends that banks should maintain a stable International Trade financing so that the equity portions finance of both internally and externally is possible. At the same time, the banks management should maintain high target to both the International Trade and domestic trade. The work concludes that effective and consistent international trade financing will enhance the profitability of the banks and help to achieve the overall objectives and this must also be vigorously pursued by government as well. The results of this study demonstrate the importance of smoothed International Trade Financing policy of banks in Nigeria. Therefore, banks should maintain a stable International Trade Financing so that the equity portions finance of both internally and externally is possible. At the same time, the banks management should maintain high target to both the International Trade and domestic trade.

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