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THE IMPLICATIONS OF THE CURRENT GLOBAL FINANCIAL CRISIS ON NIGERIA'S INTERNATIONAL TRADE

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ABSTRACT

The study focuses on the implications of the current global financial crisis for Nigerians international trade. Global financial crises refer to the period of crisis which manifested itself globally in the form of liquidity and credit crunch, breakdown of confidence in banking system, de leveraging and banks inability to improve capital adequacy which result to extreme stress in global financial markets and banking system. The crises have inflicted so much harm on the Nigeria economy by resulting in reduction of foreign investment in the country, a fall in the value of naira and tightening financial condition. The proximate cause of the global financial crises was regulation policy error, increased borrowing in bank, excessive risk taking, the bursting of the human resource factors, external economic attack, psychopathology. The main objective of this study is to examine the implications of global financial crisis on Nigeria international trade. The paper examined causes of crisis in Nigeria and the implications of the crisis to Nigeria economy. The research method was analytical and adopted a quantitative approach using secondary data. Recommendations were also made on how to reduce these crises for Nigerian's international trade.

Keywords: Globalization, financial crisis, international trade

Introduction

International trade is an exchange involving a good or service conducted between at least two different countries. The exchanges can be imports or exports. An import refers to a good or service brought into the domestic country. An export refers to a good or service sold to a foreign country. International trade is a method of economic interaction between international entities and is an example of economic linkage.

The implications of the current global financial crisis in Nigeria are multifaceted, affecting various aspects of the economy and society. Some key objectives to consider are:

- Economic Stability: Nigeria's economy is vulnerable to external shocks, such as fluctuating oil prices and global financial crises, which can impact its stability. The government aims to stabilize the economy through monetary policies and reforms.
- Inflation Control: Rising inflation, currently over 26%, erodes purchasing

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power and affects low-income households. The government needs to implement policies to control inflation and maintain price stability.
- Debt Management: Nigeria's national debt exceeds $100 billion, and managing this debt is crucial to prevent a sovereign default and maintain investor confidence.
- Diversification: The country's reliance on oil exports makes it vulnerable to fluctuations in global oil prices. Efforts to diversify the economy, such as promoting non-oil industries, can help reduce this vulnerability.
- Social Protection: The economic challenges disproportionately affect vulnerable populations, and the government needs to implement social protection programs to alleviate their suffering.
- Investment Promotion: Nigeria needs to attract foreign investment to stimulate economic growth, which requires a stable economic environment, transparent governance, and robust regulatory frameworks.

To achieve these objectives, Nigeria should focus on [4]:
- Strengthening Governance Structures: Establishing robust governance frameworks to ensure accountability and better policy implementation.
- Promoting Transparency: Increasing transparency in public and private sectors to build trust and reduce corruption.
- Enhancing Risk Management: Developing comprehensive risk management strategies to anticipate future crises.
- Prioritizing Ethical Practices: Promoting ethical behavior in business and government to improve the country's reputation and attract foreign investment.

By addressing these challenges and implementing effective policies, Nigeria can mitigate the implications of the global financial crisis and achieve sustainable economic growth and development.
Other forms of economic linkages include:

- Foreign Financial Investment
- Multinational Corporations,
- Foreign Employees.

International trade occurs because one country enjoys a comparative advantage in the production of a certain good or service, specifically if the opportunity cost of producing that good or service is lower for that country than any other country. If a country opts not to trade with other countries, it is considered to be an autarky. Many countries have large international financial flows or investments, consisting of assets and liabilities. These include FDI, securities (which are bought and sold), and debts. They are generally held by or owed to firms, banks and other financial institutions, or governments. After World War II, the United States helped build a global economic order governed by mutually accepted rules and overseen by multilateral institutions. The idea was to create a better world with countries seeking to cooperate with one another to promote prosperity and peace. Free trade and the rule of law were mainstays of the system, helping to prevent most economic disputes from escalating into larger conflicts. The growth in these forms of economic linkages is known as globalization.

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Globalization

Globalization is the word used to describe the growing interdependence of the world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and information. Countries have built economic partnerships to facilitate these movements over many centuries. But the term gained popularity after the Cold War in the early 1990s, as these cooperative arrangements shaped modern everyday life. This guide uses the term more narrowly to refer to international trade and some of the investment flows among advanced economies, mostly focusing on the United States.

The wide-ranging effects of globalization are complex and politically charged. As with major technological advances, globalization benefits society as a whole, while harming certain groups. Understanding the relative costs and benefits can pave the way for alleviating problems while sustaining the wider payoffs. Globalization is a term used to describe the increasing connectedness and interdependence of world cultures and economies.

Historical View of Globalization

Globalization is not new. Since the start of civilization, people have traded goods with their neighbors. As cultures advanced, they were able to travel farther afield to trade their own goods for desirable products found elsewhere. The Silk Road, an ancient network of trade routes used between Europe, North Africa, East Africa, Central Asia, South Asia, and the Far East, is an example of early globalization.

Benefits Of Globalization

Globalization provides businesses with a competitive advantage by allowing them to source raw materials where they are inexpensive. Globalization also gives organizations the opportunity to take advantage of lower labor costs. The rate of globalization has increased in recent years, a result of rapid advancements in communication and transportation. Advances in communication enable businesses to identify opportunities for investment.

At the same time, innovations in information technology enable immediate communication and the rapid transfer of financial assets across national borders. Improved fiscal policies within countries and international trade agreements between them also facilitate globalization. Political and economic stability facilitate globalization as well. The relative instability of many African nations is cited by experts as one of the reasons why Africa has not benefited from globalization as much as countries in Asia and Latin America.

Global Financial Crisis

Financial crisis generally refers to a situation whereby the values of financial institutions or assets drop rapidly (Abdul, 2008). A financial crisis is often associated with a panic or a run on the Banks in which investors sell off assets or withdraw money from savings accounts with the expectation that the value of those assets will drop if they remain at the financial institution. (Aderibigbe, 1999).

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The global financial crisis (GFC) refers to the period of extreme stress in global financial markets and banking systems between mid-2007 and early 2009. During the global financial crisis, a downturn in the US housing market was a catalyst for a financial crisis that spread from the United States to the rest of the world through linkages in the global financial system. Many banks around the world incurred large losses and relied on government support to avoid bankruptcy. Millions of people lost their jobs as the major advanced economies experienced their deepest recessions since the Great Depression in the 1930s. Recovery from the crisis was also much slower than past recessions that were not associated with a financial crisis.

Main Causes of The Global Financial Crisis

As for all financial crises, a range of factors explain the Global Financial Crisis and its severity, and people are still debating the relative importance of each factor. Some of the key aspects include:

1) **Excessive risk-taking in a favorable macroeconomic environment**: In the years leading up to the Global Financial Crisis, economic conditions in the United States and other countries were favorable. Economic growth was strong and stable, and rates of inflation, unemployment and interest were relatively low. In this environment, house prices grew strongly. Expectations that house prices would continue to rise led households, in the United States especially, to borrow imprudently to purchase and build houses. A similar expectation on house prices also led property developers and households in European countries (such as Iceland, Ireland, Spain and some countries in Eastern Europe) to borrow excessively. Many of the mortgage loans, especially in the United States, were for amounts close to (or even above) the purchase price of a house. A large share of such risky borrowing was done by investors seeking to make short-term profits by 'flipping' houses and by 'subprime' borrowers (who have higher default risks, mainly because their income and wealth are relatively low and/or they have missed loan repayments in the past). Banks and other lenders were willing to make increasingly large volumes of risky loans for a range of reasons; Competition increased between individual lenders to extend ever-larger amounts of housing loans that, because of the good economic environment, seemed to be very profitable at the time. Many lenders providing housing loans did not closely assess borrowers' abilities to make loan repayments. This also reflected the widespread presumption that favorable conditions would continue. Additionally, lenders had little incentive to take care in their lending decisions because they did not expect to bear any losses. Instead, they sold large amounts of loans to investors, usually in the form of loan packages called 'mortgage-backed securities'

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(MBS), which consisted of thousands of individual mortgage loans of varying quality. Over time, mortgage-backed securities products became increasingly complex and opaque, but continued to be rated by external agencies as if they were very safe.

Investors who purchased mortgage-backed securities products mistakenly thought that they were buying a very low risk asset: even if some mortgage loans in the package were not repaid, it was assumed that most loans would continue to be repaid. These investors included large US banks, as well as foreign banks from Europe and other economies that sought higher returns than could be achieved in their local markets.

2) **Increased borrowing by banks and investors**: In the lead up to the global financial crisis as for all financial crises, a range of factors explain the Global Financial Crisis and its severity, and people are still debating the relative importance of each factor. Some of the key aspects include: banks and other investors in the United States and abroad borrowed increasing amounts to expand their lending and purchase MBS products. Borrowing money to purchase an asset (known as an increase in leverage) magnifies potential profits but also magnifies potential losses.

As a result, when house prices began to fall, banks and investors incurred large losses because they had borrowed so much. Additionally, banks and some investors increasingly borrowed money for very short periods, including overnight, to purchase assets that could not be sold quickly. Consequently, they became increasingly reliant on lenders – which included other banks – extending new loans as existing short-term loans were repaid.

3) **Regulation and policy errors:** Regulation of subprime lending and mortgage-backed securities products was too lax. In particular, there was insufficient regulation of the institutions that created and sold the complex and opaque mortgage-backed securities to investors. Not only were many individual borrowers provided with loans so large that they were unlikely to be able to repay them, but fraud was increasingly common – such as overstating a borrower's income and over-promising investors on the safety of the mortgage-backed securities products they were being sold.

Overview Of Current Financial Crises in Nigeria

The immediate impact of the financial crisis in Nigeria was caused by a host of factors such as; liberalization of global finance system, boom and bust in the housing market involving speculations in the real estate market as well as high risk loans, poor credit rating which has been minimal on African economies so far since most commercial banks in the region avoided

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investing in distressed assets from the United States and other parts of the world. (Adamu, 2012). However its effects where felt in terms of the African stock markets where trade volume fell substantially with that of the Nigerian stock market, in addition the downturn of the economies in the developed countries equally impacted on the economies of the developing countries through the indirect impact of unpredictable and decreasing commodity prices, particularly crude oil, on export revenue and capital inflow into the region, low remittance from abroad, reduction in foreign aid, and low foreign direct investment and portfolio investment. Furthermore from reports, African countries like Tanzania downgraded its growth forecast down from 7.8% to 7.5% whilst AFDB forecast average growth of was downgraded to 5% down from 6.5% (.Within the Nigerian Economy, regardless of the opinions and mindset of Financial Institutions such as the central bank in Nigeria, the impact of the crises was still visible in the Nigerian economy as flow of Foreign Direct Investment and Equity Investment dropped especially for important sectors such as agriculture, infrastructure development, health and education. (Aderibigbe, 1999). Stock market prices dropped significantly due to withdrawal of portfolio investments. Other impacts were the drop in Oil prices, remittances, provision of financial aid, drops in commercial lending, loss in financial assets by banks and other financial institutions, capital account liberalization, slowdown in economic growth, loss in foreign reserve which ultimately affects the MDGs creating increased poverty, crime, etc. (Adamu, 2009).

In February of 2020, the COVID19 virus was discovered in China. The disease soon made its way around the world, killing millions and stoking fear. This, in turn, caused markets to fall and credit to the financial system to grind to a halt. The pandemic resulted in strict lockdowns and travel restrictions, which had a significant impact on global supply chains, consumer demand, and financial markets. Investors became increasingly concerned about the economic consequences of the pandemic, leading to a rapid sell-off in stock markets around the world. The crash was particularly severe in March 2020, when the Dow Jones Industrial Average (DJIA) experienced its worst day since 1987, falling over 2,000 points in a single day. Other major stock indexes, such as the S&P 500 and the FTSE 100, also experienced significant losses. From February 12 through March 23, 2020, the DJIA lost 37% of its value. Central banks and governments around the world responded with various measures to stabilize the financial system and support the economy, including monetary stimulus and fiscal policies such as government spending and tax breaks. Despite the severity of the initial crash, the markets rebounded somewhat in the following months, and many investors saw significant gains toward the end of 2020 and into 2021, where markets hit new all-time highs. However, the long-term economic consequences of the pandemic are still unclear, and many industries and countries are still struggling to recover fully.

The 2008 Global Financial Crisis remains one of the deepest economic downturns in

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modern history and deserves special attention, as its causes, effects, response, and lessons are still relevant to the current financial landscape. The crisis was the result of a sequence of events, each with its own trigger and culminating in the near-collapse of the banking system. It has been argued that the seeds of the crisis were sown as far back as the 1970s with the Community Development Act, which required banks to loosen their credit requirements for lower-income consumers, creating a market for subprime mortgages. The amount of subprime mortgage debt, which was guaranteed by Freddie Mac and Fannie Mae, continued to expand into the early 2000s when the Federal Reserve Board began to cut interest rates drastically to avoid a recession.

The Implication of Current Financial Crises in Nigeria International Trade

1) Financial crisis led to the introduction of stricter lending requirements by banks and financial institutions (Soludo, 2014). As a result of the global financial crisis, many western banks reduced their financial investment in Nigeria in order to aid the parent organizations (Adamu, 2012), and international hedge funds and credit lines were withdrawn (Ashamu and Abiola, 2012). Also, 'banks with high foreign currency exposures were negatively affected, as they lost some financial assets deposited with foreign correspondent banks' (Adamu, 2012). As a result of the global financial crisis, many western banks reduced their financial investment in Nigeria in order to aid the parent organizations (Adamu, 200912), and international hedge funds and credit lines were withdrawn (Ashamu and Abiola, 2012). Also, 'banks with high foreign currency exposures were negatively affected, as they lost some financial assets deposited with foreign correspondent banks' (Adamu, 2012). According to Aluko (2013), 'financial institutions in economically advanced countries reduced their investments in the Nigerian financial system, thereby causing the collapse of the stock market.
2) Nigerian economy depends largely on the oil industry, 85% of local revenues and 99% of foreign exchange are derived from export of crude oil (Adamu, 2011). Okoye et al. (2016) emphasized that the current fall in oil prices has caused serious problem for the Nigerian economy and presented a major risk for the construction industry, as it reduced budget revenues and restricted the government's abilities for infrastructure investments which indicates economic recession. The mainstay of Nigeria economy is the production and exportation of oil which account for a greater percentage of the revenue generated (Ogbonna, 2014). The dependence of the economy on the oil sector is very significant; 85% of local revenues and 99% of foreign exchange are derived from export of a single commodity (oil) (Adamu, 2012 Inflation can be described as a measure of general price increase of the price level in an economy.
3) The economic crisis ravaging the global economy is naturally a serious challenge to educators and investors all

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over the world. The world economy is facing severe financial crisis since the great depression of the last century'.

Some teachers even become unnecessarily harsh to students and would not take time to give proper explanation on any concept taught, as students' loose in1erest in class activities thereby affecting the impartation of such knowledge maintains that if teachers are motivated enough, they will put in their best and find a way to obtain materials necessary to teach.

4) According to those who investigated the impact of the global financial crisis on the Nigerian economy and discovered that the crisis has resulted in a significant drop in the prices of goods and services, a decrease in exports, a decrease in the portfolio and foreign direct investment inflows, a decrease in the equity market, and a decrease in remittances. Based on a comparative analysis of the US economy.
5) It was further enumerated that the causes of the crisis also includes breakdown in underwriting standards for subprime mortgages, flaws in credit rating agencies assessments of subprime Residential Mortgage Backed Securities (RMBS) and other complex credit products especially Collaterized Debt Obligations (CDOs) and other Asset-Backed Securities (ABS), risk management weaknesses at some large US and European financial institutions; and weak regulations such as disclosure requirements that failed to mitigate risk management weaknesses. Adamu (2009) summarized the causes of the crisis as liberalization of global financial regulation, boom and bust of the housing market, speculations, new financial structural design, poor credit rating, high risk loans and government policies. In the words of Sanusi (2011), most scholars have argued that the crisis was not without warning, the housing boom witnessed in the United States and lack of coherent regulation highlighted the flaws in the system.
6) In the words of the Central Bank Governor of Nigeria (CBN), the global financial meltdown led to the crumbling of many businesses including otherwise formidable corporate giants across the world (Soludo, 2013). In Nigeria, the Foreign Direct Investment (FDI) declined following the market shocks and the weakening confidence in investors (Adamu, 2012Aluko, 2012).

The cement industry was not spared in this as the world giant; Lafarge shrank its investment in the sector.

7) Besides the receding economic problem, there is an extended rate of joblessness along demographic lines. With the worldwide financial crisis and the increasing rate of unemployment along demographic lines,

there's a challenge of what impact will the world economic downturn have on learning and development (Adamu, 2009) and (Ogbari, et al, 2017).
8) Rise in public debt: Public debt increased as a result of numerous government interventions to maintain their financial and economic systems
9) Political repercussions: The crisis led to a decline in confidence in the

government and financial institutions and fueled the emergence of populist and anti-globalization views.

10) The financial crisis also negatively affects the government budgets in addition to the effect on the households' incomes. This could have a negative impact on the government spending on social assistance programs, while these in fact need to be expanded given the expected increase in poverty. Governments also need to consider changing the eligibility criteria of the current programs or to introduce new programs, because some of the individuals that will fall into poverty because of the crisis may not be easily reached by existing social protection programs.

Recommendations

1) Nigeria should have courage to invest and exploit other areas of the economy in order to be able to achieve economic and political independence.
2) Nigeria should advocate economic diversification from an oil-based to a non-oil-based economy.
3) Nigeria should increase consumer confidence by increasing FDIC insurance by guaranteeing funds.
4) They should also stimulate borrowing and economic activities by lowering interest rate in short and long term through quantitative easing.
5) They should also increase liquidity in bank by swapping bad assets for risk-free treasuries and opening multiple facilities such as Commercial Paper Funding Facilities
6) They should inject capital into banks to stabilize them
7) They should also utilize physical stimuli to boost the economy of Nigeria

Conclusion

The current global financial crisis of Nigeria had led to the crumbling of many businesses including formidable corporate giants across the world (Soludo,2008). In Nigeria, the Foreign Direct Investment (FDI) declined following the market shocks and the weakening confidence in investors (Adamu, 2012; Aluko,2012). The crises have Inflicted so much harm on the Nigeria economy by resulting in reduction of foreign investment in the country, a fall in the value of naira and tightening financial condition.

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