Economic growth and the problem of political succession

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Problem

It is widely accepted in policy-making circles that private investment is the foundation for economic growth. It is also accepted that government has an important role to play in facilitating investment by providing credible commitments to investors, supplying public goods and tackling co-ordination problems. But just how governments should do this remains a matter of some debate.

Take the issue of credible commitments. The standard view, represented by the good governance agenda and numerous private sector development programmes, reflects the historical experience of Anglo-American countries. It recommends that the best way to reassure investors that they are protected from excessive political risk is to keep business–political relations at arm’s length and to check political leaders with strong institutions, namely representative parliaments and rule of law.

The problem with the standard view is that in some contexts Anglo-American style institutions are destabilising and in others building them can take a very long time. Also, they are not the only way of providing credible commitments. History shows that under certain conditions a strong leader, even if relatively unconstrained by a strong parliament or rule of law, can reassure investors by means of close personal ties. Indonesia under President Suharto, which grew rapidly for almost 30 years and made great strides in reducing poverty, is a case in point. Côte d’Ivoire under Felix Houphouet-Boigny is another.

Strongman governance comes with its own risks, however. If confidence is bound up with close personal ties, changes in political leadership produce uncertainty. Investors often worry that a strongman will not provide the same protection, or even that the entire political and economic system might collapse. Political succession, or even discussion of political succession, can cause investment and growth to fall.

Does this mean that Anglo-American-style arrangements are the only true solution?

Research

We conducted a study of economic growth in Sub-Saharan Africa and Southeast Asia in order to answer this question. Because we wanted to understand how it is that some countries manage to maintain growth across changes in political leadership while others fail, we first identified medium- or large-sized countries in Sub-Saharan Africa and Southeast Asia that since 1960 had experienced high growth for a decade or more. Next we focused on those countries that had also experienced a leadership succession either during or either side of this period, namely Cameroon, Côte d’Ivoire, Indonesia, Kenya, Laos, Malaysia, Malawi, Mozambique, Thailand and Vietnam.

Informed by current theories of economic growth, as well as the literature on political succession, we then combined historical analysis with systematic comparison to tease out the factors uniting those countries that combined high growth with leadership succession (Laos, Malaysia, Mozambique, Thailand, Vietnam) and distinguishing those where succession, or concerns about succession, was associated with economic decline (Indonesia, Kenya, Malawi).

Results

Our results show that sustained growers do need strong institutions. As the standard view implies, countries where power was overwhelmingly associated with one individual could not sustain growth across changes in political leadership. But, contrary to the standard view, strong institutions need not be of the Anglo-American variety. Some countries sustained growth across successions despite rather weak democracy, parliaments and rule of law. To do so, they followed one of two pathways. In the first pathway, the political leadership was embedded in a strong political party with a tradition of consensual decision-making and conventions surrounding leadership succession. In the second, policy-making was embedded in a strong bureaucracy insulated from political change.

Malaysia provides a good example of the first pathway. Between 1966 and 1984 growth averaged 7.17 per cent. Motivated by the threat of communism and domination by ethnic Chinese, the Malay political leadership united under Dato Onn, known as the ‘Ghandi of Johore’, in the United Malays National Organisation (UMNO). A tradition of orderly leadership succession was established as early as 1951 when Onn, having alienated his colleagues with proposals for multi-racialism, resigned from the party. That he was not unceremoniously ousted owed much to a Malay tradition of subservience to authority, adopted as political ideology by the party elite. Concomitantly, when Onn’s successor Abdul Rahman lost the support of his colleagues following anti-Chinese riots in 1969, he too stepped down with dignity the following year, transferring power to his deputy, Tun Abdul Tazak. When Abdul Razak died in 1976 he was succeeded without event by his deputy, Hussein Onn.

That Malay leaders were embedded in a robust party with established succession traditions doubtless helped reassure investors that whatever the changes at the top, a broad commitment to private enterprise and sound economic management would be sustained.
Mozambique provides another example. The country experienced growth of 7.83 per cent between 1997 and 2010 despite a change of leadership in the ruling party, FRELIMO. FRELIMO was formed in opposition to Portuguese rule in 1962 by an elite group of assimilated Africans. A tradition of orderly succession was established in 1969 when Eduardo Mondlane, FRELIMO’s founding President, was killed by a parcel bomb. Although party Vice-President Uria T. Simango was subsequently appointed successor at a meeting of the Executive Committee, this decision was later overturned by the more powerful Central Committee, Samora Machel becoming President. When Machel himself died in a plane crash in 1986, the Central Committee met and nominated Joaquim Chissano as President. In 2002 Chissano announced that he would not contest the next presidential election and the party congress nominated Armando Guebuza to succeed him.

As with all political parties, FRELIMO has its tensions, but these are muted by an ‘enduring sense of mutual loyalty […] and internal cohesion’. Forged during the liberation war against the Portuguese, unity was maintained even though FRELIMO abandoned its historic commitment to socialism and took a number of measures to encourage private enterprise. A stream of investments followed.

Malaysia and Mozambique, together with Laos and Vietnam, can be contrasted with countries such as Côte d’Ivoire, Indonesia, Kenya and Malawi, in which strong growth records were not sustained. Take Indonesia for example. Under General Suharto’s Golkar party it grew at 7.2 per cent a year between 1972 and 1997. But Golkar was not a robust party with a tradition of consensual decision-making: it was a front for Suharto’s personal power in which consensus over a fitting successor never emerged. Suharto’s technocrats, meanwhile, were mostly co-opted from external institutions, not organically rooted in a strong civil service capable of withstanding a leadership change. When the East Asian crisis of 1997 exposed Indonesia’s economic weaknesses, Suharto’s allies deserted him – yet there was no credible alternative to his rule. Although he resigned in 1998, it was years before political and economic stability returned.

Kenya provides a comparable African case. The country grew at more than seven per cent annually between 1963 and 1978 under Jomo Kenyatta’s KANU party. As an institution, however, KANU was virtually moribund, Kenyatta preferring to rule through personal networks and the administration. When in 1977 Kenyatta’s health began to fail, the Attorney-General proclaimed that discussion of the succession was a treasonous offence and Vice-President Daniel arap Moi acceded to power as per the constitution the following year. Moi lacked a political base, however, and consequently strove to undermine Kenyatta’s old allies in the party and administration, transforming KANU into his own instrument of personal rule. The effect on the economy was destabilising, and within two years growth had fallen, averaging less than half that of the previous regime.

A similar pattern can be seen in Cameroon – ostensibly a success story but actually another unsustainable case – where Ahmadou Ahidjo ran the country as his personal fief from independence to 1982. Growth took off in 1974, but his successor Paul Biya soon undermined Ahidjo’s power base in an economically damaging way. Although oil prices kept growth high until 1987, growth under Biya overall (1982–2010) was a disappointing 2.3 per cent.

Our only country without a robust ruling party that has managed to sustain growth across leadership successions is Thailand. Between 1961 and 1998 growth averaged more than seven per cent, notwithstanding more than 15 leadership changes, as power oscillated between military factions and weak civilian parties. Here, predictability despite the absence of political stability was provided by a civil service with its roots in the 19th century – and one which had been further strengthened in the 1950s. Consistency in the mission and personnel of these institutions provided confidence to both domestic and international investors despite a bewildering number of political successions.

**Implications**

Our findings imply that strongman governance is incompatible with high and sustained rates of economic growth, at least in medium and large-sized states in Southeast Asia and Sub-Saharan Africa, and possibly elsewhere. Policy-makers who wish to create the conditions for succession-with-growth must at some stage build strong institutions. However, strong institutions can take various forms. While strong parliaments and rule of law provided credible commitments to investors in Anglo-American countries, strong, consensual parties or strong, insulated bureaucracies have done so elsewhere.

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**ENDNOTES**

1 We excluded countries with a population of under five million (e.g. Botswana) and also countries where a portion of the growth phase could be accounted for by a peace dividend (e.g. Ethiopia, Myanmar). We defined high growth as growth of at least seven per cent per annum. See Kelsall, T. (2012), Economic Growth and Political Succession: A study of two regions. DRA Working Paper 1. London: ODI/DRA http://r4d.dfid.gov.uk/PDF/Outputs/APPD/DRA-WP1.pdf.


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