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# FORIEGN TRADE AND PERFORMANCE OF BANKS: A COMPARATIVE ANALYSIS OF INDIA AND GHANA

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# INTRODUCTION

The primary goal of every business entity is going concern which means all legal entities seek to operate to the foreseeable future within a specific legal framework. On the other hand, targets, economic decisions and programs of countries are directed towards economic growth and stability. The survival of business entities such as banks is dependent on the performance of their operations, which is measured using profitability, liquidity, working capital, leverage, debt coverage, investment valuation ratios etc. to ascertain the financial soundness. In the past three decades most researchers conducted studies regarding capital structure and performance of banks. According to the findings of (Awuyo-Victor & Badu, 2012), in their study regarding capital structure and performance of banks in Ghana, they revealed that the performance of Banks in terms of return on equity and Tobin's q have an inverse linkage with the structure of the capital employed. Thus, banks are much particular about returns on capital employed for the survival of business operations.

The present study covers "Foreign trade and Performance of Banks: A Comparative Analysis of India and Ghana". The profit of banks are not only determined by the endogenous (internal) variables such as managerial efficiency and effectiveness, composition of both short term and long term debt, credit risk associated with loan disbursement but also influenced by exogenous (external) variables. The external variables under consideration are exports, imports and foreign direct investment (FDI). This current study will thoroughly assess the effect or contribution of these external variables on some public and private sector banks performance in both India and Ghana. Foreign trade refers to the movement or exchange of capital, goods, and services across international boundaries. Countries have differences in resources endowment and different capacity and efficiency of harnessing these resources. Therefore, a country engages in foreign trade to tap or take advantage of the existing endowment resources and efficiency in other countries. In this current research, linear regression model will be used to analyze the impact and trend of foreign trade variables on the performance of selected banks in both India and Ghana.

The foreign trade policies of some countries over the years have gone through reforms in order to make their economies more open. These reforms took the form of liberalization with respect to financial services, manufacturing and trade reforms etc. in order to increase productivity, exports and optimal level of imports. Prior to trade and financial liberalization, Ghana for instance,

embarked on a strategy policy which targeted growth and this policy was known as an inward-oriented approach, earmarked for government enterprises. The aim of this government initiative is to attain its social welfare goals (Aryeetey, 1994). Thus, price control regime became official in 1960s when Price and Income Board got established. Government took dominance of the financial sector where banks took into account social and political considerations and were required to disburse credit or loans into priority sectors, such as agriculture and other government enterprises. Also, government determined rate of interest and exchange rates to adjust cost of credit, (Owusu & Odhiambo, 2015).

According to (UNCTAD, 2012), in 1990, India embarked on major reforms which accounted for high economic growth in 2003 with the annual growth rate surpassing 8 percent. Despite the global economic crunch, there was an upward surge in the real GDP of India by 8.8 percent. The private sector also plays important role in the economic growth of India, private investment in India from 2010-2011 was 80 percent of all total investment in India. In effect, private investment is higher than public investment in India. Since India adopted structural reforms in 1990s, there has been tremendous growth in the service, manufacturing and agricultural sector. There has been substantial growth in the services exports; yet the total amount of goods exports exceed that of services exports over the past three decades.

The recent economic shocks in most countries may result from several channels. Some of the effects emanate from financial sector of the economy and are extended to the real sector of the countries involved. The crisis of the financial sector emerged through financial markets, foreign direct investment and stock markets. The real sector challenges arise through channels such as trade, remittances and foreign aid. The objectives of trade policy in many countries include diversifying and strengthening exports and improving agro processing, through regional and global markets, (Ackah et al, 2009).

Therefore, countries increase their level of trade activities through flexible foreign trade policies or bi-lateral agreements and memorandum of understanding (MOU). Foreign trade also comes with so many protections such as export tariffs and import quota. Some of these restrictive measures aim at protecting indigenous industries in the domestic economy and also with the aim of increasing employment, eliminating dumping, harmful products and ensuring price stability etc. in the domestic economy whilst some of these restrictions are retaliatory measures.

The prevalence of multinational companies (MNCs) may adjust the optimal trade policy of competing regional blocs. In the case of fixed tariffs, regional blocs can be integrated through foreign direct investment (FDI) inflows, accounting for full trade diversion and increased investment, (Donnenfeld, 1998).

There are many instances where developing countries remain vulnerable given trade restrictions by giant economic blocs like US. Hence, developing countries should employ all measures (i.e the big push approach) to be self-sufficient. This is to say the economic activities in the developing countries should have a huge boost in terms of investment in industrialization drive to the level where the economy can be strong enough to absorb any shocks arising from restrictions and protectionism of developed countries like US.

Therefore, strong economic blocs such as United States, European Union and China have large influence when it comes to foreign trade. For instance, China despite cheap labour and technological efficiency available, it continues to adopt predatory pricing technique and also devalue its domestic currency when necessary to take huge advantage of both domestic and international competition. It should then be noted that increased protectionism to foreign trade and over dependence on local production to drive economy of developing countries like India and Ghana will create demand shocks which will intern affect the rate of economic activities. According to (Shameek & Shahana; 2012), India exports lost its world market share between 1951-1960 and 1961-1970. Given the direction of the current US government led by President Donald Trump, there will be low inflow of foreign direct investment from US to developing countries. These kinds of measures may cause financial distress in the developing countries which may affect the domestic financial systems. This is because US is now concentrating on investing largely in its domestic economy.

The happenings of trade in foreign economies have a reprisal effect on the foreign trade patterns in India and Ghana. Foreign trade restriction on India and Ghana by a country like US may cause economic instability as well as job insecurity because US is an important trading partner to both countries. In the case of US, the quest of the government to increase employment and increase productivity of US has led to the increased level of restrictions on foreigner’s participation in the US economy. The recent US government policy aims at making the US work again by way of strengthening industries, especially the private sector industries in US economy. This is an

indication that foreign remittance to both India and Ghana will reduce in the long run which will intern affect banks performance respectively.

The long run effect of US government measures to make use work again will lead to an increased export which will reduce the level of import from other countries thereby causing balance of payment problems to the respective countries in question. When US import falls, prices in the respective countries will go down since there would be excess supply in the other country involved. For instance, US import significant amount of goods and services from India, so in a case where US imports fall, Indian government revenue will also fall drastically leading to the backwardness of India's economy. In 2016 for instance, The United States foreign trade activities with India estimate was $114.8b where $42.0 billion and $72.8b represented exports and import respectively and U. S trade with India resulted into a deficit of $30.8b, according to (ustr.gov).

The financial sector in both India and Ghana will encounter fluctuations in the performance variables given the fluctuations in the foreign trade variables and FDI inflow in both economies.

## India-Ghana Bilateral Trade

Bilateral trade agreements between countries and regional economic integration provide sound and efficient economies. Banks therefore, perform better when there is a conducive business environment in the country.

India Former President Pranab Mukurjee visited Ghana on 13th June 2016, In order to increase the existing relationship between India and Ghana, three memorandum of understanding (MOU) were signed. Both countries agreed that holders of diplomatic and official passport are exempted from visa requirements. Also, India and Ghana agreed upon the establishment of joint commission and the thirdly, MOU was signed between Foreign Service Institute under, Ministry of External Affairs of India and Ministry of Foreign Affairs and Regional Integration of Ghana. Such diplomacy will increase ease of doing business between the two countries and also pave way for increasing foreign direct investment and trade activities between both countries. After the visit by Indian President, the government of India sponsored the establishment of state of the act Komenda Sugar Factory with US$ 1.26m of which the total cost of the factory was US$35m.

The purpose for this factory is to reduce the yearly sugar import bill of Ghana standing at US$300m. The factory is expected to produce 1250tonnes of sugar daily and also, start exporting sugar thereafter, (businessworldghana.com).

This is an indisputable fact that India remains a solid trading and developing partner of Ghana. Reputable companies from India including Ashok Leyland have seen tremendous expansion in the soil of Ghana. Statistical evidence from Ghana Investment Promotion Centre (GIPC) indicates that India is the only country whose companies have invested in about 600 projects. Additionally between 1994 and 2014 the total cost of projects embarked on by Indian companies amounted to US$ 998m keeping India on record of the top two foreign investor countries with respect to numerous projects and was also positioned 9th in terms of FDI inflow. In 2013, the numbers of projects registered under Indian FDI in Ghana were 57.

This current study is also concern about trading activities between the two countries. The evidence from the bilateral trade indicates that the value of trade surge up to US$ 1b occurring in first time in history during 2011-12, fiscal year. Commencing from 2014-15 fiscal year, trade balance shifted in favour of Ghana due to huge import of Gold. The bilateral trade values for the previous 6years are in dollar terms (USD million).

| Time Period | Exports from India to Ghana USD) | Imports of India from Ghana (USD) | Total Trade (USD) | Trade Balance (USD) |
|---|---|---|---|---|
| 2011-12 | 800.35 | 403.67 | 1204.02 | 396.68 |
| 2012-13 | 744.12 | 277.61 | 1021.73 | 466.51 |
| 2013-14 | 831.48 | 370.56 | 1202.04 | 460.92 |
| 2014-15 | 680.39 | 1257.60 | 1937.99 | -577.21 |
| 2015-16 | 623.24 | 2981.27 | 3604.51 | -2358.03 |
| 2016-17 | 682.27 | 1938.54 | 2620.82 | -1256.27 |

*Source: Department of Commerce, Government of India*

India imports many commodities including gold, cocoa, nuts and timber from Ghana. Gold is the major export commodity, Ghana export to India and constituted 81% of the total export to India. Ghana also imports numerous products such as pharmaceuticals, transport vehicles, agricultural

machinery electrical equipment, plastics, iron & steel, beverages & spirits, ethyl alcohol, cereals, textiles and so on.

## Financial Intermediaries

Foreign trade is possible under the auspices of the financial sector; Banks undertake the leading role when it comes to foreign trade transactions and financing of export, Import and FDI activities in this regard. There are two major documents involved when it comes to trade finance that is letter of credit (LC) and documentary collection (DC). Letters of credit are issued in most cases for exports to destinations with intermediate degree of contract enforcement, whereas documentary collections are used for riskier destinations. Firms will only export across international boundaries when there is an assurance of payment from intermediary banks or reputable finance-house in the trading countries. Hence, trade finance products such as letter of credit and documentary collection reduce the level of risk of the exporter, and increase the stock of claims of the financial institutions.

Furthermore, in every business stage, importers need to settle their purchases in foreign markets and the LC assist importers to procure goods and services abroad. In actual situation, "Letter of credit is an undertaking by a bank (opening / issuing bank) made to the seller (beneficiary) on behalf of the buyer (applicant) to pay a certain amount if documents presented conform to terms of the letter of credit within a stipulated time period", (HDFC Bank, India).

The aim of trade finance is to mitigate risk factors arising from overseas transactions. The enforcement of law when it comes to breach of contract by a trading partner results in huge financial loss to these universal banks.

The Federal Reserve Bank of New York (FRBNY) pointed out in their staff report that the main objective of letter of credit (LC) is to ensure optimal decline in the risk of financing exports to foreign destinations. The issue of letter of credit by the intermediary banks comes with charges and at times tends not to be used in either least or more riskier trading destinations, as explained by the optimal contract choice of firms. Thus, from this perspective, the returns of risk mitigation through financial intermediaries are offset by the cost involve in the intermediation. This arises from the fact that banks can reduce but cannot entirely eliminate the risk of trading activities. The level of risk the intermediary banks bear determines the fees charged for issuing letter of

credit and documentary collection. The higher the risk of export destination, the more expensive the letter of credit becomes, which intend leads exporters to high preference for advance payment. In this situation, the importer makes payment in advance before the exporter embarks on production thereby eliminating the settlement risks. Additionally, Letter of credits are not issued for low-risk destinations; with respect to those transactions, the exporter and importers can save on bank fees, (Niepmann & Schmidt-Eisenlohr, Revised 2014).

Intermediary banks engage in import and export financing through letter of credit and documentary collections, banks also offer huge loans for advance payment of import goods and clearing of goods at the port and harbours. Similarly, banks offer loans to exporters for the purposes of shipment and insurance on goods on freight. The level of activities and returns on these banking products as well as returns from letters of credit are positively related to the performance of banks. Therefore, given the increased level of firm's performance, the return on assets and the return on equity will increase respectively. In order to mitigate the risk factors involved in loans granted by the banks, collateral security and banking regulations are followed in order to ensure that any default or risk is mitigated.

## LITERATURE REVIEW

Khan M. and Yeniceri T. (2016) examined the importance of exports and imports on the return on assets of domestic commercial banks. The technique of "least square regression analysis" was applied to establish the effect of each variable factor on profitability. The researchers found the coefficient of imports to be having an inverse relationship with return on assets. Meanwhile, the coefficient of the exports has positive relationship with return on assets. The two variables (Imports and Exports) had significant effect on banks profit. There was no multicollinearity or autocorrelation between the economic variables in the study.

Mashavave F. and Tsaurai K. (2015) found no relationship between the structure of short term and long term debt and profitability, given their analysis from 2001 when company A went public on the JSE and had a debt ratio of 0.64 and profit margin of 0.04. In 2002, debt ratio of the company surge upwards to 0.71 and profit margin of the company declined to 0.03. This shows an inverse association. Debt to equity ratio recorded was 1.03 and profit margin of the company surge upwards to 0.06 indicating a positive linkage in 2005. In 2008, debt to equity

increased to 2.15 whereas profit margin declined to 0.04. This depicts the inconsistency of debt to equity ratio with respect to performance of the company. Hence, it does not imply that a rise in debt to equity ratio leads to a rise in profit margin. For instance, in 2012, the debt to equity ratio was 1.1971 meanwhile; the profit margin was recorded as 0.0715.

Amponsah et al. (2014) in their analysis of the effect of exchange rate movement on Ghanaian banks found that all the banks which fall under the study undertake forex market activities. The paper stipulated that notwithstanding the potential risk factors associated to the forex trading, the banks only consider the large prospects of the market which accounted for an increasing operating profit of these banks under the study. However, the risk associated with foreign exchange has an impact on financial position and cash flow of the banks. The banks are faced with risks such as credit, liquidity, interest rate, operating risks and market risks. It was also found that the risks are mitigated through identification, measuring and monitoring, which are subjected to risk limits and controls.

Pushpalata A. S. (2014) in their research on performance of foreign trade in India in the post liberalization era, the paper revealed an increasing trend of total exports and imports yet the growth rate of imports was much higher than the growth rate of exports. The paper stipulated that manufactured produce represented a substantial quantum of the export goods as petroleum and crude products were the imported goods. The paper showed that import quantum has a negative impact on economic growth while export and trade liberalization have positive relationship with the economic growth of India.

Yegon et al. (2014) in their analysis of the effect of capital structure on firm's profitability identified that short term debt has substantial positive linkage with firm's profit. This implies that short-term debt is less costly, and so marginal short-term debt in firm's to run a business will lead to rising profit. Therefore, for a firm to enjoy significant levels of profitability, short-term debt is a preferable source of finance. On other hand, the study highlighted that long-term debt has inverse association with the profitability. It was also noted that long-term debts are relatively expensive as a result of certain direct and indirect costs, resulting to low profit.

Opong-Boakye et al. (2013) analyze the determinants of capital structure of both listed and unlisted firms. The paper revealed that long-term debt was insignificant source of capital for

listed and unlisted firms. The paper used regression model which established that profitability, asset tangibility, company size, and business risk are positively related to debt to equity ratio. There was no statistical significance in the results. Their findings were comparable with the results obtained by (Rajan & Zingales; 1995), and (Abor & Biekpe; 2005). However, the regression output depicted that growth opportunities and taxation have an inverse relationship with the level of gearing although only business growth was identified to be statistically significant.

Chist et al. (2013) were of the view that both long-term and short-term financial decisions contribute substantially to profit of companies. The researchers also hinted that profitability of separate legal entities were directly proportional to financial decisions of the company. Therefore financial decisions require careful considerations due to its relation with the profitability of the company. However, these researchers established the relationship between external variables such as exports and imports, FDI and their impact on profits of selected banks in Ghana and India respectively.

Otuori O., H. (2013) in his research on exchange rate determinants on performance of commercial banks, established that exports and imports have positive relationship with profitability of commercial banks. The study found that there was an upward surge in performance of banks upon increase in import and export variables in the country. The researcher suggested that government should adopt stringent measures to increase Kenya's exports in order to raise the performance of banks and that the higher exports and imports accounted for higher profit of the banks under study.

Afrasiabishani et al. (2012) comprehensively reviewed sources of funds for companies. The study mentioned the usual approaches to accessing profitability which includes the use of leverage and performance ratios such as debt divided by total asset, equity divided by total asset, debt divided equity ratios. The firm's prime motive as a legal entity is to maximize profit and minimize cost. Therefore, profit is known as the excess income generated over cost incurred by the firm and appropriate composition of the capital structure results to higher profit.

Awunyo-Vitor, D. and Badu J. (2012) contributed to the debate on capital structure by examining the association of capital structure and firm's perforance with respect to return on

equity, return on asset and Tobin's q. The researchers were of the view that there exist several performance indicators used to access the profitability of banks and the adoption of a specific performance measure depends on the researcher, subjected to the availability of relevant data for analysis. This current study employed external variables (exports and imports) to ascertain their impact on performance of banks in India and Ghana.

Gansuwan, P. and Onel, C.Y. (2012), in their test on the effect of capital structure on profitability of nonfinancial firms in Sweden indicated that structure of firm's capital and the performance of listed Swedish firms were inversely related substantially. The existence of strong association between a firm's capital structure and returns of a firm trigger several arguments which give rise to further research in the area of finance, and economics. Some researchers with their divergent view support the use of more equity than debt while others are in favour of extensive debt to equity.

Niresh, J. A. (2012) in his study on the trade-offs between liquidity and profitability referred capital structure as the composition of debts, equity and securities that the firm employs to boost its finances. Capital structure refers to the capital mix used for the purposes of the business and survival of the firm in the industry. The researcher also stressed on the optimality of capital structure which denotes the perfect balance between debt and equity which accounts for an increased value of the firm and owners equity and also achieving minimum cost of capital for the company.

Shameek M. and Mukharjee, S. (2012) overviewed the performance of export, pattern and trend of export where they also determined the overall export trading activities. They pointed out that India's protectionism to foreign trade and dependence on local production to drive economic growth in the 1950s reveals that the role of exports played an insignificant role in economic activities of India. Therefore, India's contribution to total export on the global market declined from 1951 to 1970. Until the middle of 1970s, the trade policy of India was much restrictive. The protectionism was adopted to protect the indigenous industries where the policy targeted the quantity of imported goods. The increased levels of protectionism increased the value of local currency which increased import demand while the volume of export declined. The decline in exports emanated from inadequate export incentives during that period.

Osei, V. (2012) studied the demand for imports with respect to economic growth. He revealed that import trade contributes significantly to Ghana's economic growth. The trend analysis conducted by the researcher considered the quantity, quality and elasticity of imported goods, during the period of study. Additionally, the researcher established that imported goods helps economic stability and growth to some extent, giving a rise in the quantity of imports of both capital goods and intermediate goods. The researcher also adopted the normalized equation of Johansen Co-integration approach to identify the long-run linkage between income, the volume of imports, foreign reserves of Ghana, foreign exchange rate and price of domestic goods. The paper suggested that import tariffs should be reduced to encourage import of raw materials. However, trade policy should focus on the optimal level of import composition towards economic growth and development.

Athanasoglou, et al. (2010) pointed out in their analysis of export performance concerning countries with trade imbalances, they established that trade imbalance is essential for economic decision-making. The researchers evaluated export performance in Greece from 1996 to 2006. The researchers used panel data of bilateral trade to ascertain export growth. They also took into account export trends and the effect of price competition on global market. The outcome indicated a considerable change in export with gains in global market share. The paper concluded that aggregate export was inelastic with respect to price fluctuations. Hence, much attention should be given to non-price factors in order for Greece to improve its competitiveness on global market.

Ackah, et al. (2009), in their paper financial discussion series paper, stated that the effects of the recent economic shocks may be resulting from several channels. The effects emanate from financial sector of the economy and get extended to the real sector of those countries involved. The effects of the financial sector emerged through many mediums including stock markets, financial markets and foreign direct investment. The issues of real sector arise through trade, remittances and foreign aid. The researchers also found that Ghana's trade policy objectives include diversifying and strengthening its exports and improve agro processing through regional and global markets.

Athanasoglou, P. A. and Delis D. M. (2005) analyzed banks and industry specific, as well as macroeconomic variables that influence performance of banks. The researchers specified an

empirical framework to study the impact of bank-specific, industry-specific and macroeconomic determinants on profitability. The researchers examined the effect of the business cycle on banks income and, also used relevant econometric model for the estimation of panel data. They also added that capital structure of a bank is important component used to measure returns; thus, high exposure to credit risk lowers banks profits.

Gonzalez, F. (2005) analyzed market structure of banks and determinants of market share in the financial sectors. The paper used Latin America countries and took 2,592 samples from 1996 to 2002. The researcher's findings did not digress from 'efficient structure hypothesis'. The study also recognized some important factors which determine bank's profitability. These factors include legal framework governing financial sector, banking supervision, financial structure of the firm and its expansion.

Bevan et al. (2004) analyzed factors that influence foreign direct investment in transition economies. In their analysis, panel data set of foreign direct investment was used. The researchers found significant factors influencing FDI as the unit cost of labor, gravitational factors, size of the market and convenience. They revealed that the risk associated with host country remains insignificant in determining foreign direct investment inflow. The result of the study indicated that announcement of European Union accession plan will impact FDI inflow of prospective member countries. The study concluded that foreign direct investment inflow has direct relationship with host country's gross domestic product. Additionally, FDI inflows have negative relationship with distance and per unit cost of labor between countries.

Arize, A. C. (2002) in his study on import and export of 50 countries emphasized that co-integration of these external variables and that formulation and evaluation of current and long run economic policies would eliminate trade imbalance and trade deficits. They found that trade imbalance occurs in the short run with an estimated slope coefficient equal to 1.

Kuznetsov, P. and Muravyev, A. (2001) in their measure of ownership structure and firm's performance in Russia, utilize labour productivity, profitability, and Tobin's Q as proxies for performance. The researchers noted that the total factor productivity, which is a vital measure of firm's efficiency from theoretical view point, is less applied as a result of severe challenges relating to the measuring of capital stock. Thus, most study aim at efficiency in terms labour

output. This indicator is dependent upon implicit assumption that capital level remains unchanged and is short term in nature.

Di Mauro, F. (2000) assessed the effect of economic bloc on foreign direct investment inflow and noted that prevalent claim of 'tariff-jumping' foreign direct investment has no empirical evidence. However, non-tariff barriers have negative association with foreign direct investment which depicts higher sunk cost of foreign investors in contrast with exporters. In contrast with the effects on exports, volatility of exchange rate has no negative effect on foreign direct investment; this is because it can be partially overcome when there is direct investment in the country abroad. Also, other concerns deal with the arguments that exist between complementarities and substitutability linkage between exports and foreign direct investment.

Bevan et al. (1999) explained that the concept of enterprise performance leads to several interpretations and analysis. In applied studies, it is common to subject rising performance of firms with increased profitability, higher efficiency, and increased output in a given period. This current study seeks to access export and import as well as foreign direct investment flows impact on performance of banks.

Hejazi, W. and Safarian, A. E. (1999) pointed out that FDI and trade are associated in several perspectives, due to the large quantum of international trade is intra-firm and trade amongst multinational companies (MNCs) as well as trade between multinational companies (MNCs). The study also stated that FDI has the tendency of generating supply or demand linkages and competition, whereas both are capable of securing an increasing efficient spillover channels than trade only. Thus, FDI performs better than trade when the issue of generating spillovers arises.

Donnenfeld, S. (1998) used non-cooperative games to construct a model, in his model the prevalence of multinational companies have the tendency of adjusting optimal trade policy among competing regional integrated areas. He found that at fixed tariffs, regional blocs can be integrated through FDI inflows, resulting to full trade diversion and an increased investment.

Berger, A. N. (1995a) investigated the relationship between the structures of profit in financial sector and provided two test hypothesis. Thus, relative market power hypothesis was confirmed due to the fact that superior management practices and larger market share increase profitability of banks. On the other hand, weak evidence was found with respect to for the X-efficiency

(ESX) hypothesis. The researcher stated that managerial efficiency is not the only factor causing increased profits, yet it may result to gains in the market share and thereby increasing concentration. However, the positive linkage between concentration and profits may be false due to correlations with some other parameters.

Smith, A. (1987) examined the impact of making trade policy more flexible on foreign direct investment inflows by using game theory approach. Multinational companies follow specific pattern when conducting business in a concentrated market, and may prefer to invest instead of exporting. This intended to prevent local firms from entering the market since sunk costs prevails. The researcher indicated in his model that the effect of tariffs reduction is not a priority. Therefore, eliminating the "tariff-Jumping requires equilibrium situation so as to increase foreign direct investment.

Caves, R. (1982), the economist state the reasons why multinational companies are established. In a situation where foreign companies are identical to local companies, there will be no incentive to attract them into foreign markets. This is because conducting business abroad comes with high cost of operation. Some operational costs that arise in the foreign market include training, labour and communication costs. Additionally, trade obstacles such as language barriers, customs, lack of familiarity with foreign markets, government system, legal framework, political stability etc.

Dunning, J. (1981) examined conditions require to set the pace for foreign direct investment inflow in an economy. He noted that companies should have both ownership advantage and internalization advantage and also, foreign market must offer location advantage to encourage FDI inflow. Ownership advantages are in the form of company's-specific assets that is tangible and intangible assets. Multinational companies requires an internalization advantage to enjoy the benefit accruing of ownership advantage for deciding to produce abroad by its own affiliates rather than franchising or licensing the production process internationally. It is clear that location advantage is relevant in determining the place of production. These advantages may result from factor prices, access to customers, government trade policy, exchange rates, movement of capital, strong institutions and political stability.

## Scope of the Study

This paper takes into consideration India and Ghana foreign trade variables as well as foreign direct investment inflows. These variables will be compared with the performance parameters which are return on asset, return on equity of selected public and private sector banks in both countries. This is to ascertain the effect of trade variables on performance of banks. The outcome of this study will be beneficial to policy makers, investors in both countries for economic and investment decisions.

## Objectives of the Study

- To analyze trends of the parameters of foreign trade and the performance of the banks in India and Ghana.
- To analyze the impact of foreign trade parameters on performance of public and private sector banks in India and Ghana.
- To analyze the differential in foreign trade and performance of public and private banks in India and Ghana.

## Rationale of the Study

Foreign trade has a peculiar role in economic growth and stability of countries with a more open economy. This paper studies the economic outcome of foreign trade activities and its spiral effect on the real sector of the economy, giving preference to the banking sector. Therefore, the fluctuations in export, import and FDI inflows between India and Ghana also have a related effect on the growth pattern of the respective sectors of both economies. The study will foster appropriate policy formulation and implementation by government of India and Ghana respectively in support of foreign trade and banking activities. The trading and banking activities remains the backbone of every economy worldwide.

This paper focus on foreign trade and performance of banks, a comparative analysis of India and Ghana to ascertain the impact of export, import and foreign direct investment activities and their

relationship with the profitability of the banks over the period under this study. It is widely known that firm's performance depends on many factors such as the capital structure, managerial efficiency, return on asset, return on equity, and the number of years a bank has been in existence, size of the bank, and both internal and external economies of scale. However, the study is much particular about exogenous variable or external variables other than the traditional variables (internal variables) employed by several researchers to determine banks performance. The study seeks to depict trend and pattern of trade in both countries and its relevance or responsiveness to banks performance. Thus, the country whose foreign trade activities and foreign direct investment inflows have larger impact on banks profitability will be established.

Globally, banking products are designed to support agricultural, manufacturing, export, import, real estate and the service sectors etc, and so crisis in the financial sector may lead to a total or a near collapse of economy of India or economy of Ghana. Hence, this study will help policy makers in India and Ghana to put in place direct or indirect mechanisms to support the banking sector to grow, and such indirect policies include export, import and FDI policies. There must be coordination between the various sectors of the economy to ensure that both countries maximize economic fortunes for sustainable development. Therefore, this study will find out how extend the vigorous activities of foreign trade affect or is related to the performance of banks specifically in India and Ghana.

## RESEARCH METHODOLOGY

The present study will considers and tap the ideas and approaches adopted by various researchers in this domain. The analysis and comparison of foreign trade and performance of banks with respect to India and Ghana will be done on the basis of secondary data. Time series data covering the period of 5years starting from 2010-2015 will be retrieve from various sources. In the case of foreign trade variables, the data for India's imports, exports and foreign direct investment (FDI) will be retrieved from World Bank and that of performance variables will be retrieved from the financials of the selected banks obtained from Moneycontroy. The foreign trade variables that will be used in the case of Ghana will be obtained from World Bank and that of performance variables will be retrieved from Annualreportsghana. The data collected from various sources will be analyzed by using qualitative and quantitative approach. With regards to quantitative approach, descriptive statistics will be used to analyze the foreign trade as well as performance

variables in both countries to ascertain the trend and impact of export, import and FDI inflows on profitability of selected public and private sector banks of both countries. The banks in India considered for the study are State Bank of India (SBI), Bank of Baroda (BOB), Punjab National Bank (PNB), HDFC Bank, Kotak Mahindra. They were selected on the basis of market capitalization. Also, banks in Ghana considered for this study include Ghana Commercial Bank (GCB Bank), Agricultural Development Bank (ADB), Ecobank Ghana, Acess Bank Ghana. These are listed banks on Ghana Stock Exchange (GSE) with exception of National Investment Bank (NIB) which was selected base on its active participation in investment and foreign trade finance. Additionally, the return on assets and return on equity will be calculated from the audited accounts of the various banks.

## Econometrics Model Specification

$$Yt = \alpha + \beta 1Xt + \mu t$$

Where, The independent variable $Yt$ represent performance measure of the selected banks (ROE and ROA), $\alpha$ represent the intercept parameter, $Xt$ are the independent variables, $\beta 1$ coefficients and $\mu t$ denote the error or the disturbance term.

The objective of the study will be achieved through the use of panel regression models for assessing the impact of foreign trade on performance of banks. Therefore, to compare the outcome between India and Ghana, the below equations are modeled out of the general panel regression model as follows:

$$ROAI = \alpha 1It + \beta 1eIt + \beta 2mIt + \beta 3FDIIt + \mu It \quad \ldots. (1)$$

$$ROEI = \alpha 2It + \beta 1eIt + \beta 2mIt + \beta 3FDIIt + \mu It \quad \ldots. (2)$$

$$ROAG = \alpha 3Gt + \beta 1eGt + \beta 2mGt + \beta 3FDIGt + \mu Gt \quad \ldots. (3)$$

$$ROEG = \alpha 4Gt + \beta 1eGt + \beta 2mGt + \beta 3FDIGt + \mu Gt \quad \ldots. (4)$$

Where:

- ROAI and ROAG are the dependent variables of equation (1) and (2) represent return on asset of banks in India and Ghana respectively in time period t.
- ROEI and ROEG are also independent variables of dependent variables of equation (3) and (4), represent return on equity of banks in India and Ghana respectively in time period t.
- $\alpha$1It and $\alpha$2It represent the intercept of banks in India with respect to ROA and ROE in the time period t.
- $\alpha$3Gt and $\alpha$4Gt represent the intercept of banks in Ghana with respect to ROA and ROE in the time period t.
- $\beta$1, $\beta$2, $\beta$3 represent the slope coefficient of exports, imports, and foreign direct investment in India and Ghana in the time period t.
- eIt and mIt, FDIIt, represent export, import and foreign direct investment in India respectively in time period t.
- eGt, mGt, FDIGt represent export, import and foreign direct investment in Ghana respectively in time period t.
- $\mu$It, $\mu$Gt represent the disturbance or the error term in the regression model of India and Ghana respectively in time period t.

Therefore, data for the above regression models will be computed with the help of SPSS.

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