The Effect of Foreign Trade Financing on Life Expectancy in Nigeria

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Abstract

The study examined the effect of foreign trade financing on life expectancy in Nigeria spanning from 1981 to 2022. The study makes use of secondary data (time series) from various sources which include; the Central Bank of Nigeria Statistical Bulletin and Annual Report (various issues), and World Development Indicators. Variables used for the study include Deposit Money Banks' Credit to Export Trade, Deposit Money Banks' Credit to Import Trade, Nigeria Export and Import Credit, Letter of Credit, and Exchange Rate as explanatory variables, while life expectancy serves as the dependent variable. The Eview10.5 Software was used to empirically and econometrically analyze data and ARDL was used as the method of estimation. The findings from the result showed that NEXIMC bank credit has a positive effect on life expectancy in the long run an increase in export trade credit has a positive effect on life expectancy, deposit money banks credit to import trade has a positive effect on life expectancy. The study concludes that international trade financing using deposit money bank loans positively affected life expectancy in Nigeria. The study therefore recommends that infant industries should be allowed to face competition with their counters to enable them to improve the quality of export goods shortly. Credit to the private sector should be channelled into the production of capital goods and services which will attract more foreign exchange into the country. Also, import trade should be more on capital-intensive goods where Nigeria has a disadvantage in either production or expertise.

Keywords: *Foreign trade financing, Life expectancy, Nigeria, and ARDL*

INTRODUCTION

External trade has blossomed in Nigeria over the years to the extent that it has become the major source of revenue. Financing external trade in Nigeria can only be possible through the lending of commercial bank loans to export and import trade, letters of credit, NEXIM credit, and insurance for shipment and delivery of products and services for export. To enhance the growth of external trade in Nigeria, the Nigerian government issued a package of incentives for the export industries in 1979, which included a direction to banks to expedite loan facilities to exporters (Chete et al., 2014). Apart from commercial banks that provide credit to Nigeria's exporting sectors (both oil and non-oil), there are other institutional bodies involved in financing export trade in Nigeria, such as the Nigeria Export-Import Bank (NEXIM), the Nigeria Export Promotion Council (NEPC), and

the Nigeria Export Processing Zone Authority (NEPZA), to mention a few. According to Kehinde et al. (2012), external trade can promote growth from the supply side only if the balance of payment costs reduce the availability of imported inputs that enter export products, forcing exporters to use expensive imports of double quality. As a result, countries participate in commerce to benefit from a variety of commodities and services and to raise their people's standard of living.

An export credit program, according to the International Monetary Fund (2007), facilitates export financing and improves a country's balance of payments, and if done correctly, it may be profitable and, in certain cases, more profitable than selling within the nation. According to the International Development Agency (2010), credit is granted to developing nations to assist them in purchasing goods and services from the United States. While Mc-Jones (2010) asserted that International Development Agency (IDA) services are no longer widely available in Nigeria, there are Export Aid Centers (EAC) that provide technical assistance to exporters, such as the Export Processing Zone (EPZ).

The term development can be seen from social, political, technological, and economic points of view. As a multidimensional concept, looking at it from one perspective amounts to compartmentalizing ideas, which is socially irrelevant (Wilson, 2002). According to Seers (1969), the question of a country's development should be centered on what has been happening to poverty, unemployment, and inequality, and if all three of these indices have declined, the country has unquestionably entered a period of development. While the likes of Ake (1981), Todaro (1992), Akpakpan (1987), Wilson (2002), and Seer (1969) looked at development from interdisciplinary or cross-disciplinary perspectives. From an economic point of view, there have been several indicators of economic development. In 1960 and 1961, economic development was seen as economic growth, which is the achievement of a yearly increase in both total and per capita output of goods and services (Akpakpan, 1981). According to Dos Santos (1970), a nation is said to be developing if its development is a function of the growth and development of another country to which it is subjected. Todaro (1992) sees development as a multi-dimensional process involving changes in structure, attitude, and institutions as well as the acceleration of economic growth. Edgar Owens (1987) suggested that development is the development of people (human development) and not things. While Seers (1969) suggests that development is when a country experiences a reduction or elimination of poverty, inequality, and unemployment. Recently, development has been conceived from the human development point of view. The Human Development Index (HDI) measures each country's social and economic development by focusing on the following four factors: mean years of schooling, expected years of schooling, life expectancy at birth, and gross national income (GNI) per capita. Human development is a multidimensional concept, and the three variables used by the United Nations in the Human Development Index (HDI) represent the key dimensions of human development, such as living a long and healthy life, being knowledgeable, and having a decent standard of living (UN, 1990).

This study will depart from existing studies by considering Nigeria Export and Import (NEXIM) credit, credit to export trade, credit to import trade, and letters of credit as proxies for foreign trade financing, and life expectancy in Nigeria as the dependent variable.

LITERATURE REVIEW

Conceptual Clarification

The Concept of Foreign Trade Financing

Trade finance is an umbrella word for a variety of financial instruments used by banks and businesses to facilitate trade transactions. Foreign trade finance is defined by Ahn et al. (2011) as a wide variety of products that assist importers and exporters in managing international payments and the risks connected with them, as well as providing essential working cash. As a result, the phrase "external trade finance" is normally reserved for bank products that are expressly related to underlying international trade transactions (exports or imports), and it typically has short maturities. However, trade-in capital goods may be backed by longer-term credits. There are two forms of foreign trade finance: equity financing and debt financing. The primary benefit of equity financing is that there is no obligation to repay the money obtained via interest.

Equity financing entails selling an interest in your company in exchange for a cash investment. Unlike a loan, equity funding does not require a payback. Instead, investors purchase stock in a firm to profit from dividends (a portion of earnings) or by eventually selling their shares. When a corporation raises funds by selling debt instruments to investors, this is referred to as debt financing. Debt finance is the inverse of equity financing, which involves the issuance of stock to raise funds. When a company offers fixed-income instruments such as bonds, bills, or notes, it is referred to as debt financing. An initial public offering, small company investment firms, angel investors for equity financing, mezzanine financing, venture capital, royalty financing, or equity crowdfunding are all examples of external trade financing through equity.

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

The Concept of Life Expectancy Rate

According to the World Health Organization (2000), life expectancy is defined as the average life span of an individual living in a geographical location calculated on the basis of his year of birth, the current age, and other demographic factors like gender, population, weather, etc. life expectancy as a measure of economic development is important in economist in the sense that it tells the number of years expected of a citizen of a country. Life expectancy is not static but varies from country to country due to their prevailing economic situation, demography, and environmental health. Life expectancy is calculated on the basis of the death probability of death rate.

$$QX=MX/(BX+(MX/2) \quad (2.1)$$

Where:

Mx = the number of deaths at the age of X to X+1.

BX=average population aged X to under X+1 in the base year;

QX= death probability from age X+1.

Thus, the life expectancy rate in 2020 is calculated as 54.49. In 2019, it was estimated at 54.18. While in, 2018 the figure rose to 54.81 (WHO, 2018). Apparently, the life expectancy rate is more than the world average but still low to sustain economic growth and development in Nigeria. In the context of this work, life expectancy rate is defined as the average number of years an individual is expected to live on earth.

Theoretical Literature

Theory of Comparative Advantage:

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

Absolute advantage fails to consider whether, if a country has a comparative advantage in the production of two items, trade is still required or advantageous to that country. David Ricardo addressed this issue. Ricardo was the first to establish that external commerce results from a difference in comparative advantage rather than a difference in absolute benefit. "Greater advantage" refers to "comparative advantage." Thus, in the scenario of two nations and two goods, trade would still occur even if one country was more efficient in producing both commodities, as long as the degree of superiority over the other country was not similar for both commodities. Ricardo assumed two nations, two commodities, and a single factor of production, labor. He believed that labor was fully employed and immobile on a global scale and that the product and price factors were competitive. There are no transportation expenses or other trade barriers. Ricardo discovered that a country will tend to export the commodity in which it has a comparative disadvantage in the framework of a model with two countries, two commodities, and one factor of production.

Specifically, the theory currently implies that a country will tend to export the commodity with the lower comparative cost in production and the higher comparative cost in pre-trade isolation. The idea also believed that both nations' technological levels were constant. Different countries may employ different technologies, yet all enterprises inside one country use the same manufacturing process for each item. It is also believed that commerce is balanced and that money flows freely between states. Trade has little effect on the distribution of income inside a country. The majority of the Ricardian theory's assumptions are impractical. The idea is founded on a labor theory of values, which asserts that the price of a commodity is equivalent to or may be deduced from the quality of the time invested in its manufacturing process. The labor theory of values assumes that

labor is the only component of production. In the production of all goods, labor is employed in the same proportion. Labor is uniform. This underlying proposition is quite unrealistic because, as labor is categorized into skilled, semi-skilled, and unskilled labor, there are other factors of production. Despite its flaws, the law of comparative advantage cannot be dismissed because it has been applied in the study of economics. The law is correct and may be explained in terms of opportunity cost in current trade theory.

Empirical Literature Review

Christopoulos and Tsionas (2004) investigated the long-run relationship between financial depth and economic growth, taking data from 10 developing countries. They analyzed the data using panel unit root and panel cointegration techniques. They have also taken threshold effects into account. They concluded that there is a long-run relationship between financial development and economic growth in 10 developing countries and that there exists a unidirectional long-run causality between financial development and economic growth that runs from finance to growth. However, they do not take the problem of cross-sectional dependency into account.

Du and Girma (2007) examine the relationship between export intensity, bank credit, and Foreign Direct Investment (FDI) for more than 28,000 manufacturing firms in China using longitudinal data from the Annual Report of Industrial Enterprise Statistics database over the period 1999 to 2002. The study finds that bank credit is positively associated with firm-level exports. This finding suggests that access to external finance or bank credit is vital for financially vulnerable firms to drive their exports.

Bellone et al. (2010) investigated the effect of financial factors on the export intensity of 25,000 French manufacturing firms as part of their study over the period 1993–2005. With the aid of data from the Enquête Annuelled' Entreprise and DIANE databases, the authors find no evidence of a positive association between financial health and firms' export share. This result implies that access to financial resources is insignificant in boosting firm-level exports.

Odufuye (2017) investigated the impact of bank credit on the Nigerian economy's growth from 1992 to 2015 by employing gross domestic product as a proxy for economic growth and commercial bank credits to small and medium-scale enterprises, credits to the private sector, money supply, and interest rate as for bank credit. And it was revealed that commercial bank credits to small and medium-scale enterprises, credits to the private sector, money supply, and interest rates had an insignificant impact on the gross domestic product, while bank credit instruments jointly influenced the gross domestic product.

Adewole et al. (2018) examined the relationship between deposit money bank credit and economic growth in Nigeria based on secondary data from 2006 to 2015 using multiple regression analysis. And it was revealed that there is a positive correlation between the dependent variable (Total Bank Credit) and the independent variable (Cash Reserve Ratio, Liquidity Ratio, Deposit Rate, Lending Rate), while the result of equation II indicates that there is a positive correlation between the dependent variable (GDP) and the independent variable (bank credit, Interest rate, lending rate, inflation rates).

Yusuf et al. (2020) investigated the impact of international trade on the Nigerian economy's growth. They estimated the data obtained via the Central Bank of Nigeria statistical bulletin from 1980 to 2018 using the Dynamic Ordinary Least Square (DOLS) multiple regression analysis technique. Except for the exchange rate, all of the explanatory variables were found to be positively related to economic growth. Furthermore, except for net export, all explanatory factors were statistically significant with economic growth.

Itah and Bidemi (2022) examined the impact of non-oil exports financing on economic growth in Nigeria. Annual time-series data covering the period 2000 to 2020. The autoregressive distributed lag (ARDL) model and the error correction model (ECM) were used to estimate the data. The findings revealed that non-oil exports financing has significant positive impact on real GDP while interest rate has significant negative impact on real GDP both in the long-run and short-run.

METHODOLOGY

Research Design

The main purpose of this study is to investigate the effect of foreign trade financing on life expectancy in Nigeria. This study therefore adopts the ex-post facto (after-the-effect) research design, which is a variant of the non-experimental research design. This is because it is a form of research that involves the collection of information that is already in place.

Model Specification

The mathematical form of the model is expressed as

$$LER = f(NEXIMC, EXPORTC, IMPORTC, LOC, EXR) \quad (3.5)$$

$$LER = \beta_0+\beta_1 NEXIMCt+ \beta_2 EXPORTSt+\beta_3 IMPORTSt + \beta_4 LOC\ t + \beta_5 EXR +\mu t$$

Where:

LER	=	Life Expectancy Rate
EXPORT	=	Deposit Money Banks' Credit to Export Trade
IMPORT	=	Deposit Money Banks' Credit to Import Trade
NEXIMC	=	Nigeria Export and Import Credit
LOC	=	Letter of Credit
EXR	=	Exchange Rate
ut	=	Error term

β_0 = Regression constant

β_1-β_5 = Coefficients or parameter estimates

Empirical Results and Discussions

Table 1: Augmented Dickey Fuller Unit Root Test for LER Model

Variables	Level		First Difference		Order
	T-Stat.	Critical Value	T.Stat.	Critical Value	
LER	-0.236526	-2.945842	-4.400092	-3.544284	1(1)
LOG(EXPORTC)	-4.606594	-3.523623	-	-	1(0)
LOG(IMPORTC)	-1.190343	-3.529758	-7.091713	-3.529758	1(1)
LOG(EXR)	-1.364070	-3.523623	-5.835153	-3.526609	1(1)
LOG(LOC)	-3.014129	-3.523623	-6.215885	-3.526609	1(1)
LOG(NEXIM)	-3.363447	-3.526609	-3.812828	-3.526609	1(1)

Sourced: Compilation from EViews 10.05

Evidence from Table 1, illustrates the stationarity conditions of the time series data used in the empirical examination of the effect of external trade financing on life expectancy in Nigeria. A close look at the output shows that all the series became stationary after first differencing except export trade credit (EXPORTC). Hence, the series in the model were all integrated at mixed order of integration 1(1) and I(0). Given the above, we now proceed to estimate the bounds cointegration test. The outcome of the bounds test will enable us to ascertain the presence or otherwise of a long-run cointegrating relationship among the series in the model.

Table 2: ARDL Bounds Test

Test Statistic	Value	k
F-statistic	12.07806	5

Critical Value Bounds

Significance	I0 Bound	I1 Bound
10%	2.26	3.35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

Drawing from ARDL ARDL bound test, we assert that a long-run cointegrating relationship exists among the variables in the equation. The presence of a long-run relationship is promised by the fact that the f-statistic value of 12.07806 is greater than the upper bound critical value of 3.79. In the event of the above, we proceed to estimate the long-run and short-run causation of the cointegrating relationship as well as the speed at which the disequilibrium will be corrected. The presence of the long-run relationship among the variables in the equation validates the estimation of ARDL, provided that the lag length is selected on the advice of the Akaike information criterion.

Table 3: Short Run ARDL

Cointegrating Form

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LER(-1))	-0.435479	0.155476	-2.800944	0.0107
DLOG(EXPORTC)	-0.168177	0.056575	-2.972609	0.0073
DLOG(EXPORTC(-1))	-0.063446	0.053777	-1.179796	0.2513
DLOG(EXPORTC(-2))	0.073432	0.050800	1.445514	0.1631
DLOG(IMPORTC)	-2.490967	0.640715	-3.887791	0.0008
DLOG(IMPORTC(-1))	-0.791107	0.488821	-1.618397	0.1205

DLOG(IMPORTC(-2))	-0.737896	0.463642	-1.591521	0.1264
DLOG(NEXIM)	0.392519	0.177780	2.207895	0.0385
DLOG(NEXIM(-1))	-0.043764	0.161045	-0.271749	0.7885
DLOG(LOC)	0.314720	0.115209	2.731724	0.0125
DLOG(LOC(-1))	-0.573488	0.134366	-4.268091	0.0003
D(EXR)	-0.000759	0.000844	-0.898314	0.3792
CointEq(-1)	0.099453	0.036113	2.753927	0.0119

R-squared	0.948627	Mean dependent var	48.86833
Adjusted R-squared	0.917515	S.D. dependent var	3.239630
S.E. of regression	0.161507	Akaike info criterion	-0.504502
Sum squared resid	0.547773	Schwarz criterion	0.263296
Log likelihood	27.83778	Hannan-Quinn criter.	-0.229022
F-statistic	898.1464	Durbin-Watson stat	2.396007
Prob(F-statistic)	0.000000		

*Note: p-values and any subsequent tests do not account for model selection.

Evidence from Table 3, illustrates the short-run effect of international trade financing on life expectancy in Nigeria. Specifically, the R-Square which is the coefficient of determination valued at 0.948627 percent indicated that the estimation has a good fit while the adjusted R-Square value of 0.917515 shows that about 91 percent of the changes in life expectancy are caused by the combined efforts of variables in the model while the other 9 percent were externally determined by variables outside the ones in the model. The error correction term appeared with the normal sign (-) and it is statistically significant since its probability value of 0.0015 is less than the threshold of 0.05. Therefore, the past disequilibrium will be adjusted at the speed of 0.099453 (9%) percent annually. This also means that it will take (100/23) = 4.34 approximately four years, three months, and four days to restore full equilibrium if the outcome of this research is considered for policymaking. The robustness of the study is validated by the significant disposition of the lag value of the dependent variable. Therefore, an increase in the past realization of life expectancy will, all things being equal amount to a -0.435479 reduction in itself. Based on the above, we assert that life expectancy has a feedback effect in the short run.

In the short run, the coefficient of export trade credit with negative and positive values has a significant effect on the dependent variable. Therefore, an increase in credit to export trade in Nigeria will, all things being equal amount to a -0.435479 reduction in life expectancy. Such a relationship implies that the continuous decline in the number of years an individual will live in Nigeria is associated with the increase in the volume of loans or credits extended to those involved in export trade in Nigeria. This link of thinking is inconsistent with the expected apriori because, economic theory predicts that, an increase in investment as a result of increased financing will stimulate production and make money available for the health care needs of the people. In Nigeria, it has become imperative to know that, the life span of the people has continued to decline despite the increase in economic growth and investment.

In the short run, the coefficient of import trade credit (IMPORTC) has a significant negative effect on the dependent variable (life expectancy). Therefore, a percentage increase in import trade export credit will amount to a -2.490967 percent decrease in the life expectancy rate in Nigeria. Such causation implies that credit granted to those involved in the importations of finished goods, semi-finished goods, or raw materials in the country is responsible for the short time recorded decrease in the number of years an individual will stay on earth. This output is inconsistent with theoretical expectations because we expected a positive relationship.

In the short run, the coefficient of NEXIMC bank credit has a negative significant effect on the dependent variable. Therefore, an increase in Neximc will, all things being equal amount to a -0.392519 reduction in life expectancy rate in Nigeria. By implication, the short-run recorded decline in the life expectancy rate in Nigeria is associated with the rising NEXIM bank loans to those involved in international trade. This relationship is inconsistent with the apriori expectation because increased credit to investors will improve human health and prolong life.

In the short run, the coefficient of a letter of credit has a positive effect on the dependent variable and it is statistically significant at 5%. Therefore, a percentage increase in letters of credit will, all things being equal amount to a 0.314720 (5%) increase in life expectancy in Nigeria. The sign of the estimate is consistent with the expected economic apriori because, economic theory predicts that an increase in money supply will increase investment. When the issuance of a letter of credit increases, it will stimulate investment, increase employment and output, and amount to an increase in economic growth. This assertion is corroborated by the first-year lag value of the letter of credit with a -0.573488 reduction on the dependent variable. As such, we assert that a letter of credit has an unstable influence on life expectancy in Nigeria.

Finally, the coefficient of the exchange rate with a negative intercept has an insignificant coefficient. Therefore, an appreciation of the exchange rate does not have any influence on life expectancy in Nigeria. Such a relationship implies that improvement in human health is not dependent on the rising exchange rate in Nigeria.

Table 4: Long Run ARDL Result

Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(EXPORTC)	4.204397	1.757230	2.392628	0.0262
LOG(IMPORTC)	23.079221	6.345009	3.637382	0.0015
LOG(NEXIM)	0.985724	1.359216	0.725215	0.4763
LOG(LOC)	-0.158016	0.928379	-0.170207	0.8665
EXR	0.007627	0.008634	0.883389	0.3870
C	-317.459115	95.676094	-3.318061	0.0033

Table 4, present the long-run estimation of the cointegrating equation. Evidence from the estimated regression shows that credit to export trade LOG(EXPORTC) has a positive effect on the dependent variable and it is statistically significant at 5%. Therefore, a percentage increase in credit to export trade will, all things being equal amount to a 4.204397 increase in life expectancy in the long run. This exposition is consistent with the economic apriori and explains the long-run implication of the continued release of funds on life expectancy. The economic implication of such a causation is that the continuous increase in life span can be traced to the increase in loans granted to exporters by deposit money banks.

Similarly, the coefficient of import trade credit (IMPORTC) with positive intercepts is a statistically significant determinant of life expectancy in Nigeria. This means that an increase in import credit will, all things being equal amount to a 23.079221 improvement in life expectancy. Finally, the coefficients of nexim bank credit, letter of credit, and the exchange rate have no significant effect on the dependent variable since their probability values are greater than the threshold of 0.05.

Table 5: Post Estimation Tests

Normally Test	Skewness	Probability	Kurtosis value
	4.321215	0.6333	7.858477

Sourced: Compilation from EViews 10.05

Evidence from Table 5, illustrates the post-estimation for the effect of external trade and financing on life expectancy rate in Nigeria. The significance of post estimation test is to validate the "BLUE" characteristic of the estimate equation. Therefore, we conclude that the series used in the estimation follows the normal distribution. This exposition is premised on the insignificant probability values of the normal test. On the other hand, there is no evidence of serial correlation in the estimated residual.

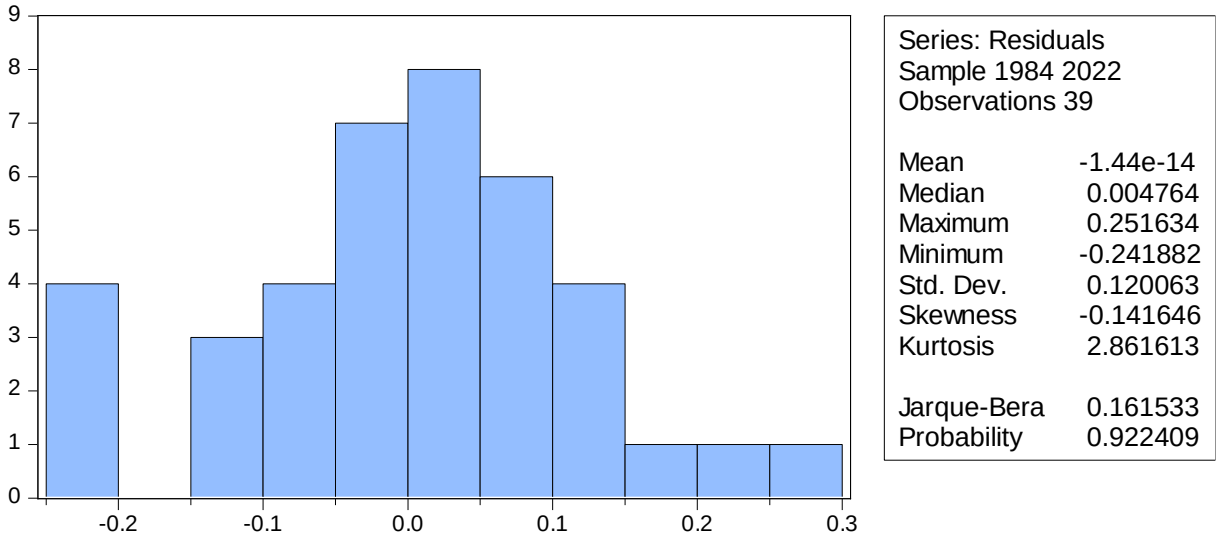


Table 6: Breusch-Godfrey Serial Correlation LM Test:

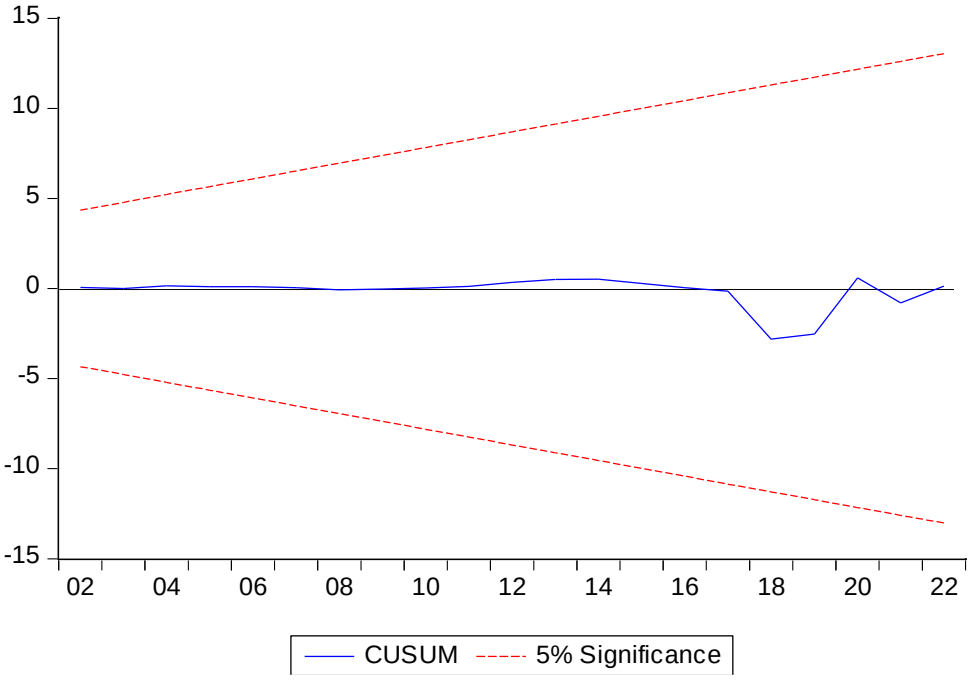
F-statistic	3.278462	Prob. F(2,19)	0.0598
Obs*R-squared	10.00590	Prob. Chi-Square(2)	0.0067

Figure 6, illustrates the post-estimation test for the study of the effect international trade financing on per capita gross domestic product (PCGDP) on maternal mortality in Nigeria. Given that, the F-statistic (3.278462), Obs*R-squared (10.00590) have probability values of 0.0598 and 0.0067 which are greater than the threshold of 0.05. We conclude that there is no presence of Serial Correlation in the residual.

Table 7: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.675305	Prob. F(17,21)	0.7925
Obs*R-squared	13.78463	Prob. Chi-Square(17)	0.6823
Scaled explained SS	3.720179	Prob. Chi-Square(17)	0.9997

The test statistic shows that, there is no evidence of heteroskedasticity in the residual of the study effect international trade financing on per capita gross domestic product (PCGDP) in Nigeria. This assertion is premised on the fact that, the F-statistic 0.675305 (0.7925), Obs*R-squared 13.78463 (0.6823) and Scaled explained SS 3.720179 (0.9997) were greater than the threshold of 0.05.



Finally, the stability condition of the estimated model is validated by the use of cusum test. The recursive plot shows that, the model is trable and falls withing the expectred 95% confidence intervals. Hence, we assert that, the basic assumptions of the classical least square are not voilated.

Conclusion

The study on the effect of external trade financing on life expectancy concludes that international trade financing using deposit money bank loans affected life expectancy. Evidence from the estimated regression shows that credit to export trade has a positive effect on the dependent variable and it is statistically significant at 5%. Therefore, a percentage increase in credit to export trade will, all things being equal amount to an increase in life expectancy in the long run. This exposition is consistent with the economic apriori and explains the long-run implication of the continued release of funds on life expectancy. The economic implication of such a causation is that the continuous increase in life span can be traced to the increase in loans granted to exporters by deposit money banks.

Recommendations

(i) Infant industries should be allowed to face competition with their counters to enable them to improve the quality of export goods shortly.

(ii) Credit to the private sector should be channelled into the production of capital goods and services which will attract more foreign exchange into the country.

(iii) Import trade should be more on capital-intensive goods where Nigeria has a disadvantage in either production or expertise.

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