

KYRGYZSTAN PARLIAMENTARY ELECTIONS

Political situation stabilizes, but relations with foreign investors become more complicated

15th December 2021

Issues & Sectors	Elections, Political stability, Nationalization and receivership
Stakeholders	Jogorku Kenesh, President Sadyr Japarov

On 28 November, for the first time since the approval of its new constitution in May 2021, (which modified the country's form of government from a parliamentary-presidential to a fully-presidential system) Kyrgyzstan held elections to its Parliament (Jogorku Kenesh). On December 14, Kyrgyzstan's CEC reported about the completion of the recount and confirmation of the primary results of the manual vote count.

The results suggest there will be six parties in the 90-seat Parliament, which were not previously members: Ata-Jurt Kyrgyzstan (Fatherland), Ishenim, Yntymak (Unity), Alliance, Butun Kyrgyzstan (United Kyrgyzstan), and Iyman nuru (Light of Faith). Of 36 single-member constituencies, the names of 34 of the winners are already known and, in the remaining two constituencies, most voters checked "none of the above" on their ballots. The parties that made it to the parliament remain loyal to the government though are not directly affiliated with President Zhaparov.

Several parties that did not enter Parliament have claimed election rigging (which prompted a manual vote recount). The authorities, however, have so far succeeded in avoiding post-election mass protests that would have threatened a new political crisis. The Central Election Committee has already stated that there will be no repeat election.

The low voter turnout (34%) and high level of protest voting demonstrated a clear lack of interest in the elections and low levels of trust in parliament as an institution, principally due to a drastic curtailing of the Jogorku Kenesh's powers and to a change in governance resulting from the 2021 constitutional reform.

The OSCE mission concluded that the weakened role of parliament and massive changes to the legislation prior to the elections adversely affected meaningful voter participation. The European

Union agreed with the OSCE's conclusions, although noted that the elections had been well organized and there had been no major instances of electoral fraud. CIS (Commonwealth of Independence States) and SCO (Shanghai Cooperation Organization) observers called the elections transparent and democratic.

The parliamentary elections have served to stabilize Kyrgyzstan's political situation following the acute crisis in 2020 (dissolution of parliament, the President's resignation and complete reset of the authorities).

The election of a new parliament does not automatically mean the government must resign or undergo a reshuffle; this is done only at the discretion of the President. Even though parliament now plays a lesser role in the power system, the very fact that the elections have been held boosts the legitimacy of the authorities.

At the same time, the system remains unstable and hinges largely on the fragile balance of interests between clan elites and on the continued popularity of President Sadyr Japarov, while President Japarov's populism significantly complicates official Bishkek's relations with foreign business.

This memo will cover:

The Elections and their Principal Consequences	2
Political and Economic Context	3
Kumtor's Nationalization and Kyrgyzstan's Investment Prospects	4
Conclusions	5

THE ELECTIONS AND THEIR PRINCIPAL CONSEQUENCES

Elections to the Jogorku Kenesh were held under new rules and according to a revised political paradigm. In May 2021, Kyrgyzstan's new Constitution was approved, introducing a plethora of important changes:

- **The form of government was changed:** Kyrgyzstan became a presidential republic, meaning the powers of parliament were curtailed while those of the head of state were increased significantly:
 - The President can now unilaterally appoint and dismiss members of the government, the prosecutor general and judges, spearhead legislation and referenda, and strip parliamentary deputies of their immunity.
- **A new institution, the National Kurultai** (People's Council) was introduced into the power system and the President has significant influence over this body. The Kurultai has a status and set of functions that duplicate those of parliament (it can spearhead legislation, resignation of government members, etc.).
- Parliamentary elections are held according to a hybrid system (party lists and single-member constituencies); previously, only the party system was in place:
 - These changes were introduced after the ruling parties of the last parliament (Birimdik and Mekenim Kyrgyzstan) were discredited, with neither of them entering the new parliament.
 - The President's party (Mekenchil) abstained from participating in the elections. This decision made by Sadyr Japarov was a populist move: even without this party, parliament remains loyal to the President.

- The vote threshold was reduced from 7% to 5% and the deposit cut from KGS 5 million to KGS 1 million (about USD 11,000). This was also intended to prompt a renewal of parliament but it had a limited effect.
- The parties in the new parliament have no direct ties with the President but the Jogorku Kenesh remains generally loyal to the authorities.

From the point of view of their relationship with the authorities, observers divide the parties of the current make-up of Jogorku Kenesh into the following groups:

1. **Pro-government parties** (Ata-Jurt Kyrgyzstan,¹ Ishenim,² Yntymam³);
2. **Parties loyal to the authorities** (Iyman Nuru);
3. **Opposition parties:** the Butun Kyrgyzstan party has been assigned the role of notional opposition (but has no impact on final decision-making).
4. **Pro-western parties**, such as Alliance, which enjoys the support of many of Kyrgyzstan's NGOs.

The key takeaways from the election from the perspective of foreign investors are as follows:

- The election generally stabilizes Kyrgyzstan's political system but provides no insurance against new crises which might stem from the country's poor economic situation and the related spike in social tension.
- Parliament lost its importance as an instrument for communicating with the authorities; the decision-making centre has shifted to the presidential administration and the government.
- At the same time, parliament remains a sort of "forum" for public advancement of new politicians and public discussions.
- The parties in parliament have been completely reshuffled. Even so, many politicians who served in the previous parliament ran as members of new parties and joined the new parliament.⁴ So the renewals of elites were limited.

POLITICAL AND ECONOMIC CONTEXT

The November elections have partially eliminated the legitimacy deficit that emerged in October 2020. Back then, an attempt to hold elections to the Jogorku Kenesh provoked a large-scale political crisis. Mass protests resulted in the election results being overturned, President Sooronbay Jeenbekov resigning and in the government being changed, while parliamentary elections slated for December

¹ Previously, the Ata-Jurt party was led by Kamchybek Tashiyev, Chair of the National Security Committee, a longstanding associate of President Sadyr Japarov.

² Observers note the party's connections with President Sadyr Japarov's proxies and advisors. The party was only established in 2021.

³ Former speaker of Parliament Talant Mamytov is a member of the party and another longstanding associate of President Japarov.

⁴ For instance, Amurbek Tekebayev, former speaker of Parliament and leader of the Ata-Meken party that failed to make it into parliament, ran as a member of Butun Kyrgyzstan, as did Iskhak Masaliyev, former leader of Kyrgyzstan's Communist Party. Another former speaker of Parliament and former Ata-Jurt member, Akhmatbek Keldibekov, is running as a member of the Azattyk party.

2020 did not take place. In January 2021, early presidential elections were held and Sadyr Japarov was elected President of Kyrgyzstan.

Later, Japarov launched a constitutional reform to implement a large-scale reset of the political system. Since a referendum had to be held and the new Constitution adopted and implemented, parliamentary elections were delayed once again, prompting criticism in the West since the old Jogorku Kenesh remained in place even though its term had expired: the Venice Commission, in particular, sharply criticized the fact that elections were not held.

Preparations for new elections were protracted due to concerns over political confrontation escalating again. To this end, the devaluing of parliament's functionality has actually helped stabilize the political system (hinging on inter-clan struggles).

However, political parties of the previous parliament and the parliament itself are now discredited in the people's eyes, with the constitutional reform and increased presidential powers provoking accusations of an excessive concentration of power in Sadyr Japarov's hands.

The low level of protest activities in Kyrgyzstan is due to society being tired of political crises (since 2005, Kyrgyzstan has gone through three acute crises resulting in coups). The system is also made more stable by the relatively high (for Kyrgyzstan) trust⁵ in President Japarov and his closest circle, mostly due to the President's populist initiatives, primarily the nationalization of Kyrgyzstan's biggest enterprise, the gold-mining Kumtor Gold Company.

KUMTOR'S NATIONALIZATION AND KYRGYZSTAN'S INVESTMENT PROSPECTS

Today, it is not so much a political as an economic crisis that is the greatest spark to instability in Kyrgyzstan. According to official [data](#), in 2020, Kyrgyzstan's GDP fell by 8.6%, which is a greater drop than in neighbouring Central Asian states:

- The Asian Development Bank (ADB), one of Kyrgyzstan's principal creditors, predicts that, at year-end 2021, Kyrgyzstan's GDP may have grown by 3.5%, and by 5% by end of 2022.
- At the same time, the ADB notes that the forecast is highly likely to worsen as a result of the coronavirus pandemic and high inflation rates (predicted at 7% in 2021 and 2022).
- The Eurasian Development Bank also notes the significance of the water shortage factor, which has caused a drought and poor harvests this year. Additionally, the water shortage exacerbates the problem of Kyrgyzstan's electric power deficit (most power in the country is generated by hydropower plants).

At year-end 2019 (before the crisis), the biggest investors in Kyrgyzstan's economy were China (over 31%) and Canada (over 24%). Russia,⁶ Turkey, Kazakhstan, the Netherlands, the UK and other countries also had a visible investor presence. The list of the biggest investor countries could change significantly owing to the low overall investment in Kyrgyzstan (USD 876 million in pre-crisis 2019) and

⁵ A [survey](#) conducted by the International Republican Institute in late October 2021 shows trust in Sadyr Japarov at 32%. Additionally, people trust the President's closest associate Kamchybek Tashiyev, head of the National Security Committee (21%). 22% do not trust anyone in public office.

⁶ Russia's influence is due, among other things, to money transfers from Kyrgyz migrants working in Russia. Generally, the share of migrants' money transfers in the GDP is above 25% (about USD 2 bn), and they account for up to 1% of economic growth.

depending on any investment influx related to specific projects (largely in the mining sector⁷). Presently, investments are being redistributed in favour of China and Russia instead of Western states. This development derives from the authorities' initiatives to nationalise the Kumtor mine and concerns that this practice might be extended to other assets.

Kumtor is the biggest gold mining company in Central Asia, accounting for up to 10% of Kyrgyzstan's GDP. Upon his inauguration, President Japarov launched Kumtor's nationalization (an idea he had been promoting since the late 2000s) owing to the company's breaches of the environmental legislation (alleged by Kyrgyz authorities). Pursuant to a contract with Kyrgyzstan, Canada's Centerra Gold Inc. has been working the mine via its subsidiary, Kumtor Gold Company. In August 2021, receivers were appointed to Kumtor; Centerra is disputing the receivership in international courts. The Kumtor situation has a significant impact on both the investment climate and domestic politics in Kyrgyzstan: many former heads of state have been under criminal investigation in connection with this case.

A long-running conflict surrounding the mobile operator Megacom (one of the three mobile service providers in Kyrgyzstan) was finally resolved, which has also set a precedent. In October 2021, the London Court of International Arbitration ruled in favour of the Kyrgyz authorities in a dispute with the UK's Penwell Business Ltd (controlled by Russian businesspersons) over the title to 51% of Megacom's stock. Penwell's demand that its investment be returned was dismissed in full; the deadline for appeals has run out and the state has gained full control of Megacom.

Even though the Kumtor and Megacom cases are essentially different, the common factor is that President Sadyr Japarov has used them to bolster his ratings. These initiatives have an ambiguous effect on the investment climate: on the one hand, they are conducive to stabilizing political power and rallying local elites around the President, but on the other they undermine foreign investors' trust and have prompted many investors (at least Western ones) to leave Kyrgyzstan, sparking a redistribution of investment flows in favour of China and Russia.

CONCLUSIONS

Despite the relative stabilization of Kyrgyzstan's political situation, the country remains risky for investment.

The following factors are holding back any increase in foreign investment:

- ✦ The high level of political instability (which essentially makes major investment in Kyrgyzstan a venture enterprise) and concerns over the rolling back of democratic processes and concentration of power in the president's hands.
- ✦ Complicated relations with investors from various countries and groups of countries:
 - ✦ With Western investors (the Kumtor factor);
 - ✦ With EAEU states (major trade imbalances, dependence on money transfers from migrants working in Russia, inter-elite contradictions with Kazakhstan);
 - ✦ Regular border conflicts with Uzbekistan and Tajikistan, and the destabilizing Taliban factor in Afghanistan (*even though they do not have a common border, the spread of radical Islam to Kyrgyzstan and participation by Kyrgyz citizens in a military confrontation with Afghanistan remain a threat*);

⁷ Kyrgyzstan has big deposits of gold, pewter, tungsten, rare-earth metals, aluminum, stibium and molybdenum.

- Kyrgyzstan's traditional Sinophobia (fear of being economically subsumed by China) stands in the way of an increase in Chinese investment and Kyrgyzstan's more active involvement in the One Belt – One Road initiative.
- The potentially explosive economic situation: a sharp drop in 2020 and a slow recovery amid the coronavirus pandemic and high inflation.

Despite all of the above, several of Kyrgyzstan's economic sectors, primarily mining (deposits of rare extractable resources) and agriculture (major underinvestment) remain appealing to bold foreign investors. Should the political situation stabilise further and the authorities' populism lose impetus, Kyrgyzstan could potentially reset its relations with foreign investors.

###

*If you would like to schedule a discussion of this paper, please contact:
Natalia Malyarchuk, Director for Kazakhstan and Central Asia, n.malyarchuk@areterapa.com*



Aretera is a leading independent public affairs advisory firm operating across Central & Eastern Europe, Turkey, Ukraine, Central Asia and a growing number of global emerging markets. We advise a wide range of leading multi-national corporations, providing counsel on all aspects of public policy, public affairs and reputation management.

Aretera works to the highest international standards of transparency and compliance, partnering with global and local client teams, lawyers and global agencies, to serve our clients' needs in our regions.

www.areterapa.com