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## **INTERNATIONAL TRADE POLICIES AND ITS EFFECT ON TRADE FINANCING IN NIGERIA**

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### **Abstract**

For decades, the supremacy of trade policies on the investment climate is growing as trade policies remain crucial in both local and international transactions. Using dependency theory as the analytical framework, the study employed secondary sources and applied qualitative content analysis to examine international trade policies and its effect on trade financing in Nigeria. Findings indicate that Nigeria's economic interactions with the global community have not aligned with its stated foreign trade policy. Nevertheless, foreign investment in Nigeria has continued to grow. For example, Chinese investment expanded significantly from about \$2 billion in 2015 to roughly \$13 billion in 2018 and maintained rapid growth into 2019. Moreover, China has surpassed the United States as Nigeria's leading foreign investor in the electronic gadgets sector. Moreover, the paper found that, international trade policies significantly impact trade financing in Nigeria by influencing foreign exchange availability, market transparency, and the overall cost of doing business, as highlighted by recent efforts to automate forex markets and attract foreign investment. Policies such as reducing non-tariff barriers, ensuring political stability, and providing robust infrastructure are crucial for a stable financial environment, while challenges like corruption and insecurity can deter investors and increase transaction costs. From the findings, it is recommended amongst others that the government maintain consistency in implementing its foreign trade policy; there is need for the Nigerian state to develop its technological base and boost its negotiation capacity so as to maximize the benefits in the country's economic relations with the rest of the world.

### **Keywords:**

*Economic relation, Export, Financing, Foreign policies, Import, Trade*

## **1. INTRODUCTION**

International trade continues to serve as a vital link connecting nations across the globe. Since ancient times, commerce has played a central role, with the growth and progress of societies shaped by efforts to meet their material, ethical, and intellectual needs. Due to the fact that, no nation has all the available human and material resources to attain growth and development, the exchange of surplus commodities with scarce goods has become a predominantly central practice (Lawal & Adejoh, 2019; Terzea, 2016). Therefore, trade policies continue to play a vital role in both domestic and international transactions, as they shape the size of markets available for firms' output and, in turn, strongly affect foreign and local investment decisions. With time, the impact of trade policies on the investment environment has intensified.

Advances in technology, the liberalization of trade and investment policies in host countries, and the increasing integration of global production networks within multinational enterprises (MNEs) have all made trade policies in both home and host countries a key factor in attracting investment and maximizing its contribution to economic development. (Adeniji & Igwe, 2021).

One of the most debated topics in the area of international economics is the relationship between international trade policies and trade finance. This is because trade finance in the forms of export and import financing involves financial support that, helps individual and companies to trade both domestically and internationally. Conversely, export finance helps individual business men and companies sells their goods and services overseas. On the other hand, import finance helps individual business men and companies sells their goods and services locally (Godson, 2021).

International trade policies significantly impact trade financing in Nigeria by influencing foreign exchange availability, market transparency, and the overall cost of doing business, as highlighted by recent efforts to automate forex markets and attract foreign investment. Policies such as reducing non-tariff barriers, ensuring political stability, and providing robust infrastructure are crucial for a stable financial environment, while challenges like corruption and insecurity can deter investors and increase transaction costs. Effective trade financing relies on transparent forex operations, a favourable investment climate, and policies that foster economic stability and competitiveness.

Nigeria's international trade policies aim for economic growth through export diversification and increased market access, utilizing instruments like trade agreements (e.g., AfCFTA) and export incentives. Trade financing is provided by institutions like the Nigerian Export-Import Bank (NEXIM) through facilities such as the trade finance facility for working capital. Nevertheless, challenges such as continued reliance on oil exports, trade policy uncertainties, and logistical issues at ports persist. The structure of the international political economy is largely driven by nations' efforts to advance, safeguard, and assert their national interests. Furthermore, the unequal distribution of natural resources across the globe makes it impossible for any country to exist in complete self-sufficiency, thereby reinforcing the necessity of trade relations (Lawal & Adejoh, 2019). Against this backdrop, this paper explores the impact of international trade policies on trade financing in Nigeria.

## **2.0 LITERATURE REVIEW**

### **2.1 Conceptual Clarification**

#### **Trade Policy**

According to Chidozie et al (2004), trade policy refers to the set of rules and regulations that govern trade activities. Every country maintains some form of trade policy, crafted by public officials to suit national interests. The primary aim of such policies is to facilitate smoother international trade by establishing clear standards and objectives that potential trading partners can easily understand. In many cases, groups of nations collaborate under shared trade frameworks. Elements such as import and export duties, tariffs, inspection requirements, and quotas often constitute parts of a nation's trade policy. Some countries also use trade policies to shield domestic industries, imposing heavy restrictions on imports so that local producers can gain a competitive edge through lower prices or greater product availability. Others avoid trade restrictions by encouraging free trade, where domestic producers receive no preferential

treatment and foreign producers are allowed to introduce their goods freely into the market. (Chidozie et al, 2004).

### **Trade Finance**

Trade finance involves the use of financial tools, mechanisms, and products designed to support international trade and commerce. It encompasses the activities, strategies, and services that enable and sustain cross-border transactions. Beyond providing capital, trade finance also addresses and reduces risks commonly associated with global trade, such as buyer default, political uncertainty, currency volatility, and logistical difficulties. Ultimately, trade finance is essential for the smooth functioning of global trade, offering both financial backing and risk management for exporters, importers, and financial institutions alike.

According to World Trade Organization (2022), trade Finance which is otherwise called Import and export finance: the financing of goods or services in a trade or transaction from a supplier to the end user. Its therefore serves as a huge driver of economic growth and development, it is estimated to be around 80 to 90 percent of global trade that worth \$10 trillion per annum.

At its core trade finance entails offering funding, risk management, and payment solutions to buyers, sellers, and other stakeholders engaged in global commerce. Its central aim is to reduce the risks inherent in cross-border transactions while ensuring the seamless movement of goods and services between countries. By supplying essential financial resources and instruments, trade finance helps bridge the gap between shipment and payment, thereby easing cash flow challenges faced by businesses involved in international trade.

## **2.2 Theoretical Framework**

This study employs Dependency theory as its analytical foundation. Dependency describes a condition in which the economies of certain nations are shaped and constrained by the growth and expansion of more dominant states. Key advocates of this perspective include Santos, Walter Rodney, Samir Amir, and Claude Ake. The theory asserts that it provides the most accurate account of exploitative state behavior compared to other approaches, while also offering policy recommendations—particularly the need for balancing power among states—to mitigate the destabilizing tendencies of international relations. Its core assumptions are threefold: first, the nation-state, as the primary actor in global politics, functions as the chief exploiter, while individuals and organizations play secondary roles with limited influence. Second, the state operates as a unified entity, with national interests—especially during conflict—driving collective action and a single voice. Third, decision-makers act rationally, pursuing strategies that safeguard national interests, since weakening or exposing the state to vulnerability would be considered irrational.

Dependency theorists opined that, what is causing the under development in third world countries is the exploitative relationship that has characterized the interactions between the developed and developing nations right from the colonial time till date.

For example, in examining Nigeria–China relations, it is evident that China seeks to influence Nigeria’s development through unequal trade practices, seemingly benign loans, substandard manufactured goods, and skewed labor arrangements. Although China is still classified as a developing nation, it is widely recognized as the world’s second-largest economy. Consequently, the persistent trade imbalance and the accumulation of substantial Chinese loans

are gradually pushing Nigeria deeper into debt. If this trajectory is not promptly addressed, China may increasingly shape and direct Nigeria's developmental path. Overall, Nigeria's economic ties with China remain heavily imbalanced, leaving the country highly dependent on China.

## 2.3. Empirical Review

### 2.3.1 Effect of Trade Policies on Financing

**Foreign Exchange Stability and Automation:** Policies around foreign exchange, such as the June 2023 abolition of the multiple exchange rate system and the planned introduction of the Electronic Foreign Exchange Matching System (EFEMS), directly affect trade financing by increasing transparency and liquidity. A more stable and transparent forex market improves market conditions for international investors and businesses.

**Market Access and Openness:** Policies promoting trade liberalization by reducing non-tariff barriers, quotas, and other restrictions can foster greater economic growth and, by extension, the demand for trade financing.

**Infrastructure and Business Environment:** A conducive business environment, including reliable infrastructure and political stability, is essential to attract foreign direct investment (FDI) and facilitate trade financing. Inadequate infrastructure increases costs and makes financing more challenging.

**Regulatory Framework and Transparency:** Clear and consistent trade policies, coupled with reduced bureaucracy, are vital for simplifying and facilitating trade. Challenges like corruption and a lack of effective judicial due process increase the risk for financiers and raise the overall cost of transactions.

### 2.3.2 The Trade Policy of Nigeria (TPN), 2023-2027

Nigeria's Trade Policy for 2023–2027 represents a significant initiative to harness trade as a driver of economic growth and development. It acknowledges the country's structural challenges, including reliance on primary production, rising poverty levels, and limited participation in global trade. The policy is designed to foster inclusive, pro-poor growth by adopting market-oriented strategies that remain consistent with Nigeria's commitments and entitlements under the World Trade Organization (Lawal & Adejoh, 2019).

A central objective of the Trade Policy of Nigeria (TPN) 2023–2027 is to tackle the barriers that have hindered the country's effective participation in global trade. These challenges include escalating trade and geopolitical tensions, pandemics, protectionist measures, and non-tariff restrictions. The policy integrates both fundamental and emerging trade issues, reflecting the evolving nature of the global economy. Its goal is to establish a competitive, trade-friendly environment consistent with the government's pledge to uphold openness and transparency in trade. By outlining a clear strategic framework, the policy seeks to enable Nigeria to seize trade-driven opportunities, enhance citizens' welfare, and respond to the concerns of the Organized Private Sector (OPS) and Civil Society in strengthening national trade performance.

The vision of Nigeria's Trade Policy (TPN) 2023–2027 is to position trade as a driving force for building a diversified and competitive economy. Its mission is to leverage the nation's natural resources and economic potential to fully capitalize on opportunities in global trade.

This underscores the policy's commitment to fostering sustainable economic growth and long-term development

The Trade Policy of Nigeria (TPN) 2023–2027 underscores the importance of diversifying the nation's economy. For decades, Nigeria has depended heavily on the oil sector, leaving it vulnerable to external shocks and price volatility. This policy seeks to strengthening non-oil industries and foster the growth of Small and Medium Enterprises (SMEs), thereby increasing their role in international trade. In addition, the policy highlights the value of regional integration and cooperation. As a member of both the Economic Community of West African States (ECOWAS) and the African Continental Free Trade Area (AfCFTA), Nigeria aim to expand intra-African trade, enhance cross-border commerce, and deepen regional integration through the TPN 2023–2027 framework.

An important component of the Trade Policy of Nigeria (TPN) 2023–2027 is its focus on private sector involvement and cooperation. The policy acknowledges the pivotal role of the private sector in fostering economic growth and development and seeks to establish a supportive environment that stimulates investment and enhances participation in global trade. It further highlights the necessity of strong collaboration between government and private enterprises to ensure effective implementation. In addition, the TPN 2023–2027 is aligned with the United Nations Sustainable Development Goals (SDGs), emphasizing inclusive economic growth, poverty and inequality reduction, and environmental sustainability. The policy underscores the significance of adopting sustainable trade practices to advance environmentally responsible economic development.

In summary, the Trade Policy of Nigeria (TPN) 2023–2027 represents a broad and ambitious framework for leveraging trade as a driver of economic growth and development. It acknowledges the nation's existing challenges and limitations while outlining a clear strategy to overcome them. Its emphasis on inclusive growth, regional integration, private sector participation, and sustainable practices is noteworthy. Ultimately, the effectiveness of the policy will hinge on strong implementation, active stakeholder involvement, and sustained commitment from both government and private sector actors.

### **3. METHODOLOGY**

This study adopted a qualitative research design, employing an explanatory survey approach to clarify the relationship between foreign trade policies and trade financing in Nigeria. Data was obtained from secondary sources, including scholarly journals, textbooks, magazines, newspapers, seminar and conference papers, as well as online materials. This method was considered appropriate for achieving the objectives of the research. In addition, personal efforts were made to enhance the work with a focus on objectivity. All information gathered was carefully and systematically analyzed, guided by semantic, structural, analytical, and theoretical considerations.

### **4. FINDINGS**

#### **4.1 Nigeria's Trade Policy and Nigeria Economic Relations**

The main objective of Nigeria's trade policy is to encourage the production and circulation of goods and services to satisfy local and global demand, thereby promoting rapid economic

growth and development. Other broad aims include (a) Strengthening and expanding domestic trade, covering both intra- and inter-regional exchanges. (b) Enhancing and promoting the export of both oil and non-oil commodities. (c) Deregulation and liberalization of trade and (d) Promotion of Nigeria's bilateral and multilateral trade interests (Adeniji & Igwe, 2021).

Asobie (2001) noted that in the period following independence, Nigeria lacked a clearly defined trade policy and instead implemented a variety of trade measures under different administrations. However, in 1988, the Federal Government led by General Ibrahim Babangida adopted Economic Diplomacy as a central strategy for achieving its foreign policy objectives and national development. Also maintained that Economic Diplomacy refers to the pursuit of foreign policy with strong emphasis on the economic aspects of a nation's external relations, placing the highest priority on national economic goals.

The introduction of Economic Diplomacy marked a significant shift in Nigeria's trade policies. For instance, the Structural Adjustment Programme (SAP) of 1986 sought to deregulate and liberalize trade, while the tariff reforms of 1995–2001 aimed to simplify procedures for both domestic and international commerce. Import restrictions were also implemented to curb the inflow of luxury goods, alongside export policies designed to encourage diversification and reduce reliance on crude oil. Leadership transitioned to President Buhari on May 29, 2015.

One of President Buhari's key campaign promises was to strengthen Nigeria's economy. Like his predecessors, he adopted the Economic Diplomacy strategy to advance his national economic development agenda. He embarked on several international visits to improve the country's image and diversify its sources of foreign revenue. Similar to the three administrations before him, Buhari leveraged Nigeria's foreign trade relations to attract foreign investors and international development partners through his diversification agenda. His government has continued the trend of encouraging inflows of foreign direct investment (FDI) and other external revenues. However, despite these efforts, the economy remains heavily skewed toward the oil and gas sector. Nigeria's foreign trade policies have underperformed, failing to channel the inflow of foreign capital—particularly FDI—into strengthening the industrial and manufacturing sectors of the economy.

These vital sectors and sub-sectors hold the greatest potential for increasing Nigeria's foreign revenue by producing distinctive goods and products where the country enjoys a comparative advantage in the global market. However, the inability of Nigeria's trade policy to effectively channel foreign capital inflows through a balanced trade framework has resulted in persistent economic imbalances spanning decades (Akin, 2013)

In recent times, Nigeria's trade policy has taken a protectionist turn, emphasizing indigenization, the promotion of exports—primarily crude oil rather than non-oil products—and a reduction in imports. The government's decision to close the borders further reflects this approach. Achieving and accelerating economic growth, which remains the ultimate aim of trade policy, requires aligning trade measures with broader macroeconomic policies within a stable political environment. Ensuring that these policies are coherent and consistent is crucial for sending the right signals and securing the support of key stakeholders in advancing Nigeria's development agenda.

## 4.2 Nigeria Economic Relation with the Nations of the World

The study revealed that:

- a. Nigeria's economic relations with other nations have often been inconsistent with its foreign trade policy, as the application of such policies has not always been strictly enforced in guiding interactions with trading partners. This inconsistency has resulted in frequent policy reversals. Nonetheless, certain achievements have been recorded with specific countries. For example, between 2015 and 2020, Nigeria's relationship with China yielded notable progress in industrialization and development, presenting valuable opportunities for the nation. Under President Buhari, Nigeria established strong diplomatic and economic ties with China, a major global economic power. This partnership has provided crucial funding to address infrastructure deficits and has attracted significant foreign direct investment (Adeniji & Igwe, 2021).
- b. Findings indicate that 2015 marked the peak of Sino-Nigerian relations, with trade volume reaching approximately \$4 billion. Since then, trade between the two nations has declined, largely due to falling oil prices and inadequate coordination to diversify beyond crude oil transactions. Moreover, a significant trade imbalance persists, as Nigeria imports far more from China than it exports, leaving the country heavily reliant on Chinese goods.

## 4.3 How Does Trade Policies Benefit Trade Finance?

### 1. Increased Cash Flow

Financial instruments such as letters of credit and factoring allow exporters to receive prompt payment, while importers can defer settlement until goods are delivered and, in some cases, resold. This arrangement helps businesses maintain liquidity without exhausting bank reserves or relying heavily on conventional loans. Small and medium-sized enterprises (SMEs) gain particular advantage, as pre-export financing enables manufacturers to cover production expenses ahead of shipment, ensuring timely fulfillment of orders without cash flow constraints.

### 2. Risk Mitigation

International trade is naturally exposed to risks such as political instability, currency volatility, buyer default, and transportation disruptions. Trade finance instruments, including letters of credit and export credit insurance—serve to minimize these risks by offering guarantees and insurance protection under sound trade policies. Such mechanisms safeguard exporters against non-payment or buyer default, thereby reducing potential financial losses and making cross-border trade safer and more appealing.

### 3. Facilitates Growth and Expansion

Trade finance allows businesses to broaden their market presence and engage with new trading partners across the globe. By providing financial support for import and export transactions, it enables firms to access new markets, develop international supply chains, and build cross-border partnerships. This expansion often results in higher sales, greater profitability, and stronger competitiveness in the global market. (Trade Finance Guide, 2022).

#### 4. More Opportunities for Trade

With the support of trade finance, companies are able to take on larger orders and expand into new international markets with greater confidence. By mitigating risks such as buyer default and currency volatility, these financial instruments eliminate key obstacles to global growth. Export credit agencies and trade credit insurance are particularly important, offering protection against political and economic uncertainties abroad. According to the WTO (2023), trade finance underpins more than 80% of global commerce, and the rise of digital applications has made these tools increasingly accessible to smaller enterprises compared to the past.

#### 4.4 Challenges of Trade Finance

A review of Corporate Finance Guide (2024) shows that, the following are the common challenges and risks in trade finance;

**1. Political Risks:** Political risks involve changes in government policies, geopolitical tensions, trade wars, and regulatory instability. These factors can significantly impact trade agreements and trade relationships between countries (Chauffour & Farole, 2009).

**2. Credit Risks:** Credit risk stems from the chance that a counterparty may be unable to fulfill its financial commitments. Such risks may result from insolvency, payment delays, or unfavorable economic conditions within the counterparty's country.

**3. Compliance Risks:** Compliance risk arises when organizations fail to meet regulatory and legal obligations, such as anti-money laundering (AML) and know-your-customer (KYC) requirements. Non-adherence to these standards can lead to legal sanctions and significant reputational harm.

### 5. CONCLUSION AND RECOMMENDATIONS

Finance is an essential component of international trade needed for day-to-day transaction by both the importers and exporters who engages in international trade. Given the role finance plays in global trade, the study examined the interaction of trade finance and trade policies in Nigeria with the objectives of assessing its benefits and challenges. Based on the findings, the study identified that, the success of the international trade is a function of the international financial institution in making funds available for both importers and exporters to aid their business transaction. Also, trade finance is of benefits in that, it increased cash flow, and assist in risk mitigation.

Undoubtedly, Nigeria's bilateral relations with its trading partners, when guided by sound trade policies, can yield significant benefits for all parties involved. However, applying dependency theory highlights the need to address the persistent imbalances in Nigeria's trade relations with the wider world. Correcting these disparities is essential to align practice with the often-stated "win-win" narrative that characterizes international engagements.

For Nigeria to fully harness the benefits of its bilateral relations with countries such as China, the United States, and Brazil, it must strengthen its technological capacity. Equally important is the need for political leadership to demonstrate the will to effectively manage Nigeria's diversity in pursuit of peace, security, and sustainable economic transformation. While the government has maintained positive relations with the international community to foster development, there remains a pressing need to enhance these economic ties in order to address

the persistent imbalances in the nation's economy, despite the goodwill with its trading partners.

In summary, Nigeria's 2023–2027 trade policy presents a broad and ambitious framework for leveraging trade as a driver of economic growth and national development. It acknowledges the country's existing challenges and limitations while outlining a clear strategy to overcome them. Its emphasis on inclusive growth, regional integration, private sector participation, and sustainable economic practices is noteworthy. Ultimately, the success of this policy will rely on effective execution, active stakeholder involvement, and sustained commitment from both government and private sector actors.

It is therefore recommended that:

1. The government must maintain consistency in implementing its foreign trade policy to establish a clearer framework for Nigeria's engagement with the global community. It should also recognize the significant role the international partners play in the nation's economy and work toward building stronger economic relations through well-structured bilateral agreements. Such measures are essential for advancing Nigeria's economy, particularly in addressing balance of trade challenges.
2. As the enforcer of national laws, the government should prioritize policies that safeguard Nigeria's economy from the damaging impact of low-cost, substandard imports. It is essential to establish robust regulations aimed at shielding infant industries from the influx of cheaper and inferior foreign goods.
3. The legislature should enact laws to protect Nigeria's emerging industries from unhealthy foreign competition. Industries in which the country has a comparative advantage should be defended through robust legal measures that limit the importation of similar goods, especially those originating from countries with cheaper cost of production. In addition, there must be strict enforcement to curb the entry of substandard products, with appropriate legal sanctions imposed on importers who violate these regulations.

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