GLOBAL ECONOMIC INSTITUTE Africa

# FOREIGN INVESTMENT AND POLITICAL LONGEVITY

## How Long is Long Enough?

GEIA RESEARCH SUMMARY SERIES
NO. 2018/002

2018

February 2018

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*OUR REACH IS GLOBAL.*
*THE FOCUS IS AFRICA!*



## Non-Technical Summary

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## 1. Introduction

**THEORETICALLY, THE EFFECT OF POLITICAL LONGEVITY** on foreign direct investment (FDI) in a country is ambiguous. The outcome depends on the ways in which, and the extent to which, longevity affects such factors as political stability, policy consistency, physical infrastructure, bureaucracy, the rule of law, corruption, and the protection of property rights.

In this paper, the authors examine two opposing views about the impact of a leader's political longevity on economic development in countries characterized by weak institutions. And more precisely, whether leaders who stay longer in power are more able to attract foreign investors.

## 2. Does Political Longevity Foster or Deter Foreign Investment?

**THE STABILITY ENJOYED** by long-serving leaders helps to build long-term connections with foreign investors, and these connections in turn promote a climate favoring the development of mutual trust. Such leaders therefore might be more credible than short-term leaders in the eyes of investors. However, to the extent that long-serving leaders are more likely to be perceived as autocrats or dictators – especially given that endemic corruption and an absence of the rule of law often characterize such regimes – this perception might limit inflows of foreign investment.

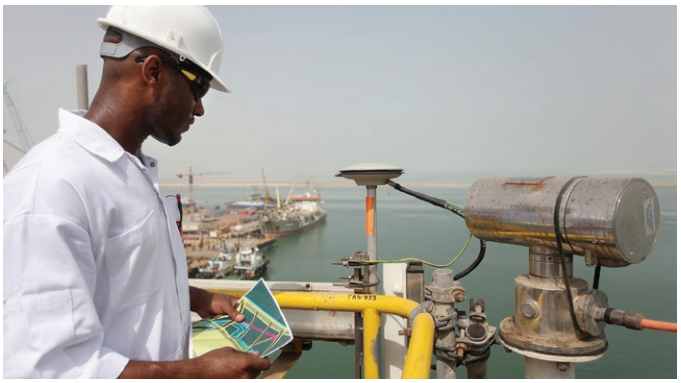
## 3. Empirical Strategy

**IN ORDER TO PROVIDE FURTHER INSIGHTS** into these opposing arguments, Pongou and Emmanuel use novel data and individual-level information on 206 leaders from 46 African countries over the period from 1960 to 2011. A leader is defined as an individual who attained a position of power with the ambition of remaining in that position, regardless of the duration of his (or her) actual tenure though subject to the condition that he (or she) actually remained in power for more than a bare minimum of six months.

In addition to yearly information on the characteristics of each country (including population size, GDP growth rate, inflation rate, level of democracy, and the presence of natural resources), the data capture the personal characteristics of each leader including his (or her) political longevity (the number of years spent in

power for each year that he (or she) was or is in power), age, affiliation to a majority ethnic group, whether he (or she) gained power immediately after the achievement of independence, and whether he (or she) came to power through a competitive election.

The focus on Africa makes sense because in addition to being the only region in which political longevity remains very high, long-serving leaders in Africa have been found to wield excessive power over institutions. In many cases, they manipulate constitutional rules and bend laws to accommodate their personal interests.



## 4. Estimation Results and Implications

### LONGEVITY AND FDI

- Results show that the longevity of a host country leader is positively related to FDI inflows and that its effect is statistically significant. The estimated effect of political longevity is quite stable across all three models. This result is consistent with the fact that political longevity is considered by foreign investors to signal political stability (defined as a lower probability of political turnover), policy consistency, the commitment of the leader to secure multinational firms' property rights, and greater ease of networking with members of the regime. This finding is consistent with the argument that leaders who expect a long period in power are less likely to expropriate foreign firms because the long-term benefit of having those foreign firms is higher than the short-term benefit of expropriation, and may encourage investors in host countries.

- The estimated models also show that the longevity of leaders promotes a high level of institutional quality, strong infrastructure, and the rule of law, all of which have been empirically shown to positively affect FDI.

### LONGEVITY AND DEMOCRACY

- Does the above finding that political longevity increases FDI inflows into African countries imply that a leader should remain in power indefinitely? This paper identifies one condition under which political longevity positively affects FDI inflows by looking at the outcome of the interaction between longevity and democracy. Such interaction helps to capture the additional effect that political longevity has on FDI inflows in democratic countries.

- The results show that longevity in power has a positive effect on FDI in non-democratic regimes. This implies that foreign investors are more likely to value political longevity in a country if the country is more democratic. These findings are consistent with the initial hypothesis that political longevity could have two opposite effects. A bit of longevity is positive because it provides stability, but too much of it is negative because it may lead to effective dictatorships. This explains the positive effect of the interaction between longevity and democracy.

- Quite interestingly, all specifications in which democracy is interacted with political longevity show that democracy has very little effect on FDI inflows at very low levels of political longevity. This means that democracy does not matter for foreign investors when a leader is too new in power. This finding suggests that foreign investors value democracy only when political stability and policy consistency are guaranteed.


## 5. Conclusion

**USING A VARIETY OF ESTIMATION TECHNIQUES,** the authors show that one additional year in power of a country's leader increases FDI net inflows. The positive effect of political longevity is larger in regimes that are more democratic.

Democracy has no independent effect on FDI inflows when a leader is too new in power. Its effect is positive only when the longevity of the extant leader is sufficiently high, which suggests that foreign investors value democracy only when political stability and policy consistency are guaranteed. The finding on the mechanism through which political longevity affects foreign investment is profound: longevity gives leaders the opportunity to improve both the rule of law and the quality of physical infrastructure and to fight corruption.

## 6. How Long is Long Enough?

**THESE RESULTS REINFORCE** the notion that significant changes in institutions do not happen in just one or two years. The reviewed literature notes that the average duration required for a leader (not necessarily a political leader) to make a significant change in an institution is 13 years, which is roughly equal to the duration of two mandates in certain countries. In a way, this buttresses the fact that long-term leaders are more adept at confronting institutional problems and at making sound decisions, since they are able to develop strong relationships with legislators in order to bring their policies to fruition. For context, based on the data used in this paper, the longevity of the average African leader is 18 years, which is more than four consecutive presidential terms in the United States. This raises an important question in the African case: How long is long enough?