

# Political Instability in Fragile Democracies: Political Cycles Kyrgyz Style

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*Democratization is rarely a straight and predictable process. Freedom House data from the Central and Eastern European Countries (CEEC) and the countries of the Commonwealth of Independent States (CIS) since 1991 reveals two distinct patterns. In one set of countries, democratization took root quite quickly and the transformation of political institutions seems quite deep and sustainable. In the other countries, the road to democratization, if ever started, has been much more partial and full of reversals. Among the CIS countries, none is regarded as free by Freedom House in 2012, four are regarded as partly free (Armenia, Kyrgyz Republic, Moldova and Ukraine), while the remaining seven countries (Azerbaijan, Belarus, Kazakhstan, Russia, Tajikistan, Turkmenistan, and Uzbekistan) are regarded as non-free. There has also been volatility over time within countries. Russia and Belarus have seen their score steadily deteriorating, while countries on the Balkan and south-east Europe have seen gradual improvements. With the lack of consolidated democratic institutions has also typically followed much political instability. Frequent changes in power, civil unrest, popular revolutions and military conflicts have pervaded countries like Ukraine, Georgia, and the Kyrgyz Republic. In other nations, repressive leaders have put a lid on visible instability, but at the cost of political rights and a fair judiciary system. In both cases, the economy has suffered as instability has deterred investors looking for a predictable environment guided by transparent rules of the game implemented equally for all. Corruption has flourished and political connections and nepotism has determined the opportunities for economic success.*

In the fall of 2011, I had the opportunity to visit the Kyrgyz Republic in Central Asia as part of a USAID mission to analyze the political economy of job creation and growth of the private sector. The Kyrgyz Republic has seen much political turmoil since independence in 1991. The starting conditions were no doubt challenging; small, landlocked, poor and with little former experience of market reforms. Nevertheless, the republic's first president, Askar Akayev, set an ambitious economic and political reform agenda and the country quickly became a darling of Western donors, even dubbed the Switzerland of Central Asia at one point. However, things deteriorated over time. As in many new democracies with weak institutional support,

political power became synonymous with control over economic rents, causing intense competition between different elite groups. Political competition can be a good thing if it reduces rents and motivates policies more in line with voter preferences, but it can also lead to instability, stalemate in the reform process and a gradual disillusionment with democracy. The alternative, centralization of power within the government or presidency, can stop that stalemate and simplify implementation of reforms, but the loss of checks and balances can also be abused for self-enrichment. As will be discussed more in detail below, the political instability in the Kyrgyz Republic has undergone an interesting pattern that in many ways represent the challenges many

underdeveloped countries face in democratic consolidation. Since 1991, the country has witnessed repeated cycles of more open parliamentary politics followed by centralization of power and authoritarian tendencies, in turn followed by popular revolt. With this political instability, economic contraction and distorted economic policies has also followed.

## Political Instability and Cycles

Political and economic cycles and the economic costs of political instability are common themes in the political economy literature. Thinking of politics as a struggle between different policy agendas, electoral competition in democracies or risks of revolutions or coups in authoritarian regimes create uncertainty about the future rules of the game among investors and consumers. Countries with much political instability therefore typically suffer from lower levels of investments, both in physical capital and education, since risk-averse agents hold back. The literature, typically using panel data covering many countries, shows that higher government turnover rates reduces growth significantly in both economic and statistical terms, even for established democracies. Looking at government turnover in more polarized societies and unconstitutional change in power (revolutions and coups), the effect is estimated to be even larger.

Uncertainty and political competition can also cause cycles in monetary and fiscal policy. According to the partisan Political Business Cycle (PBC) theory, electoral uncertainty creates a misalignment between inflation expectations and actual monetary policy after elections, causing an economic downturn after the election of a more conservative (inflation

hawk) government, and a boom after the election of a more liberal government. This theory finds robust empirical support in particular in US data. The opportunistic PBC model instead emphasizes the incentives of incumbent political leaders to use expansionary monetary and fiscal policy prior to elections to “buy” votes, either literally or by signaling competence by boosting employment and economic growth. The drawback is of course higher inflation and/or larger budget deficits after the elections. This theory has in particular found support in developing countries and partial democracies, and the expansion seems to take place mainly in fiscal policy since monetary policy often is at least partially controlled by a more politically independent central bank.

Political change, even within the realms of a fully democratic constitution and strong supporting institutions, can thus create economic uncertainty and distorted policies. In newly democratized countries with weak supporting institutions the challenges are even greater. Electoral accountability is often low due to lack of information and reliable media. Political parties are weak and often built around an individual rather than a common ideology or cause, making for a short political time horizon. Political connections are far too often a requirement for personal enrichment, and support is based on clientelistic networks favoring targeted private benefits over public goods provision. In this environment, politics easily becomes a contest between different elite groups, each supported by a network typically based on ethnicity, geography or class. Economic opportunities become contingent on the relationship to those in power, and property rights are insecure. Positions become polarized whereby change in power has dramatic implications for policy and the rules of the game, strongly retarding investments. Below follows an illustration of a pattern of vicious cycles of political instability and economic retardation, using the case of the Kyrgyz Republic.

## Brief Political History since Independence

As been pointed out above, economic and political cycles are not uncommon. Nevertheless, the political pattern in the Kyrgyz Republic has taken a form of repeated political cycles that very clearly display the political challenges and economic costs of weak political institutions. In 1990, Akayev, at the time a relative political outsider, was appointed president. With an academic background, he was not the typical Communist party leader, and following independence in 1991 he set out on a platform of economic and political reforms. Most observers deem Akayev's initial reform ambitions to have been sincere, but he faced stiff resistance from within the parliament, and even from within the government ministries and institutions still controlled by members of the old guard. The political resistance led to a partial and uneven reform process. Political consensus was often reached through compromises involving kickbacks and preferential access to business opportunities in exchange for political support. Meanwhile, Akayev is said to have had little patience to develop the necessary institutions to support democracy, such as a strong and independent judiciary and internal mechanisms for co-ordination, transparency and accountability. The consequence was a seemingly democratic state without any rules that guaranteed good governance.

In 1996, extensive constitutional amendments consolidated power within the presidency. Akayev argued that he lacked the powers necessary to reform the country, given the frequent resistance from within the parliament. With the consolidation came a serious deterioration in the quality of the institutions of law and order, which came to serve two purposes: to help the family build personal wealth and to target potential political rivals. Property rights became more insecure, and corruption grew endemically. The general public grew disillusioned with politics and

democracy, and many members of the elites that initially supported Akayev turned to become his most fervent opponents. In 2005, the rule of Akayev and his family came to an end in what has been dubbed the Tulip Revolution, a popular uprising with significant elite support. The immediate cause was a rigged election, but growing discontent, both on the streets and among competing elites, with the monopolization of political and economic power, corruption, and general mismanagement was clearly boiling below the surface.

Once again, the first few years after the Tulip Revolution were marred by paralysis as the rule of the newly elected president Bakiyev and his loose confidant, Prime Minister Kulov, was constantly challenged by opposition in the parliament. After a few years, Bakiyev consolidated power in the hands of his family and his regional and local patronage networks from the South. Corruption, nepotism, and organized crime surged. The major gold mines were partially re-nationalized, corruption in the hydroelectricity sector led to dramatic commercial losses and power shortages, and hostile takeovers of successful or strategically important companies increased in numbers. In 2009, the president reorganized the government system, essentially rendering the parliament and the cabinet powerless. Finally, in April 2010, people had had enough and ended the regime of Bakiyev in yet another popular uprising. The immediate triggers were substantial hikes in energy tariffs and high inflation on staple goods, but it was also fuelled by the underlying perception that corruption, nepotism, and public mismanagement had increased substantially.

The provisional government put in power after the uprising faced a highly unstable country. Ethnic violence broke out in southern Kyrgyzstan on June 11, 2010, leaving some 300 people dead and 400,000 displaced. Despite these tragic events, the first parliamentary elections in Central Asia deemed free and fair by outside observers were held on October 10. The outcome was a

parliament evenly split between five different parties, made more significant by constitutional amendments that reduced presidential powers and reinforced a parliamentary system of governance. Given recent history, a clause was put in the constitution that guaranteed that no single party would be able to hold absolute power without forming a coalition. The situation was thus once again one with more competitive and open politics, for good and bad. In terms of the ability to implement priorities, the coalition government was regarded by some as the weakest since independence. It was therefore no surprise that the major presidential candidates in the run-up to the elections in October of 2011 were once again stressing the need for a constitutional change with more concentration of power within the presidency. The elected president, Atambaev, has pursued this agenda since coming to office, leaving outside observers worried about the implications, once again, for the development of democracy in the country.

## The Repeated Cycles and Implications for the Future

20 years after independence, the Kyrgyz Republic may be on its third round of a vicious cycle of political instability; relatively open political discourse, followed by concentration and abuse of power, in turn followed by a popular uprising, and then back to square one. This destructive pattern has had broad implications for both the political and the economic situation in the country. Politics has become very short-sighted and focused on the economic interests of the elite in power. Each group has had its own agenda, largely determined by the economic interests of its network, and important public positions are frequently changing hands as positions are given to political loyalists or sold to the highest bidder. This system has also

undermined governance by severing the link between merit and influence, and by institutionalizing corruption, creating further policy uncertainty. Not surprisingly, this has led to disillusionment among the population with regards to both politicians as such, but also democracy as an institution for collective decision making. The country seems trapped in an equilibrium in which all politicians are distrusted, creating huge credibility challenges for any potentially honest candidate that may come forward.

The instability has also had large negative consequences on the economy. Investments have been held back as necessary reforms have been neglected and government turnover has caused insecure property rights when new leaders engage in appropriation, hostile take-over's and contract repudiation. An illustrative example is the second largest gold mine in the country, Jeruy. The deposit has in principle been open for development more than 10 years, but terms of contracts have never been honored and licenses have been revoked with every new group in power, leaving the deposit standing idle at a time when gold prices are at a record high. Corruption runs rampant, causing additional costs and excessive red tape for any businesses trying to operate in the official part of the economy. Instead most economic activity (up to 70 percent according to some figures) takes place in the unofficial sector. It follows that firms face disincentives to hire since once they grow bigger it becomes harder to "fly below the radar" and avoid regulatory predation. Job creation in the formal sector is thus severely hampered by the political instability and the culture of corruption, uncertainty and nepotism that it has created.

So, is the Kyrgyz Republic doomed to repeat the cycle again? Not necessarily, but an indefinite continuation of the current situation is not really that much better. The parliamentary reform, rewriting of the constitution and the parliamentary elections during the interim period between the presidencies of Bakiev and Atambaev were all

positive signs. Unfortunately, the potential for a brighter political future was largely lost in the bickering between different fractions and developments after October 2011. Prescriptions for improving the situation are quite clear at a superficial level. Reduce the potential for economic rents through political power, and de-personalize and institutionalize political parties to encourage a longer time horizon and a broader political appeal based on public goods provision rather than targeted private benefits. Support transparency measures by encouraging public-private dialogue with politically independent entrepreneurs and NGOs, deregulate and mechanize the bureaucracy to reduce the scope for corruption, and implement judiciary reform to strengthen property rights and contract enforcement. Unfortunately, the Devil is in the detail when it comes to implementation and enforcement. As in many countries in which public financing largely depends on foreign donors, previous governments have been relatively good at implementing reforms of transparency and accountability on paper, but far worse at actually implementing and enforcing those reforms. The big challenge is to make reforms stick and take effect, in particular in an environment in which the very agencies responsible for the upholding of laws are among the most corrupt. For the welfare of the Kyrgyz citizens, I hope for a quick turnaround, but the cynical economist in me nurture serious doubts.

## Further Readings

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