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ECONOMIC DEVELOPMENT AND POLITICAL UNCERTAINTY:
A BURUNDIAN CASE STUDY

1. Introduction

The field of economic development has been a contentious issue among scholars, economists and politicians alike. The prevailing view has been that neoliberalism would allow all nations to achieve their full development potential (Harvey, 2005). However, although several nations such as the BRICS countries have experienced remarkable growth, many other countries are still struggling to develop. Faced with neoliberalism's obvious shortcomings, authors started to discuss and identify many factors that are hampering economic growth. The quality of institutions in particular has been pinpointed as having a major impact on the economic performance of a country (Scully, 1988). It has been argued by North (1990) that weak institutional foundations may prevent countries from reaping the benefits of open markets and increased global connectedness. The existing literature has however failed to look closely at how uncertainty can affect economic activities, although it has often had a major impact on markets' behaviour all around the world. Earlier this year for instance, British citizens voted to leave the European Union. Unprepared for such a result, the British political elites were immediately confronted by great uncertainty on what was going to happen next. As a consequence, markets reacted strongly: London's stock exchange dropped and the value of the pound collapsed (Mackenzie and Platt, 2016, Jun 24). More than the result in itself, it was the political uncertainty that followed the election that affected the economic performance of the UK (McGee, 2016, Jun 26).

In light of these developments, it would therefore be interesting to understand the role that political uncertainty can play on markets' behaviour and economic activities. The Republic of Burundi is in that regard a particularly interesting case. In April 2015, Burundian President Nkurunziza sought a third presidential term despite the two-term limit specified by the constitution. The protests and violent repression that followed greatly disturbed the economy of the country. The GDP growth rate dropped by 7.4 percent and both domestic and foreign investment were severely reduced. The literature has frequently argued that political instability can affect the development of economies (Abessolo, 2004; Barro, 1991). It should therefore be expected that markets would have "punished" the country after the non-constitutional re-election of its leader. Paradoxically, these indicators rebounded almost as soon as President Nkurunziza took office in August 2015. Why has then GDP growth and investment recovered following the third term election of an otherwise objectionable leader? It appears that the quality of leadership and the institutions in place do not matter as much as scholarship would assume. This theoretical gap calls for alternative explanations, and this is where the concept of political uncertainty can be used. Economic volatility derived from the political uncertainty that surrounded President Nkurunziza's calling for the election. This article thus seeks to understand how political uncertainty has affected GDP growth and investment in Burundi. By doing so, the study aims to evaluate the role of uncertainty on markets' behaviour and economic performance in general.

The situation in Burundi is not confined to the country alone. All around Sub-Saharan Africa, other presidents have sought to pursue a third term despite term-limit restrictions. Some have been successful, such as the Rwandan President Kagame, whereas others have been forced to step down under pressure at home and/or abroad. This dissertation therefore also seeks to explain, by taking political uncertainty into account, how unpopular leaders, such as the Burundian president, can push for a third term without long-term repercussions whereas others cannot. In the Democratic Republic of Congo (DRC) especially, concerns were voiced both domestically and abroad that President Kabila might seek another non-constitutional presidential term. It would be interesting to see if the DRC is likely to suffer similar economic problems as Burundi. A thorough understanding of the effects of political uncertainty on the political economy of Burundi would therefore also contribute to the discussion on how the region can ensure and protect its future path to sustainable development.

This thesis is structured as follows. The first part summarises the previous literature that is concerned with political stability, political uncertainty and economic development. The second part then introduces the theoretical framework on which the analysis is developed, and focuses on the idea of uncertainty that drives market actors' behaviour, and on how the electoral process in particular can create such an uncertain environment. Most neo-classical economic accounts fail to take into account uncertainty in their analysis of the relationship between political stability and economic growth (Baltatescu, 2015), and this is why a political economy approach is needed. This article therefore seeks to address this issue by analysing the impact of the third non-constitutional presidential term in particular, which has emerged as a growing issue in Sub-Saharan Africa. The third part presents the case study and Burundi political crisis since the first election of the current President Nkurunziza. The fourth section analyses the current – and future – economics trends of the country to try and understand why has political unrest disturbed the economy only for a short period of time, although peace seems far from being achieved. The final part uses the developed analysis to make some hypotheses about whether the situation in which Burundi has deteriorated could repeat itself in other Sub-Saharan African countries such as the DRC. The electoral process in Burundi took place within a few months, and social unrest caused markets to doubt about the general outcome of the presidential elections. There is however no reason why the DRC's general elections should be surrounded by similar uncertainty as the DRC's political institutions have been stable since the end of civil war in 2002. Comparing Burundi's and the DRC's political economy therefore should shed light on the other factors that might influence the impact of political uncertainty.

The field of International Political Economy was expressly developed to show the interconnectedness between political events and economic matters. This article is set to contribute to the discussion on economic development theories by bringing the concept of political uncertainty into the equation. Uncertainty has become a major factor in determining markets' behaviour all around the world, and should therefore require more attention in academia. The following discussion highlights that economic behaviour cannot be understood without a broader comprehension of the socio-political background.

2. Literature Review

This section aims to explore how existing scholarship explains political uncertainty and the impact of political stability on economic activity. Economic development has been heavily discussed among scholars, and covers a wide range of issues. The concept was however first understood in strictly economic terms. Todaro and Smith (2015) defines it as "achieving sustained rates of growth of income per capita to enable a nation to expand its output at a rate faster than the growth rate of its population" (p. 16). Growth rates of gross national income (GNI) are used to evaluate the "overall economic well-being of a population – how much of real goods and services is available to the average citizen for consumption and investment" (p. 16). This understanding of economic development puts particular emphasis on increased output, which is traditionally measured by gross domestic product (GDP). This understanding of economic development was further embedded into Western academia as the end of the Cold War brought neoliberalism as the favoured economic doctrine. It is believed that "human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterised by strong private property rights, free markets and free trade" (Harvey, 2005, p. 11). The role of the state is to ensure that such an institutional framework is preserved, but without interfering with markets, which are to function effectively on their own. Developing nations, particularly in Africa, were thus asked to open and privatise their markets so that they could be integrated into the world economic order (Moghalu, 2014). The argument put forward was that by doing so, African nations would catch up with the developed world.

However, and despite increased economic growth rates, absolute poverty, income inequality and unemployment remained unchanged (Zamfir, 2016). Experts therefore started to suggest that other factors might prevent developing countries from achieving sustainable growth. More diverse definitions of development emerged, so that it would not only include economic variables but would be understood "as a multidimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality and the eradication of poverty" (Todaro and Smith, 2015, p. 18). Liberal institutionalist accounts on economic development started to defend the idea that institutions greatly influence the economic performance of a country. Weak institutional settings are believed to discourage growth and harm the economic development of third world countries, and numerous authors have researched this particular relationship. Several studies have claimed that institutions, particularly public services, "are the underlying determinant of the long-run performance of economies" (North, 1990, p. 107) and that poor economic performance in less developed countries were the result of institutional weakness (Scully, 1988). In more recent years, another discourse was however developed. It has been increasingly argued that political instability and the uncertainty that results from it in particular could have negative effects on economic performance. The general idea is that political instability negatively impacts economic growth by destroying physical and human assets and diverting public spending from productive activities (Abessolo, 2004).

Political instability is understood in various ways in the literature. Most previous studies have focused on radical political change such as coups d'état or political assassinations (Barro, 1991), but some authors such as Gyimah-Brempong and Traynor (1999) have argued that political instability should be understood in an even broader sense. They define political instability "as situations, activities or patterns of political behaviour that threaten to change or actually change the political system in a non-constitutional way" (pp. 53-54), therefore including non-violent actions such as anti-government demonstrations. The key element in this definition is that these events bring about uncertainties about the stability of the government as well as its legitimacy and effectiveness of its policies. Findings greatly differ, depending on which variables are used to define political instability, but it has been found that political instability can have an impact on different economic indicators, such as investment, external debt, inflation and foreign direct investment. For instance, Ben-Habib and Spiegel (1992) find that socio-political instability and distortionary price policies have a negative impact on investment by reducing physical capital accumulation. Ozler and Tabellini (1992) demonstrate that instability in developing countries can lead to increased external debt. They argue that higher instability pushes leaders to favour present, rather than future, government spending. As a result, external debt significantly increases. Cukierman, Edwards, and Tabellini (1992) show that political instability leads to greater inflation. They show that a "tax system acts as a constraint on the fiscal policy of the current government" (p. 541), so that tax reforms are subject to strategic considerations by leaders. It can then be used to constrain the room of manoeuvre of future governments. Political instability thus incites "current government to leave an inefficient tax system to its successors" (p. 541). Finally, Goodrich (1992) and Kim (2010) argue that political instability affects foreign direct investments (FDI) in developing countries. Here, Political instability is linked to the performance of the private sector, which in turn influences FDI inflows.

However, most of these authors failed to address the reverse causality of political instability and economic performance. Gyimah-Brempong and Traynor (1999) tackle this issue and argue that less developed countries with unstable political environments may face greater obstacles in achieving sustainable economic growth, but that poor economic performance may also trigger political uncertainty and even lead to a collapse of government, thus implying that economic growth and political instability are endogenously determined. Alesina et al. (1992) take a similar stance and state that both are deeply interlinked and argue that political instability disturbs investment, which in turn hinders the pace of economic development and leads to economic inefficiencies. They also find that countries in which government collapse is likely to witness considerably lower economic growth. Alesina and Perotti (1994) further show that growth does not seem to be influenced by the type of political regime – for instance democracy or dictatorship – but rather by the stability of the government (p. 359).

These more recent articles introduce an alternative theoretical argument to explain the relationship between political instability and economic growth, and believe that the effects of uncertainty play a major role on productive economic decisions, for instance with regard to investment or production (Alesina et al., 1992, p. 4). However, they fail to show that political uncertainty is a direct result of political instability, and that it is this uncertainty that actually affects markets' behaviour. Following this line of reasoning, government change might not matter as much as previously assumed. As previously mentioned the economic performance of the United Kingdom after the result of the EU referendum is a perfect example of the role of political uncertainty. The pound's value fell dramatically, UK government bond yields registered a record low, and the FTSE took a 14 percent plunge as investors were unable to determine what was going to happen next (Moore, 2016, Jul 29). The Brexit result did not threaten the stability of British institutions, but seriously increased uncertainty. This example highlights the importance of understanding the relationship between political uncertainty, political instability and economic performance. The next section addresses this issue by developing the concept of uncertainty and applying it to political events.

3. Theoretical Framework

3.1. Political Uncertainty

This thesis argues that uncertainty surrounding political changes have a significant impact on the prospect of economic growth, and that it might matter more than the robustness of institutions. The role played by uncertainty in driving markets' behaviour was most notoriously developed by Keynes (1937), who argues that knowledge of the future is in constant fluctuation and remains vague and uncertain. He stresses the centrality of "uncertain" knowledge, in the sense that despite prediction and risk-assessment models, people cannot know for certain what economic outcomes will prevail. Keynes thus questions the rational behaviour of economic actors. He argues that people try to act as rational actors and assume that the rest of the world is well informed even when they do not know themselves. Their behaviour thus mirrors the actions of the average. Simon (1982) also rejects the idea of rational economic actors and develops a theory of bounded rationality. He states that individuals cannot make purely rational decisions as they are limited by several factors. Not only does it depend on the available information, but also on the complexity of the problem, their intellectual capabilities and the time available to decide.

People thus do not always seek to maximise their benefit, and settle for a “good enough” alternative. Simon called the process during which individuals evaluate alternative decisions “satisficing”, after which a satisfactory – but not necessarily rational – decision is reached. Markets are thus influenced by fears and hopes, and may be subject to sudden change in perception. Economic conditions can fluctuate widely over time, as it depends on the confidence of both national and global market actors.

The theory of uncertainty has been increasingly used over the years and applied to a wide range of fields. In political economy specifically, political uncertainty has been linked to the volume of investment. Carrière-Swallow and Céspedes for instance find that investment is particularly volatile “because it relies most heavily on opinions about future events, which are necessarily ill-informed” (2013, p. 316). Uncertainty also pushes firms to withhold investment and hiring as it would be very costly to undo projects or fire workers. Hiring and investment projects then increase once more when uncertainty declines (Bernanke, 1983). Other effects include precautionary spending cutbacks by households and upward pressure on the cost of finance (see Gilchrist et al., 2014; Pastor and Veronesi, 2013).

Research has shown that uncertainty resulting from political events in general have a major influence on financial markets. The process of presidential election in particular can create a general environment of uncertainty. Markets follow closely and respond swiftly to new information on the future of a nation’s fiscal and monetary policy. Investors therefore regularly review their expectations as political decisions are being made. Taking into account Brown et al.’s (1988) uncertain information hypothesis, it can be drawn that “if the outcome of the election does not allow investors to immediately assess the effect on the country’s future, then the election outcome constitutes an uncertainty inducing surprise” (Pantzalis, Stangeland and Turtle, 2000, p. 1576). Once the uncertainty surrounding the election result and the policies to be implemented is reduced, asset prices change is expected.

This theory could be applied in every kind of political system, as the Brexit example has highlighted, but political uncertainty has become particularly relevant in developing countries. In these nations, democratic institutions are fairly new and therefore less stable and predictable than in advanced democracies. Almost all of them are part of the third wave of democratisation and have known military coups or authoritarian reversals in the past. The likelihood of authoritarian reversal is thus higher, and there are higher chances of change in the way in which leaders are selected or of parties being banned (Lupu and Riedl, 2012, p. 1345). Electoral uncertainty thus revolves mostly around the stability of the institutions and policy makers, which might have dire consequences on economic policies. Elections might for instance influence the security of property rights, the flow of money from abroad and the productivity of capital assets. One notorious example of outright nationalisation following a presidential election is the "Chileanisation of copper", when newly-elected President Salvador Allende nationalised the major Chilean copper mines. Furthermore, developing countries are more sensitive to external economic shocks due to their relatively small economies and high dependence on international markets. For instance, the 2007 financial crisis severely hit developing countries, although the shock started in developed countries. Reduced FDI and demand for imports of goods, as well as growing protectionism, had dire consequences for developing countries' economic performance. Finally, the effect of political uncertainty might be stronger in developing countries as investment decisions may depend more on political connections than on the state of the financial market. As Durnev (2010) puts it, "politically connected managers have preferential access to information or financing, or where managers can pay bribes to "buy" preferential treatment from politicians" (p. 3). In the end, electoral uncertainty may lessen the incentives of market actors to invest in a developing economy, partly because of regime uncertainty and partly because of economic uncertainty (Lupu and Riedl, 2012, p. 1346; Carmignani, 2003, p. 2). Although all general elections can have an impact on markets' behaviour, presidential elections are a particularly interesting case study. In Sub-Saharan Africa, presidents have gained significant power and can sometimes have a greater impact on a country's political and economic direction than the rest of the government. This is developed in the next section.

3.2. Political Uncertainty from Presidential Elections

It was previously mentioned that the process of presidential succession in developing countries often creates uncertainty and can therefore impact significantly democracy and economic development. Research has been made on the impact of political uncertainty around elections on investment (Julio and Yook, 2012), on stock market volatility (Bialkowksi et al., 2008; Kelly, Pastor and Veronesi, 2014; Li and Born, 2006), or on irreversible investment in the U.S. (Canes-Wrone and Park, 2014), but no attention has been paid about the impact of uncertainty that results from longer presidency. Many African countries have been recently faced with leaders reluctant to leave office despite having reached the term limit imposed by their respective constitutions. The phenomenon is far from new, but has seen a resurgence in the last two to three years. This article focuses on the current crisis in Burundi, but other nations have witnessed or might witness similar issues. Baruto (2010) finds that between 1960 and 2008, "about sixty presidents have managed to extend their stay in office beyond constitutionally term periods in one way or another" around the world (p. 635). It has been particularly relevant in Africa since the 1990s. Even though most newly democratic African constitutions are quite clear on term restrictions, not every African leader is ready to give up power. Many presidents are perceived as national heroes who brought democracy to the country (Baruto, 2010). Out of office does not only entail losing power, but may also have dire consequences for the former president. There are often few job opportunities that allow for that much recognition and wealth accumulation. Naturally, a growing debate has been taking place on the matter.

It has been suggested that part of the problem might lie in the internal structures of the ruling party, which fails to ensure a proper successor. Another possibility may rather be the risks for presidents to face lawsuits or even fear of human right prosecutions in case of stepping down (Baruto, 2010). As Baker (2002) argues, whatever the reason, presidents elected for a third term encourage the resurgence of life presidencies in the region. It also contributes to the revival of personalism, "where authority is ascribed to the person rather than the office, where state power is regarded as private property and where the benefits of state are offered only on a personal basis" (Baker, 2002, p. 288). It raises not only concerns over the centralisation of power, but also over the corruption of power. Despite this new trend, most African leaders that have contemplated the idea of extending their term have faced criticisms and opposition at home and/or abroad. Zambian former president Chiluba for instance contemplated standing for a third term at the end of his presidency in 2001. Civil society, composed of a coalition of women's organisations, churchmen, politicians and trade unionists, rose against constitutional changes, which were a necessary condition for the president to run for a third term. Through corrupt tactics such as intimidation and firing of opposing party members, the constitution was changed, but Chiluba was nevertheless forced to step down due to intense pressure from the public, its own party and the international community (Baker, 2002, pp. 293-294). The situation has developed differently in Burundi, where President Nkurunziza managed to get re-elected for a third term despite continuous opposition from civil society and international actors. The electoral process was met with high uncertainty both domestically and internationally. This dissertation thus aims to understand how this uncertainty affected Burundi's economic performance. In doing so, this dissertation contributes to the debate on the effect of political uncertainty and its central role in economic activities.

4. Methodology

This article tries to determine the impact of political uncertainty on economic activities in developing countries. Political uncertainty is conceptualised here as possible changes in leadership or government policy, which then have implications for the behaviour of market actors. Uncertainty and instability influence the incentives of firms and investors to conduct economic activities until the government's general policies can be predicted again. This thesis operationalize the concept of uncertainty by isolating specific factors, namely GDP growth rate, tax revenues, total investment, inward FDI and exchange rate. GDP growth rate represents change in the country's total economic activities, and would show whether political unrest prevented physical and human assets to be used for productive activities. In turn, lower production would contribute to a fall in tax revenues. Total investment includes the acquisition of capital by both domestic and foreign investors, whereas inward FDI only concerns the purchase "of at least ten percent of the ordinary shares of voting power in a public or private enterprise by non-resident investors" (IMF, April 2016). Political uncertainty would push investors to withhold investment due to high cost in case of complications as it becomes more difficult to predict what will happen in the future. Similarly, it would also affect the exchange rate.

The data on Burundi's economic performance were collected from several sources: the IMF African Regional Economic Outlook of April 2016, Burundian officials' communications and online newspapers such as Le Point Afrique and the Financial Times. By the time of writing, the Burundi's government was yet to release official economic data for the year 2015, so that the analysis is based on data collected from secondary sources. Monthly data on GDP growth rate and investment flows would have given a more accurate picture of markets' reaction to the political uncertainty that resulted from the announcement of President Nkurunziza's candidacy for a third term. However, the lack of transparency of the government makes the collection of such data impossible at the moment. Nevertheless, the information gathered still allows the following analysis to show the impact of political uncertainty on markets' behaviour and on the general trend of investment flows.

5. Burundi's Political Crisis

Africa has often been seen as the last frontier to be globalised and integrated into the global economic order (Moghalu, 2014). The twenty-first century has seen the emergence of Sub-Saharan African economies, and its increased inclusion within the global market. These countries have witnessed strong economic growth rates, increased flows of foreign direct investment (FDI) and have developed better infrastructure to do business. As Kingsley Chiedu Moghalu (2014) puts it, "the 'rise' of Africa" has allowed the rest of the world to realise "that the continent is a significant market and investment opportunity" (p. 5). Once plagued by civil wars and ethnic conflicts, the region has managed to establish some relative political and social stability, which has greatly benefited its economic growth. For the last ten years, the region's average growth rate has not once fallen below 3 percent, even during the global financial crisis. As a comparison, the GDP growth rate in the European Union (EU) has not exceeded 2 percent since the outbreak of the financial crisis. Investors from all over the world are now engaged in the region, not only traditional Western actors such as the U.S. and the EU's member states, but also more and more from China and Russia (Moghalu, 2014).

Despite these impressive numbers, almost every country of the region remains plagued by political, economic and social issues. GNI per capita in Sub-Saharan African countries amounts to only $1,638, whereas it reaches $38,913 for OECD countries, $9,095 for Latin America and Caribbean countries, and $6,156 for East Asia and Pacific countries (World Bank, 2014). Most of them are still ranked among the poorest countries, with a Human Development Index much inferior than the rest of the world (Human Development Index, 2015). One of the proposed issues is that many countries lack the proper institutional settings to truly engage in sustainable economic development (Scully, 1988). They also remain subject to civil wars and political conflicts, which can have dire consequences on their prospects of economic development.

Burundi, officially known as the Republic of Burundi, is a landlocked country in the African Great Lakes region, bordered by Rwanda, Tanzania and the DRC. Despite its great potential, the region was plagued by conflicts and civil wars. As a consequence, most countries in the area remain amongst the poorest countries in the world. Burundi is ranked 184 out of 188 in the Human Development Index, with a gross national income (GNI) of $758 per capita. 67 percent of the population live below the poverty line and access to basic necessities remain difficult (Human Development Index, 2015). Burundi also ranks 150 out of 168 on the Corruption Perceptions Index, and is considered as one of the least transparent countries in the region (Transparency International, 2015).

The country's low development ranking has often been linked to its violent history. The 1990s saw the whole African Great Lakes region in grip with armed conflicts, almost always due to tensions between the two largest population groups, the Tutsi and the Hutu. In 1993, Burundi fell into a bloody civil war after the assassination of the first Hutu president democratically elected in Burundi, Melchior Ndadaye, by Tutsi soldiers. The conflict killed at least 300,000 people, most of whom were civilians. At the same time, a genocidal mass massacre of Tutsi devastated neighbouring Rwanda. It was only in 2000 that an agreement was signed by all Burundian factions, notably thanks to the mediating role of Nelson Mandela. A cease-fire agreement was finally agreed upon in 2003 between the transitional government and the main armed Hutu group, the National Council for the Defence of Democracy-Forces for the Defence of Democracy (CNDD-FDD) (Daziano and Daziano, May 5, 2015).

Pierre Nkurunziza became prominent in Burundian politics when becoming the chairman of the CNDD-FDD party during the civil war. After the ceasefire in 2005, he was elected as president. Often seen by the population as the man who brought peace to the country, he was re-elected in 2010 for a second term with more than 91% of the votes. The results, although believed to be democratic by international observers, were contested as President Nkurunziza faced no real challenger – the other candidates had withdrawn from the electoral process in protest against frauds (Daziano and Daziano, May 5, 2015). On April 25, 2016, President Nkurunziza announced his intention to seek a third presidential term, although the Constitution limits presidency to two terms. The ruling party had already tried in 2014 to change the constitution to allow for a third term, which was deemed simple enough as it held an ultra-majority at the National Assembly: the party was only four votes short of reaching the fourth fifths quota of deputies required to change the Constitution. The proposed reform was however rejected in March 2014 due to one vote short. The ruling party has since then developed another discourse and argued that since President Nkurunziza was indirectly elected in 2005 for a transitional period only, this first term should not be included into the term limit (Daziano and Daziano, May 5, 2015). As a result, a wave of protests engulfed the country and was violently repressed by the government and the army. Three major independent radio broadcasts were shut down, access to social media was blocked and universities were closed. Young militants of the ruling party, known as "Imbonerahures", started to intimidate people that were suspected to belong to the opposition (Daziano and Daziano, May 5, 2015).

Due to pressure from the international community and the opposition, President Nkurunziza reported on multiple occasions the presidential election previously planned for May 26. The opposition called its voters to boycott the election, but their actions were in vain. Despite the political instability, elections were held and on July 21, President Nkurunziza was elected again as president with 69.41 percent of the votes. The results drew distinct reactions from the various actors involved. Whereas the ruling party congratulated itself for a comfortable victory, the opposition chose to ignore the results. The international community, in particular the U.S. and the EU, condemned an election that lacked transparency, inclusion and equity (Manirabarusha, Jul 24, 2015). The African Union (AU), that has closely followed the unfolding of events in the region, also recognised the election's lack of credibility. The AU Commission Chairman issued a statement "noting that the necessary conditions are not met for the organisation of free, fair, transparent and credible elections ... the AU Commission will not observe the local and parliamentary elections" (Manirabarusha, Jun 28, 2015). Despite a lack of consensus on the election's results, President Nkurunziza was sworn in on August 20 during a surprise ceremony that was announced only hours before. The ambassadors of several African countries, as well as of China and Russia, were present, but no head of state attended the ceremony.

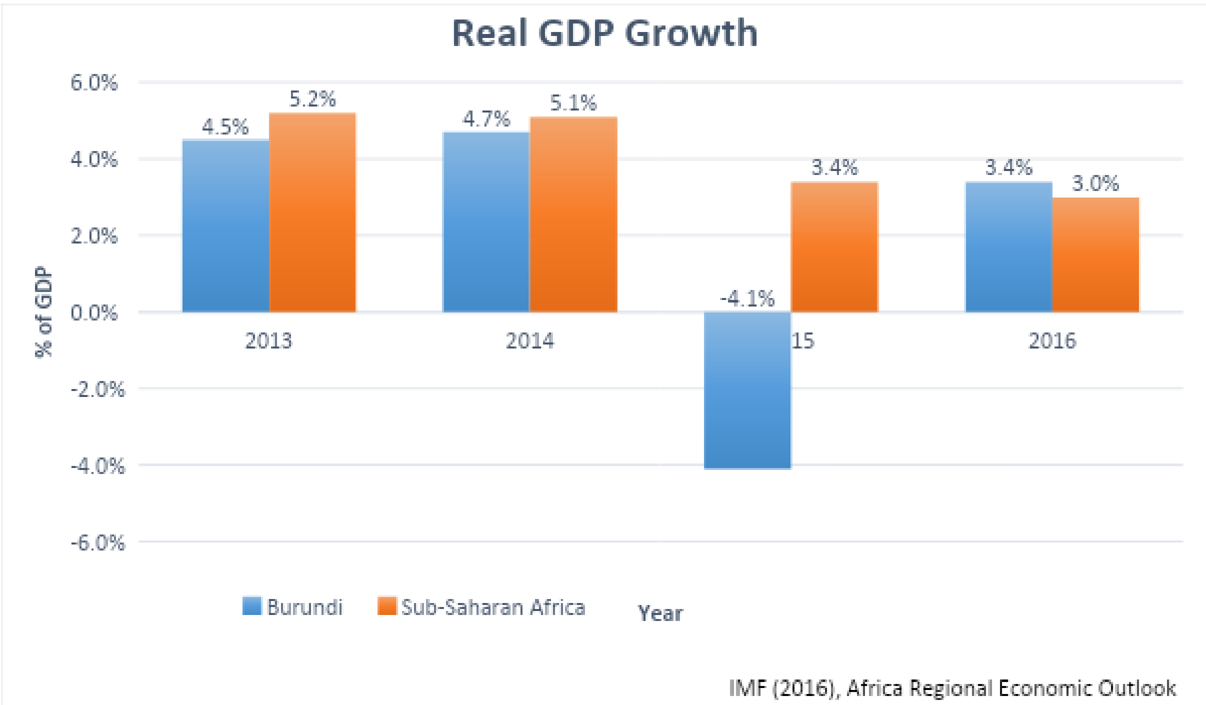
The election brought to an end the violent repression of demonstrators by armed forces, but assassinations of emblematic figures of Burundian politics and tension within the army have increased (Agence France-Presse, Aug 20, 2015). The Burundian government nevertheless refused entry to 5,000 peacekeeping forces from the African Union to help with continuing violence. In the end, an estimated 500 people were killed and around 270,000 Burundian nationals took refuge in neighbouring countries (Point Afrique, Apr 27, 2016). The crisis has been much more political than ethnic in nature despite the country's past. The peace agreement in the early 2000s helped create balance between Tutsis and Hutus. The armed forces are for instance composed of 50 percent Hutu and 50 percent Tutsi. The parliament and the senate are similarly divided, with 60 percent Hutu and 40 percent Tutsi in terms of total representation. Nevertheless, the country is not shielded from increased tensions between both communities would the conflict drag on. It has already had dire consequences on the economic performance of the nation. The next part exposes the impact of this political crisis on GDP growth rate, total investment, inward FDI, exchange rate and tax revenues.

6. Impact of Political Uncertainty on Burundi's Economy

Violent demonstrations in Bujumbura due to the announcement of the candidacy of President Nkurunziza for a third term have resulted in an estimated $33 million loss in revenues according to the current government. Assassinations and targeted killings have affected all sectors of the economy, particularly in Bujumbura, which amounts to 55 percent of the country's output (Reuters, Feb 10, 2016). Foreign tourists, especially Canadian, American, French and Belgian, have all avoided the country last summer, leaving hotels with 10% occupancy and the growing tourism industry shattered (Aguirre, Jan 1, 2016). This has in turn impacted the banking sector, as it was providing loans for hotel construction. Exports were hit and in decline, as agricultural production was slowed down (Aguirre, Jan 1, 2016).

In addition, several major international donors have cut development aid and financial support to pressure President Nkurunziza in initiating talks with the opposition. Although the move could be seen as symbolic, Burundian government revenues rely on 42 percent on international aid (Aguirre, Jan 1, 2016), so that international sanctions considerably reduced its incomes. Belgium and the Netherlands almost immediately cut aid flows that benefited the government, which also covered the justice system. The European Union, Burundi's biggest donor, followed suit (Agence France-Presse, May 2, 2016). The U.S. and Switzerland targeted specific individuals and froze all their assets. Many Sub-Saharan African countries have become dependent on foreign aid from Western nations and international financial institutions, although the literature has frequently argued that aid has contributed to the underdevelopment of the continent. Despite being poorer than several decades ago, Africa has come to believe that aid is essential for development. It has however been proven that foreign aid crowds out national production and is mostly used as a tool to influence domestic policies (Moghalu, 2014, pp. 25-28). Whether such a strategic move is efficient is beyond the scope of this thesis, but cuts on foreign aid from Western donors must have contributed to the underperformance of the Burundian economy.

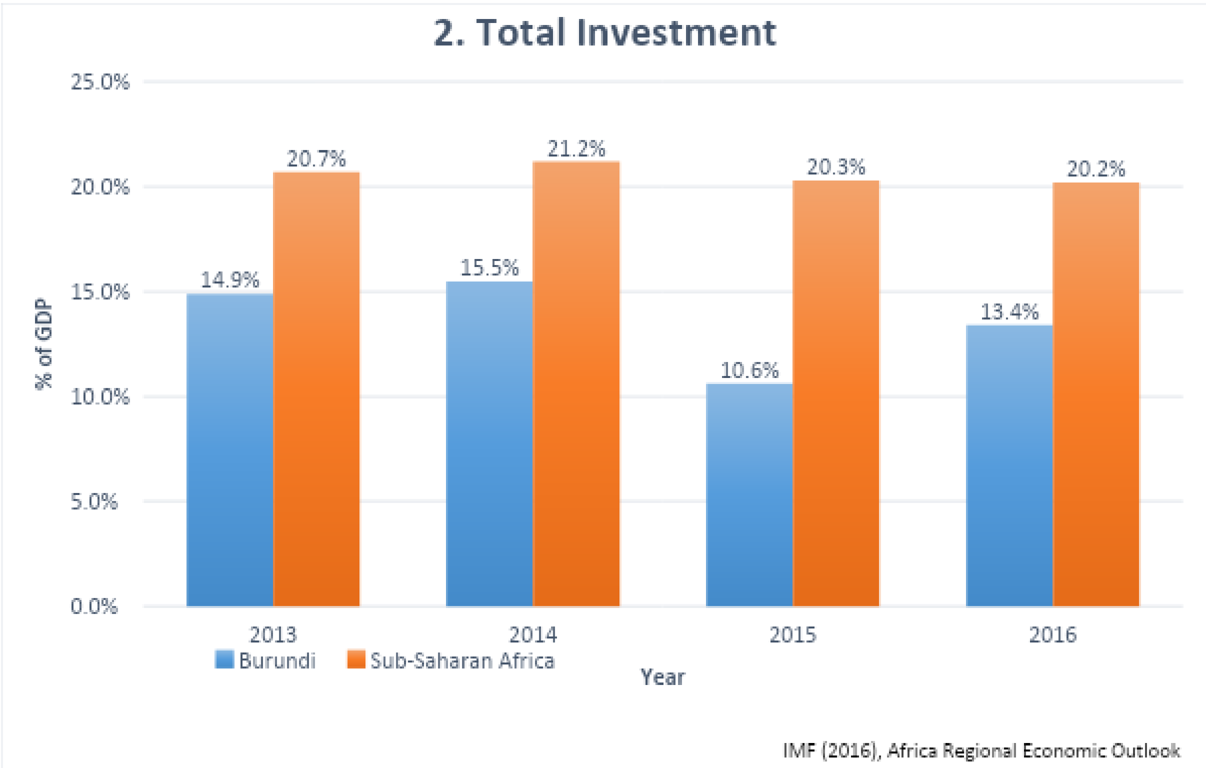
Real GDP growth was also affected. Although the country had witnessed an annual growth of around 4.5 percent since 2010, the economy shrank by 7.4 percent in 2015 (IMF, 2016). Data collected from the Burundian government confirms this trend, which claims that Burundi's total production has undergone a negative growth of 3.9 percent in 2015. Table 1 illustrates that although Burundi's GDP growth rate underwent a massive drop in 2015, the country's economy is to catch up with the Sub-Saharan African nations' average.



The graph illustrates that Burundi's growth rate did not follow the general trend of Sub-Saharan Africa. GDP growth rate dropped to -3.9 percent in 2015 (Comité Permanent de Cadrage Macroéconomique et Budgétaire, May 2016). Social and political unrest in the country, and Bujumbura in particular, have severely reduced consumption and spending. This demand side shock created a fall in aggregate demand, therefore precipitating a negative economic growth for the whole year. GDP growth is however expected to increase again in 2016. Although such a rate would remain lower than pre-crisis level, it would be a remarkable recovery. The Finance Minister has recently stated that economic growth was negative only until September 2015, and should increase to 3.5 percent in 2016 (Nimubona, 2016, Feb 9). The IMF goes along the same lines and forecasts GDP growth to reach 3.4

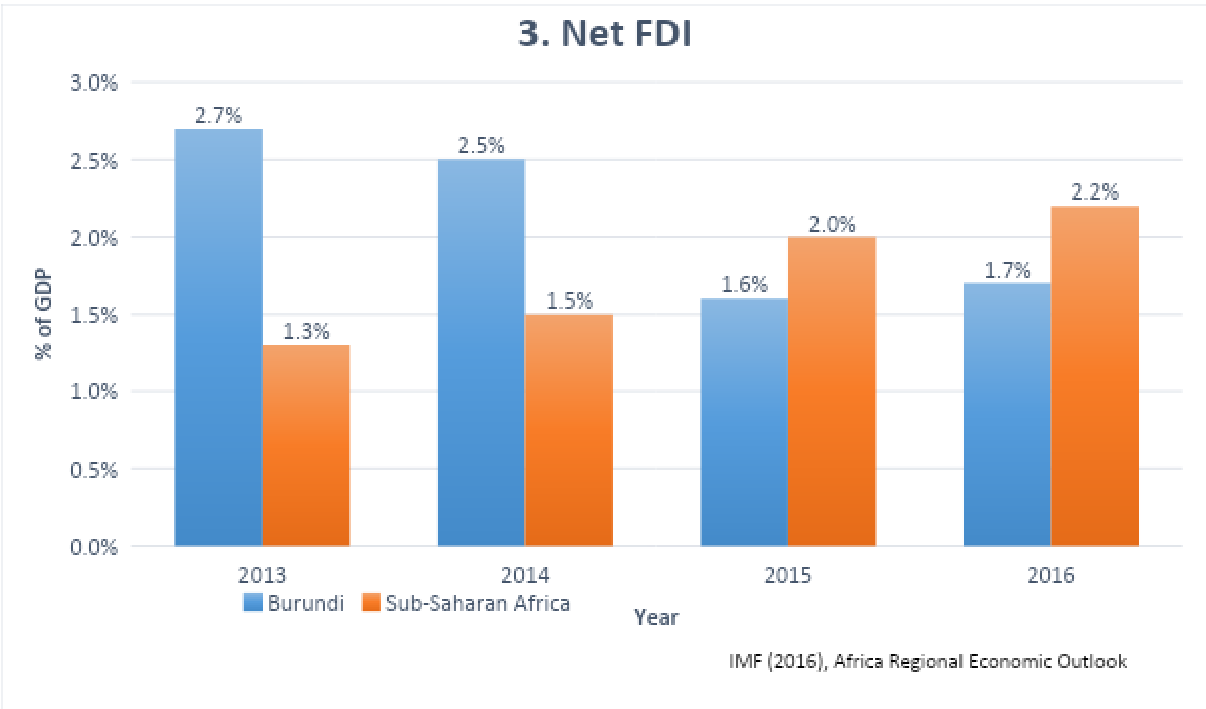
percent in 2016. More recent macroeconomic reports of the Burundi's government predict a 0.7 percent growth in 2016. Although smaller than what is predicted, it would still represent a 4.8 percent increase compared to 2015. GDP growth was partly influenced by the mineral extraction sector, which witnessed a 5.0 percent negative growth in 2015, but is expected to increase to 6.0 percent positive growth in 2016. Another important factor influencing growth, according to the Burundian government, has been the stopping of construction projects due to lack of financing. In 2015, the construction sector faced a negative growth of 35.1 percent (Comité Permanent de Cadrage Macroéconomique et Budgétaire, May 2016).

Lower aggregate demand also contributed to a reduction in bank lending, which in turn considerably reduced total investment. Table 2 clearly shows that there was a significant drop in total investment as a percentage of GDP, from 15.5 percent in 2014 to 10.6 percent in 2015.



Investment is understood as "the purchase of capital equipment, e.g., machines and computers, and the construction of fixed capital, e.g., factories, roads, housing, that serve to raise the level of output in the future" (IMF, April 2016). It therefore encompasses both domestic and foreign acquisition of capital that contributes to total production. Political unrest would obviously reduce the incentives of investors to engage in any long-term project. Total investment is however expected to already recover in 2016, raising to 13.4 percent of GDP, and despite on-going conflicts in the region. Although such rate would remain lower than pre-crisis level, the country has been able to boost economic activities again.

Surprisingly, table 3 indicates that net foreign direct investment (FDI) did not contribute as much as domestic investment in the drop of total investment. FDI dropped from 2.5 percent of GDP in 2014 to 1.6 percent in 2015, and is expected to rise to only 1.7 percent in 2016.



FDI measurement is much more specific than total investment, as it concerns only the "acquisition of at least ten percent of the ordinary shares of voting power in a public or private enterprise by non-resident investors" (IMF, April 2016). Direct investment requires a long-term interest in the management of a company and reinvestment of profits. It is interesting to note that the impact of the political crisis on it was much smaller than what the literature would have predicted (Goodrich, 1992; Kim, 2010).

The Burundian Franc was also affected by the electoral process, as table 4 illustrates. The Burundian currency appreciated in July 2015, right around the time of the presidential election. As soon as President Nkurunziza was elected, the currency's fluctuations returned to relative normality.

4. Exchange Rate BIF/USD

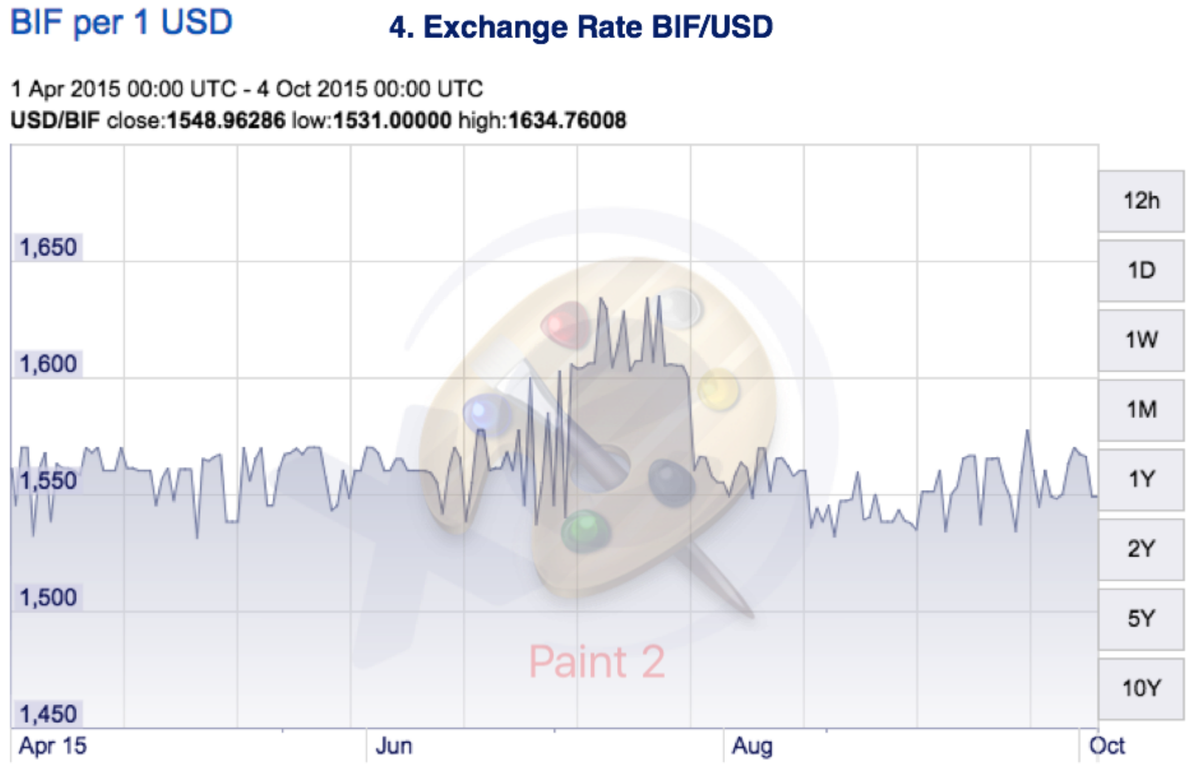


Figure reproduced from XE (2016, Apr 1), XE Currency Charts (USD/BIF)

Moreover, the reduction in consumption and spending had a direct impact on official tax revenues. For May-August 2015, tax revenues were 30 percent lower than expected and 23 percent under 2014's levels. Burundi's tax authority OBR explained that for the whole 2015 year, official tax revenues decreased by 10 percent (Reuters, Feb 10, 2016). Despite the failure of meeting the 2015 target of 720 billion francs – 590.6 billion francs were instead collected - official Burundian authorities stated that tax revenues were on the rise again in 2016 (Nimubona, Feb 9, 2016). Between January and May 2016, a 0.6 percent increase was registered compared to 2015 levels (OBR, 2016). The budget deficit was however reduced during the 2014-2016 period from -17.5 percent of GDP in 2014 to -11.9 percent of GDP in 2016, partly due to lower government spending (Comité Permanent de Cadrage Macroéconomique et Budgétaire, May 2016).

The presented data shows that despite a general perception in the media of economic recession, the IMF and Burundian officials claim that the economic performance of the country is to catch up in 2016. Finance Ministry Spokesman Desire Musharitse declared that although Burundi witnessed a negative growth in 2015 due to the political crisis, market actors and investors "expect the security situation to improve" and a "revival of economic activities, especially the industrial sector" is to take place (Reuters, Feb 10, 2016). These surprising results highlight the argument of this article. It was expected that Burundi's economic performance would not recover from the non-constitutional re-election of the president and the on-going conflict between government and opposition. The indicators however show that GDP growth rate and investment are to rebound in 2016. The next section argues that political uncertainty was the variable behind the sudden collapse of Burundi's economic performance.

7. Discussion

The existing data shows that growth and investment reacted to the political events that occurred in 2015, during which President Nkurunziza officially announced his candidacy and the elections took place. Suspicions that President Nkurunziza would seek a third term did start to spread as early as 2013. Despite pressure from the international community – and the national opposition – not to cling to power, the ruling party still tried to change the constitution. Concerns were voiced on the possibility of new ethnic conflict, but the international community failed to take any action as attention was quickly set on the DRC and Rwanda. These two countries were to face similar crises, and were seen as strategically more valuable than smaller Burundi, in particular due to their natural resources. Growing tension was witnessed all over the country, particularly in the capital Bujumbura (Kamatari, Mar 5, 2015). Nevertheless, economic conditions and investment in the country seemed to be barely affected by the rumours. The East Africa Community, which includes Kenya, Uganda, Tanzania, Burundi and Rwanda, pushed for further integration, which benefited the whole region.

The fact that economic growth was negative only until September 2015 indicates that as soon as President Nkurunziza was sworn in for a third term, Burundi's economic performance improved. A similar trend was witnessed for total investment, which is expected to increase again in 2016. Foreign investment, on the other hand, is expected to have a slower recovery, but one nonetheless. The surprising element is that despite the on-going crisis, growth and investment rates have started to increase again. An analysis based on neo-classical accounts of economic development would have argued that economic performance cannot improve without stable institutions and a political environment. Following this line of thought, Burundi's economic performance should have continued to underperform even after President Nkurunziza's swore in for a third term as conflict continues to threaten the stability of the institutions. However, it appears that markets' confidence has increased since the result of the election was known. The political uncertainty that surrounded the electoral process pushed investors and public spending to be diverted from productive activities. As soon as the outcome, which saw President Nkurunziza elected again despite being unconstitutional, was known, economic actors were once again able to evaluate the general performance of Burundi. As a consequence, confidence increased and economic activities resumed. It indicates that the type of political system or the stability of the institutions are not the only factors influencing market perception. What matters is the knowledge of what comes next, which thus allows actors to act accordingly in the foreseeable future.

The present analysis shows that Africa's changing political environment is met with mixed feelings from investors. The vivid opposition that faced President Nkurunziza concerning his re-election proves that there is increased pressure for the respect of democracy in Africa, which could signal the end of strongman politics. However, strongman politicians have proven to give relative short-term stability to a country's economy, therefore ensuring an easier environment for investors. Increased transparency and accountability lead to additional power brokers to be involved in decision-making, which thus disturbs the previous tradition of power being held by the few (Kelly, 2015, Oct 27). It also generates risks on contract stability and the regulatory environment and increases uncertainty. As Kelly (2015, Oct 27) argues, this shift from "post-colonial strongman style of governance" to more democratic institutions creates "a more unpredictable environment, which includes unrealistic campaign promises, policy shifts, and sclerotic decision-making".

This article sought to understand the impact of political uncertainty due to a non-constitutional presidential election on economic indicators. The previous analysis has shown that political uncertainty did negatively affect Burundi's economic performance. Once President Nkurunziza took office again and uncertainty was decreased, economic activities recovered. However, discussions with several experts on Burundi have shown that the reader must remain cautious with the interpretation of the data. First, although the volume of total investment has increased, data on foreign investment shows that foreign investors might remain more cautious towards the country's stability. It could however be argued that the difference between FDI and total investment comes from the increase in domestic investment. The Burundian government has been trying to boost the economy by launching many new projects. It has taken structural and financial reforms in order to consolidate production bases, improve the business climate and boost economic activity (Comité Permanent de Cadrage Macroéconomique et Budgétaire, May 2016). Fiscal reforms for instance allowed the government to collect more tax in strategic sectors, such as the expanding oil sector. There are however doubts over whether these projects will ever be finished. The sudden freeze of foreign financial aid has also hindered the progress that could have otherwise been achieved.

In addition, there are concerns over the reliability of the data collected, in part due to corruption practises. For instance, it must be highlighted that the Burundian Franc's exchange rate does not always reflect economic fluctuations due to police manipulation. The on-going conflict between government and opposition also makes the publication of official data difficult. Furthermore, Burundian natural resources must be taken into consideration: a tacit mechanism has been set up by the government to indirectly control the distribution of these resources. As a result, prices, and therefore economic indicators, can be manipulated.

Finally, it could be argued that the current neoliberal order, which gives considerable powers to private actors, have actually made it easier for African leaders to stay in power for longer than intended. The continent was previously highly dependent on money flows from traditional donors such as the U.S. and the EU. In exchange for financial support, African nations were required to commit to several principles. Among others, the respect of the rule of law has often been pushed as a necessary condition. The rise of China and Russia in the area has somewhat counterbalanced this bargain, as the emerging nations rarely interfere in domestic politics. African developing nations now have access to other channels of financing, and are therefore less likely to face sanctions that could harm their economies. Burundi's Central Bank has for instance recently signed a deal with Russia to facilitate foreign investment in the region (Manirabarusha, 2016, Jun 17).

The present analysis cannot therefore exclude all the other factors that might have influenced the recovery of economic activities. It has however proven that political uncertainty plays an important role in determining markets' behaviour. Third presidential term in particular, when non-constitutional, triggers major uncertainty that can greatly affect a nation's economic performance. In the DRC for instance, suspicions have been voiced that President Kabila might seek another presidential term despite having already served two, which is the limit imposed by the Constitution. The next section develops on this to try and extend the previous analysis to other similar case studies.

8. Other Factors That Might Minimise Political Uncertainty

This article has shown that the non-constitutional third term of President Nkurunziza has triggered political uncertainty in Burundi, which in turn has greatly disturbed the economic performance of the country. An interesting point is to examine whether leaders that extend their stay in power automatically trigger political uncertainty. Burundi has only suffered from short-term effects, which can actually be seen as a rather light punishment for violating the constitution. Other presidents could thus decide to follow his path. During the eighteen months that set apart the beginning of the year 2015 from the end of the first semester of 2016, not less than nineteen presidential elections have taken place on the African continent. By the end of 2016, half the African population will have been invited to vote for a presidential election in two years. Although such impressive numbers incite the reader to believe that democracy has prospered, authors call for caution. Many of these elections lack credibility and have been criticised by international observers as neither free nor fair (Bouquet, 2016, Jul 5). African politics have undergone massive change since the nations claimed their independence. Although military takeovers have become rare in today's sub-Saharan Africa, another trend has emerged and leaders are increasingly trying to stay in office beyond their term limits (Christensen, 2016).

International observers have raised concerns that a similar situation could unfold in the DRC, Burundi's neighbouring country. Congolese President Kabila came to power in 2006 after years of civil wars and a regional conflict that had torn all the countries of the Great Lakes region apart. Democracy was established and the biggest UN task force (MONUC) to ever intervene in a country ensured that the peace was respected. President Kabila was re-elected for a second term in 2011 despite criticisms of lack of credibility. However, tensions between neighbouring countries and rebel groups never totally disappeared, and some parts of the country are still subject to armed conflicts. The next presidential elections were to be scheduled for 2016. President Kabila is compelled to step down as the Constitution limits presidential terms to two, but as with so many African heads of state, concerns have been raised that he might not be willing to give up power yet. Protests broke out in January 2015 after President Kabila tried to delay the 2016 presidential elections so that a national census could be conducted. Since then, uncertainty has surrounded the electoral process (Christensen, 2016, Jan 21). To this date, neither electoral lists or voters' cards are ready, although the elections are to take place in a few months. In addition, the Constitutional Court has voted that President Kabila could remain in power until the election of his successor. Faced with criticisms from the opposition, President Kabila asked for a national dialogue, but doubts remain (Royer, 2016, July 27).

In this delicate political context, could the uncertainty that surrounds the DRC's presidential elections trigger similar disturbances as in Burundi? The DRC and Burundi, although neighbouring countries, have significant differences. Burundi and the DRC differ in terms of constitutional basis. President Nkurunziza argued for his re-election by stating that he had not been directly elected by the population for his first term. There is no similar loophole in the DRC's constitution that would allow Kabila to use the same argument to seek a third term (Malu Malu, 2016, Jun 28). In addition, the countries' political economies have distinct characteristics, which might greatly influence markets' behaviour.

First, the DRC has been blessed with abundant natural resources, in particular copper and cobalt. It has always been an important part of revenue for the government. Many multinational companies have invested in the region, ensuring continuous investment despite the presence of conflict. Second, the DRC is less dependent on aid from Western donors than Burundi. China and the DCR agreed on the biggest Chinese bilateral agreement in Africa, and signed a cooperation and economic partnership. China is to give the DRC a $3 billion loan in order to modernise the infrastructure used in mineral extraction, invest $6 billion in infrastructure projects such as roads, railways, hospitals and health centres, and add another $5 billion loan in exchange for access to $14 billion worth of copper and cobalt (Coloma, 2011). Western influence on the DRC's economy is therefore significantly lower than on the Burundian economy, so that possible sanctions against the African nation would have a smaller impact on the government revenues. Third, popular support plays a major role in determining the reaction of population and markets alike. Heads of states that are highly valued are more likely to stay in power without facing any important "punishment". Rwanda's President Paul Kagame has for instance been allowed to run for a third term following a national referendum. In this case, a large portion of the population consider Mr.

Kagame as the hero that saved the country from the civil war. President Nkurunziza lacked popular support, which created violent reactions from the opposition. Similarly, President Kabila's chances of success are slimmer due to a more developed political opposition and active civil society (Aglionby and Fick, 2015, Oct 25).

In line with these arguments, it can be suggested that the DRC would not face the same disturbances as Burundi. The current political economy of the Congo could minimise the scope of political uncertainty that would result from the next presidential elections. It highlights that political uncertainty cannot be explained without a broader understanding of the social, economic and political conditions of the country.

9. Conclusion

Economic development has become one of the most relevant discourse of our generation. All too often, the concept is reduced to economic models, which fails to grasp its true reality. However, fully understanding it is a necessary step to improve and guarantee the well-being of whole populations around the world. As such, economic development, and the role that the market plays in it, have been heavily researched and discussed in the literature. Many models have been drawn as a means to understand and reproduce the development of industrialised states. Developing nations have relied heavily upon the assumptions of neo-classical experts to try and modernise their economy. However, a growing gap has appeared between emerging economies such as the BRICS countries and underdeveloped nations, notably in Sub-Saharan Africa. It soon became evident that economic conditions alone could not be used to explain the divergence between the development of third world nations. The field of political economy addresses this particular theoretical gap, and integrates the impact of political events on economic activities. It was thus argued that political instability, among other variables, could have a major influence on the economic performance of developing states. Many studies were conducted and showed that political instability can have a negative influence on a wide range of economic factors (Ben-Habib and Spiegel, 1992; Ozler and Tabellini, 1992; Cukierman, Edwards, and Tabellini, 1992).

Recent political events, such as the economic turmoil into which the UK fell after the Brexit result, shows that political uncertainty may matter even more than political instability. Most scholars have failed to take the concept into consideration, leaving many questions on the market's behaviour open. Political uncertainty has had a significant influence on economic activities, and in various contexts. Several studies have notably proven that investment patterns are influenced by general elections in the U.S. and other developed economies (Bialkowksi et al., 2008; Canes-Wrone and Park, 2014; Kelly, Pastor and Veronesi, 2014; Li and Born, 2006). In this instance, it is not the result that matters as much as the uncertainty of knowing what is to come next. The common feature of these otherwise unrelated events is that the market and economic actors cannot predict what the outcome will be. This dissertation follows this line of thought and argues that political uncertainty can have a significant impact on the economic performance of developing countries. Political uncertainty can stem from many situations, most notably from political instability. This thesis has however put particular emphasis on the impact of longer presidency by Sub-Saharan African leaders, specifically non-constitutional third presidential term. This has become a growing issue in the region, and should receive greater attention in academia. This article highlights that it should not only be considered as a political issue, as it might have dire consequences for the development prospects of the concerned state.

The Republic of Burundi was used as a case study to illustrate the argument. President Nkurunziza's possible re-election for a third non-constitutional term has sparked massive protests within the country, which had dire consequences for Burundi's economic performance. The previous analysis has however proven that economic growth and investment started to recover almost immediately after President Nkurunziza swore in, and despite on-going conflict between police forces and opposition in the capital. Classical accounts of political instability cannot explain this particular trend, and this is where political uncertainty comes in. GDP growth rates and investment dropped in mid-2015 as market actors could not predict the next course of events. Once it became clear that President Nkurunziza was to stay in power, political uncertainty was considerably reduced and the pace of economic activities started to increase again.

The writing of this article was faced with several limitations. One of the greatest issues when dealing with under-developed countries is the reliability of the data collected. The reader should always keep in mind that all governments do not have the same level of transparency. The Burundian government for instance does not release monthly data for GDP growth rates and investment flows. Moreover, time constraint makes it difficult to draw a complete picture of the situation. Data for 2016 are based on predictions, and unforeseen events could drastically change the course predicted. It is also worth keeping in mind that a longer presidency does not always lead to political uncertainty. The section on the DRC has highlighted that many factors influence the perceptions of market's actors, and that the socio-political conditions of a country cannot be ignored. Due to time and space restriction, this article could however not fully research the relationship between a country's socio-political environment and political uncertainty. In addition, other dimensions of economic performance could have been analysed to try and determine the impact of Burundi's political crisis. For instance, the impact of the re-election of President Nkurunziza on family life and micro-economic activities would be another interesting way to look at the current crisis. In this instance, data could have been collected through interviews of refugees that left the country.

This article has shown that economic development is far from a settled matter. More attention should definitely be paid to the impact of political uncertainty on market's behaviour and economic performance. Only then comprehensible development policies can be drawn. Political uncertainty should however not be reduced to political instability in developing nations alone. As the recent events in British politics have shown us, markets can also react to events happening in stable and long-established institutions. It highlights that much is still to be learned from this particular aspect of economic behaviour.

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