

# BTI 2012 | Turkmenistan Country Report

<b>Status Index</b>	1-10	<b>3.54</b>	# 116 of 128	
Political Transformation	1-10	2.83	# 121 of 128	➔
Economic Transformation	1-10	4.25	# 101 of 128	➔
<b>Management Index</b>	1-10	<b>2.20</b>	# 119 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

Please cite as follows: Bertelsmann Stiftung, BTI 2012 – Turkmenistan Country Report. Gütersloh: Bertelsmann Stiftung, 2012.

© 2012 Bertelsmann Stiftung, Gütersloh

## Key Indicators

Population	mn.	5.0	HDI	0.686	GDP p.c.	\$	8274
Pop. growth <sup>1</sup>	% p.a.	1.2	HDI rank of 187	102	Gini Index		-
Life expectancy	years	65	UN Education Index	0.739	Poverty <sup>3</sup>	%	-
Urban population	%	49.5	Gender inequality <sup>2</sup>	-	Aid per capita	\$	7.8

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

In 2009 and 2010, Turkmenistan politically stabilized under the firm rule of Gurbangly Berdymukhamedov, who managed the political succession crisis for the first time since independence, after Saparmurat Niyazov, also called “Turkmenbashy” (head of all Turkmen), died on 21 December 2006 of heart failure. A former vice prime minister and minister of health, Berdymukhamedov unconstitutionally became acting president with the support and assistance of the security apparatus. He subsequently won the presidential election on 11 February 2007, in large measure by banning opposition politicians from participating. Berdymukhamedov initially showed a commitment to continue the political direction charted by Niyazov. Since the election, however, he has reversed some of Turkmenbashy’s most irrational politics by establishing higher education and health care facilities in rural areas.

In the four years following the election, Berdymukhamedov has gradually dismantled Niyazov’s personality cult without committing himself to political liberalization. Disappointingly, Berdymukhamedov also arrested potential opponents, such as the head of the presidential guard, General Rejepov, in behavior similar to that exhibited by Niyazov. Berdymukhamedov brought his own appointees into government and suppressed any form of political dissent with the help of the security apparatus. The president’s campaign to strengthen his position of power impeded any progress toward democratic transformation.

With regard to economic transformation, some positive changes can be observed. Despite the financial crisis, Turkmenistan maintained an 8% GNP growth rate during the observation period. However, considering the absence and increased inadequacy of statistical data, one must be cautious when evaluating Turkmenistan’s economic and developmental indicators. The country’s population size still remains unclear. Nevertheless, the new president is more open to economic reforms; he established free currency convertibility in May 2008, reduced import and export taxes, and tried to increase incentives for foreign investments by allowing investors to

own companies and to acquire real estate. Despite these positive developments, the country continues to lack a coherent economic strategy. The country maintains an inefficient state-controlled bank sector; it does not secure property rights; and it keeps agricultural productivity low by setting reduced fixed purchase prices for grain and cotton, although some increase in retail prices was reported during the observation period.

The situation with regard to the population's income remains tense. In 2009, the government altered some of the subsidized prices, such as for gasoline and public transport, and compensated by raising pensions and wages by 10%. These policies fueled inflation, which was 12% in 2008 and was more likely to be 18% in 2009 than the 9% officially reported.

## History and Characteristics of Transformation

Turkmenistan was one of the 15 republics that achieved independence upon the breakup of the Soviet Union in 1991, despite the fact that it was neither politically nor economically prepared for it. Saparmurat Niyazov, appointed first secretary of the Turkmen Communist Party by Mikhail Gorbachev in 1985, led the republic into independence by usurping Moscow's decision-making powers for human resources and issue-related policies. He was elected the republic's president in a direct election, generally considered rigged by most observers, in October 1990 and was reconfirmed in the presidential election of 21 June 1992 as well as the subsequent referendum on 15 January 1994.

In May 1992, Turkmenistan promulgated a constitution which declared the country a constitutional, democratic and presidential republic based on a separation of powers. Formally, the constitution guaranteed basic political rights to all citizens. In reality, however, all forms of political activity were suppressed, and an autocratic regime established itself with the backing of its domestic secret service and security forces. To shore up domestic political legitimacy, the president worked to create a personality cult that imbued him with a larger-than-life public presence as the "head of all Turkmen" (Turkmenbashi). When the failure of the 1991 August putsch sealed the fate of Marxism-Leninism as a ruling ideology, sociopolitical organizations emerged around ethnic and national identity. In this context, the president accelerated the Turkmenization of government and educational institutions.

In the early 1990s, Turkmenistan found itself under strong pressure to adapt after the loss of state control and planning from Moscow and the disintegration of the Soviet planned economy. Turkmenistan was able to partially compensate for diminishing budget revenue transfers from Moscow by gaining control over export profits from the sale of natural gas and cotton. By 1996, the collapse of entire branches of the economy, low state wages and the discharge of labor in health care, science, education, and culture resulted in an exaggerated reliance on the primary agricultural sector. This sector, which generated only 25% of GDP (\$2.175 billion), employed 44% of the employable population. GDP fell to 58% of its 1991 level. High inflation,

approaching 3,000% in 1993, led to the impoverishment of the population. The government cushioned this to some extent by providing free water, gas and electricity and by subsidizing staple foods and gasoline prices.

Privatization remained limited to small businesses in the service sector and unprofitable state-owned enterprises. As Turkmenistan imported a great deal of industrially produced foodstuffs during the Soviet era, some joint ventures were subsequently established in the food industry to satisfy domestic demand, mostly in cooperation with Turkish business partners. Expansion of the area under cultivation for grain crops reduced Turkmenistan's initial dependence on imported food. This, though, was no guarantee against bad harvests, which in 1996 led to the dissolution of the Soviet-era collective farms (*kolkhozy*) and the foundation of leasehold-based farm cooperatives. Agricultural land use and the purchasing monopoly for grain and cotton remain state-controlled. This keeps agricultural profits low for farmers without access to fertile soils and subsidized benefits and services. Whereas cotton production has remained at a low level (in 2003, 714,000 tons were reportedly produced), increases in the production of wheat, rice and potatoes have been reported since 1995.

Increasing profits from the export of natural gas and petrochemical products and low wages in the state sector have secured a balanced budget since 1999. Because wage levels have been low, domestic purchasing power remains low as well. The lack of reliable data, however, makes a sound assessment of economic change difficult.

The unexpected death of President Niyazov set an end to this regime. Gurbangly Berdymukhamedov, the former minister of health, became acting president and was confirmed in office in the presidential election on 11 February 2007.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The president's dominant position continued to enable Turkmenistan to maintain the state's monopoly on the use of force. Regional encroachment from informal political alliances, such as clans, might recur periodically but was not visible during the observation period. Ruling President Berdymukhamedov successfully managed the first political succession after independence; having gained the active support of the security apparatus after the death of Turkmenbashy, he subsequently has replaced almost all ministers and senior officials with his own loyal appointees.

Formally, all citizens have the same civil rights. In practice, members of national minorities such as Russians, Uzbeks and Kazakhs are discriminated against in education and the civil service. They also do not have the right to stand in parliamentary elections. Although the number of Mejlis seats was increased, more than 300,000 Uzbeks are not represented in the parliament.

Religion and state are largely separate. Religious dogmas have no influence worth mentioning on politics or law. Nevertheless, the state does not respect the autonomy of the religious sphere. It maintains tight control on Sunni Islam and continues to suppress all non-Sunni and non-Russian orthodox religious groups. Although groups of Seventh-day Adventists and Baptists, Roman Catholics, Hare Krishnas and Baha'is had been allowed to register, raids and deportations as punishment for peaceful religious activity, among both registered and unregistered groups, were frequently reported.

The state's fundamental infrastructure extends to the entire territory of the country, but its operation is extremely deficient due to the inconsistency of the president's directives and corruption among public officials. President Berdymukhamedov tried to diminish corruption with short-term appointments of ministers and frequent public criticism of senior officials. Nevertheless, arbitrary appointment and

Question  
Score

Monopoly on the  
use of force

9

State identity

7

No interference of  
religious dogmas

9

Basic  
administration

6

dismissal of officials seemed to increase corrupt practices, such as the excessive payment of bribes to get well-paid positions in the administration, tax inspection and the security apparatus.

## 2 | Political Participation

Parliamentary and presidential elections occur on the basis of universal suffrage. Whereas former president Niyazov had been appointed for life, his successor was elected on 11 February 2007 and reestablished the practice of holding elections for five-year terms. The government, however, tightly restricts the right to run for offices. None of the exiled opposition politicians were even allowed to enter the country. During the presidential election, five contenders for the presidency were nominated. All of them were members of the president's Democratic Party and unknown to the public at the beginning of the campaign. These alternative candidates also lacked independent funding and sufficient access to mass media. A constitutional amendment adopted on 26 September 2008 abolished Turkmenbashi's Halk Maslakhaty, or People's Council of Turkmenistan (PCT), as the "highest representative organ of popular power," which included around 2,500 elected, appointed and ex officio members and formally redistributed legal powers to an expanded professional parliament, the Mejlis.

Free and fair  
elections

2

In the parliamentary elections held on 14 December 2008, only 288 candidates ran for 125 parliamentary seats. Government-controlled institutions, such as the Democratic Party of Turkmenistan, the Central Women's Council and veteran or youth organizations had nominated all of the candidates.

Political decision-makers are not democratically elected. President Berdymukhamedov has complete control over the power to govern. No political opposition groups have established themselves to challenge presidential power in the republic. In September 2008, a new constitutional law was adopted which abolished the People's Council (Halk Maslakhaty) as the country's supreme legislative organ and granted formal supreme legislative power to a professional parliament (Mejlis). Similar to his predecessor, Berdymukhamedov continued to orchestrate all state affairs and legislative processes. He is chairman of the Cabinet of Ministers, supreme commander of the army and maintains tight control over the security and intelligence services.

Effective power to  
govern

2

Although formally anchored in the constitution, actual freedom of assembly or association for political and civil groups does not exist. Politically oriented civil society organizations are generally suppressed. Security forces immediately disperse the occasional rallies that break out as protests against individual policies or actions of the regime.

Association /  
assembly rights

1

Dissemination of information and the means to shape public opinion remain state-controlled. The state promulgates a tremendous amount of propaganda. Berdymukhamedov continued to dismantle the personality cult of his predecessor, which culminated in the removal of the Arch of Neutrality, a 230-foot-tall gold-plated statue of Turkmenistan's former president Saparmurat Niyazov, in August 2010. This shift was not linked with the establishment of free mass media. The president directly controls all four TV channels and journalists cooperating with independent media, such as Radio Free Europe/Radio Liberty, are persecuted. In the period of observation there were reported several cases of jailed journalists who – like Annakurban Amanklychev and Sapardurdy Khadjiyev – faced long-term sentences for having worked for foreign mass media companies. Some progress is observed in access to the Internet. In August 2009, fifteen Internet cafés were opened, mostly in the capital, and citizens increasingly use the Internet and mobile services of the state-owned Turkmentelecom and the Russian-owned company MTS. However, the government suspended the license of MTS in December 2010 without providing justification for this step. This left 80% of the 2.5 million MTS mobile users without service.

Freedom of expression

1

### 3 | Rule of Law

Although the separation of powers is formally anchored in the constitution, it does not exist in reality. During the reporting period, President Berdymukhamedov hired and fired judges and prosecutors. In addition, he appointed all top ministers and officials in the administrative and executive system. Officially, the justice system is institutionally differentiated at all administrative levels, but it is strongly politicized and remains part of the regime's system of command. The enforcement and modification of legal norms remain dependent on the president's personal wishes. Nevertheless, his apparent commitment to raise the professional level of the public administration is limited by the highly corrupt practices of political and administrative officials.

Separation of powers

2

The new president continued to appoint judges to five-year terms. These judges remain dependent on the president throughout their tenure. Procedural efficiency must therefore be assessed as very low. No independent judicial monitoring or auditing of the authorities exists. There is no court with constitutional jurisdiction. Seminars of organizations, such as the OSCE or the German Society for Technical Cooperation, failed to have any real influence in establishing an independent judiciary.

Independent judiciary

3

Legal punishment of corruption and abuse of authority took place on the president's orders. Accused officials were prosecuted on the basis of applicable laws, sentenced, and their assets confiscated. Like Niyazov, President Berdymukhamedov publicly criticizes his ministers for "serious shortcomings in their work." In 2009

Prosecution of office abuse

3

and 2010, he continued to remove Niyazov's appointees. During his four years of office, Berdymukhamedov has already removed a considerable number of his own appointees and has unsuccessfully combated corruption within the judiciary and the state administration.

The state systematically violates civil rights. Members of the political opposition and their families are still oppressed by the national security services and most of the political prisoners incarcerated under Turkmenbashy have not been freed. Journalists working for foreign news services were frequently beaten, arrested and put in psychiatric clinics or sentenced to long terms of imprisonment. Many of Niyazov's political prisoners, such as the former foreign minister Boris Shikhmuradov and former OSCE ambassador Batyr Berdiev, are still in jail.

Civil rights

1

Property rights still lack legal protection. National minorities such as Uzbeks, Russians and Kazakhs continue to face discrimination as a result of the Turkmenization of state, economic and educational institutions. Berdymukhamedov continued this policy by controlling ethnic minorities with the help of the secret police. Although the constitution guarantees freedom of religion, the state officially acknowledges only Sunni Islam and the Russian Orthodox Church. While the government allowed other religious communities such as Seventh-day Adventists or Baptist Christians to officially register, these groups often face prosecution under criminal law and some of their representatives have been sent to prison.

#### 4 | Stability of Democratic Institutions

No functioning democratic institutions exist in Turkmenistan. Although the constitution formally prescribes the division of power, the president rules the country by decree. The legislature and judiciary remain subordinate to executive power, which is dominated by the presidential administration. The constitutional amendment of September 2008 did not change the non-democratic leadership style of the ruling president. It was merely a rhetorical gesture, for example, when the president demanded that MPs prepare a bill in order to establish a multiparty system in February 2010. He reiterated this multiparty system idea in January 2011, yet remains uncommitted to it.

Performance of democratic institutions

1

Formal democratic institutions are part of the authoritarian regime, but do not function. No information is available about the acceptance of democratic procedures. An instrumental understanding of democratic procedures, however, seems to be typical for the political elites.

Commitment to democratic institutions

1



## 5 | Political and Social Integration

No independent party system exists in Turkmenistan. The observation period saw no improvement of the already minimum established mechanisms for mediation between society and the political system. The parliaments and assemblies of elders, which are organized on local, regional, and republic levels as a formal democratization exercise, have only an acclamatory function. There are no independent professional associations or trade unions. Only state-controlled associations, such as the social movement Galkynysh and the Democratic Party of Turkmenistan, were allowed to propose candidates for the parliamentary elections.

Party system  
1

Because of the demand for the educated elite's expertise, some civil society interests are finding their way into the political system. During the observation period, however, this expertise was mainly used for the purpose of creating political legitimacy. Arbitrary dismissal and transfer of ministers and top functionaries, together with an emphasis on recruiting elites from the Ahal region, continue to limit the possibility for the informal mediation of regional interests via patronage-based networks.

Interest groups  
2

No reliable surveys have been conducted to gauge the population's attitude toward democracy as a form of government.

Approval of  
democracy  
n/a

Civic self-organization remains extremely low. State-financed institutions and organizations provide services in education, health care and social work. The farmers' cooperatives, founded in 1996, have also been forced into a straitjacket of state regulation. As tenants on state-owned land, they must hand over stipulated amounts of grain and cotton. Self-help groups, usually informal networks based on personal relationships, tend to form in response to specific situations and in order to provide services formerly handled by the state or the collective farms, such as housing construction and maintenance.

Social capital  
2

Independent groups, including unrecognized religious communities, are subjected to state repression. Private institutions financed from abroad, such as the Turkish Gülen schools, are only allowed to operate under state control. Trust is low within society and exists only among networks of personal relationships. The new president compounded this sense of mistrust and uncertainty by continually hiring and firing ministers and top functionaries of the security forces. The high percentage of the workforce employed in the state sector prohibits the development of an independent societal stratum for civic self-organization.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Key indicators show a low to medium level of socioeconomic development. The country's development status does not allow its citizens an adequate freedom of choice. Russian, Uzbek and Kazakh minorities experience social exclusion due to poverty and ethnic discrimination. Turkmenistan's Human Development Index (2007) remained unchanged, although economic growth rates remained high. Nevertheless, the situation is difficult to judge properly, as many indicators are not available and reported statistics are probably unreliable. Figures for the 2010 GDP are not available and the World Bank's estimate for 2009 is \$19.9 billion. Population figures for 2009 are between 5.1 and more than 6.94 million. Official economic figures do not reflect the high activity of the shadow economy or incomes from household plots used for agricultural production, which are often the basic source of income for whole families.

Socioeconomic  
barriers  
4

The Gini coefficient shows a constant level of inequality. In January 2009 and 2010, salaries at Turkmenistan's state budgetary organizations, as well as labor and war veterans' pensions, state allowances and benefits have been increased. These positive income effects were mitigated by recent food price inflation and the twenty-fold increase in transport prices due to the liberalization of petrol prices. Nevertheless, the state continues to provide free commodities, including gas and electricity, for its citizens.

The state does not report poverty indices.

The country's health and education sectors improved after Berdymukhamedov ordered that health care facilities closed under Niyazov should be reconstructed and reopened in rural areas. However, access to medical facilities remained difficult, often requiring patients to pay bribes for services in newly established facilities. Medical staff generally lacks the proper training to use new medical technology.

After ordering 23,000 teachers to return to work, reestablishing the 10th year of secondary education, extending studies at universities from three to five years and reopening the academy of science, Berdymukhamedov established new higher-level and specialized educational establishments. The higher admission rate of Turkmen students to foreign universities within and outside the CIS was reversed in July 2010 when a new regulation restricted student mobility.

The inclusion of per capita GDP as a development indicator is problematic, as GDP growth depends on the export sector with relatively low returns for the population.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	12664.2	19271.5	18650.5	<b>20000.7</b>
GDP growth	%	11.8	14.7	6.1	<b>9.2</b>
Inflation (CPI)	%	-	-	-	-
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	6.8	6.6	20.7	<b>10.4</b>
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	-	-	-	-
Public debt	% of GDP	2.4	2.8	2.7	<b>7.4</b>
External debt	\$ mn.	743.4	638.2	552.0	<b>421.6</b>
Total debt service	\$ mn.	200.2	169.7	165.0	<b>154.4</b>
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	9.1	7.3	10.6	<b>11.1</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.5	2.2	2.3	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

The foundations of market-based competition are not secure. The state continues to control almost all aspects of the economy; state companies carry out all production and export of oil, natural gas and other raw materials. The state also enforces purchasing and trade monopolies on cotton and grain at prices well below world

Market-based  
competition  
3

market levels. Nevertheless, President Berdymukhamedov initiated some economic reforms: currency convertibility was introduced in March 2008, which freely floated the Turkmen manat at around 14,300 per U.S. dollar. This value represented a middle point between the former market exchange rates and the former official U.S. dollar exchange rate of 5,200 manat. Currency reform continued in January 2009 when the new manat was introduced at an exchange rate of 5,000 old manat. Turkmenistan has initiated these reforms without IMF loans. A new foreign investment law improved investment prospects in the country and authorities have modestly liberalized international trade by reducing import duty and exercise taxes.

The state monopolizes all strategically important economic resources such as gas, petrochemical products, cotton and grain. In other areas, such as the import and trade of goods, it does not impede monopolies.

Anti-monopoly  
policy  
2

Freedom of trade is highly limited. Foreign businesspeople, primarily from Turkey, are given preferential treatment when concessions are awarded. Repatriation of profits is difficult and tied to reinvestment with the result that financially less powerful investors or investors without personal business relations with the president and governmental officials avoid investments in Turkmenistan. Nevertheless, the government's recent reduction of export and import taxes slightly improved the country's business environment; however, almost all foreign trade transactions must be registered with the Turkmen State Commodity Exchange.

Liberalization of  
foreign trade  
2

After the regional financial crisis caused by the devaluation of the Russian ruble in August 1998, the banking sector was restructured by presidential decree, which strengthened the state's control. The state now owns or controls at least eight of the twelve domestic banks. State directives, such as the abolition of the debts of certain ministries, limit the banks' business practices. Overall credit grew strongly in the second half of 2007 due to increased direct lending to the cotton sector. In the course of the currency reform, the government lifted the ban on international banking operations by commercial banks.

Banking system  
2

## 8 | Currency and Price Stability

After hyperinflation rose above 1,000% in the first half of the 1990s, inflation in Turkmenistan was at moderate levels in 2010, but increased again during the observation period.

Anti-inflation /  
forex policy  
4

In 2009, the government altered some of the subsidized prices, such as for gasoline and public transport, and compensated by raising pensions and wages by 10%. These policies fueled inflation, which was 12% in 2008 and was more likely to be 18% in 2009 than the 9% officially reported.

Inflation increased gasoline prices to \$0.16 per liter, which subsequently increased food prices.

The Central Bank of Turkmenistan permitted all banks to open foreign exchange windows and issued regulations to provide access to foreign exchange for international payments and transfers. This policy and the unification of exchange rates also increased inflationary tendencies. Nevertheless, the bank is not independent; it is only an agency for governmental policies.

Since the introduction of currency convertibility in May 2008, exchange rates have remained stable, despite the financial crisis, and float around 14,270 manat per U.S. dollar.

Turkmenistan's budget surpluses are accumulated in the Turkmenistan's stabilization fund, which was established in October 2008. This fund made the country less vulnerable to price changes on international commodity markets, to the international financial crisis and to the loss of revenues caused by Russia's closure of gas pipelines between April and December 2009.

The government, however, spends a large portion of these export earnings off-budget by placing them in special funds for infrastructure and showpiece architecture projects. The new president has claimed that his predecessor's off-budget funds have been closed, though he has failed to make the subsequent use of the money transparent.

## 9 | Private Property

The law formally enshrines property rights and regulates property acquisition, but these rights are very much subject to the arbitrary whims of state power. Private property was established by way of small-scale privatization, but this has been accompanied by expropriation and dispossession without adequate compensation. This process was meant to facilitate infrastructure and showpiece projects. A law on foreign investment, passed on 12 October 2007, allows investors to create and fully own companies and to acquire property, including real estate. A new investment law, which became effective in March 2008, improved provisions for the repatriation of profits for foreign entrepreneurs. During the observation period, the government persistently interfered in the property rights of the regime's opponents, journalists and dismissed senior officials. The forced cessation of all services from the Russian telecommunication company MTS indicates the low level of protection of property rights.

The state privatized bigger businesses only if they were unprofitable and equipped with obsolete technology. Share packages were frequently used to preserve state influence. On the other hand, the tenancy system practiced in the agricultural sector

Macrostability  
6

Property rights  
3

Private enterprise  
3

since 1996 might lead to the establishment of private land ownership. During the observation period, tenants were able to claim new desert land through irrigation and tried to avoid unprofitable cotton cultivation in established irrigation zones, although state-controlled retail prices have increased by roughly 30%.

Private businesses are primarily permitted to operate in the textile, construction and trade sectors with a greater amount of foreign (mainly Turkish) investment. The business environment remains difficult for small and medium-sized enterprises. Bureaucratic interventions still occur.

## 10 | Welfare Regime

During the observation period, Turkmenistan continued to preserve some aspects of the old Soviet welfare regime, including free natural gas, water and electricity, as well as subsidies for basic foodstuffs, although these resources are not always available to residents. Cheap gasoline has been limited to 20 liters a month per car owner. The state improved access to health care facilities by bringing doctors back into hospitals and reestablishing medical centers in rural areas. Nevertheless, people were obliged to pay for these services. Berdymukhamedov also restored pensions to tens of thousands of residents after Niyazov severely reduced and eliminated them in January 2006. He also established payments for new mothers, their infants, veterans and disabled persons. The state social security system provides low levels of basic assistance. As a consequence of this meager state support, the old, sick, unemployed and unemployable must rely on networks of friends and relatives. Easy access to drugs has made drug addiction a serious problem in Turkmenistan, especially among young army recruits. The currency reform caused a 30% rise in food prices, increasing economic pressure on socially vulnerable groups.

Social safety nets  
4

Equality of opportunity has not been achieved. Because of previous university enrollment cuts, to a large extent only the children of elite functionaries are able to attend colleges and to enroll at universities. The income gap continued to exist, even expand, between the ever-wealthier government elite, businessmen and successful tenant farmers on one side and the impoverished population of Turkmenistan on the other. This trend is also indicated by a rising 2009 unemployment rate of 14%.

Equal opportunity  
3

The state decreased the gradient between rural and urban areas by reestablishing health care institutions in the provinces, but access to health care remains difficult outside the capital. Public investment, on the other hand, is still concentrated in the capital and job creation is only generally evident there.

The multiple burdens borne by mothers remained heavy due to previous increases in women's working hours and coupled together with traditional Turkmen gender

roles. Women's access to educational institutions remained fundamentally guaranteed, but women are underrepresented in governmental and administrative institutions and occupy few management positions.

In addition, ethnic minorities such as Uzbeks, Kazakhs and Russians have low career opportunities due to the Turkmenization of the educational and administrative system.

## 11 | Economic Performance

Turkmenistan's economic performance is highly dependent on the production and processing of natural gas, oil and cotton. Those sectors accounted for over 80% of exports and over 50% of GDP in 2005. An economic recovery began in 1996, but practically ground to a halt as a result of the almost complete stoppage of natural gas exports in 1998 and low export levels in 1999. The country's recovery picked up later as export revenues increased. As a result of these increases, a positive balance of trade emerged. By 2005, natural gas exports comprised one-third of total exports. Rising oil prices and investments in petrochemical and cotton processing resulted in economic growth that is estimated to be in between 13% in 2005 and 10.5% in 2008. In general, economic growth is driven and dependent on higher prices of gas exports. Economic growth remained on a high level in 2009 (8%), despite the financial crisis and the nine-month interruption of gas exports to Russia following the explosion of a major gas pipeline in April 2009. Due to Turkmenistan's stabilization fund, established in October 2008, the country continued to finance large-scale public investment during the period under observation. Budget revenues are thus less dependent on oil exports, but the Turkmen government did not report data on this issue during the period under observation. Budgetary surpluses were reported from 2001 to 2007, however. Due to gas export revenues, public debt decreased from \$877 million (2005) to \$568 million (2008). Gas exports also affected a positive trade balance from 2001 (\$515 million) to 2007 (\$5,216 million).

In 2010 Russia's Gazprom agreed to buy only 30 billion cubic meters (bcm) of gas annually, paying \$250 per thousand cubic meters; rates in previous years were between \$66 and \$100 for 50 bcm.

In December 2009, gas export routes were successfully diversified with the opening of a major 6 bcm gas pipeline to China that began operations in 2010; capacity should be increased up to 50 bcm in 2015. A second gas pipeline to Iran was opened in January 2010, which enables Iran to import 20 bcm of Turkmen gas per year.

Output strength  
8

Although agricultural production doubled after the conversion to a tenancy system, the new system did not prevent bad cotton harvests in 2005 and 2006 that resulted from low state-controlled retailer prices and ineffective management methods. Recent agricultural reforms increased prices for crops grown under the state system and accelerated access to soft credit that might enable farmers to increase their productivity.

Nevertheless, economic growth remained highly limited to export sectors and scarcely affected the hidden unemployment and poverty suffered by large portions of the population. Foreign investment increased from 4.5% of the GDP in 2008 to 6.8% in 2009 and is concentrated in the oil and gas sector.

Official employment data indicate an increase of unemployment from 9% (2008) to 14%. Nevertheless, statistical data seems to be unreliable, as economic growth of almost 10% hardly could have occurred with a concomitant rise in unemployment.

## 12 | Sustainability

Legislative and executive environmental consciousness is low. Although the Turkmen government, as a signatory to a number of international environmental agreements, is obligated to protect the environment, pollution has not decreased. Traffic and the petrochemical industry keep air pollution levels high. Drinking water quality has reached health-threatening levels, while the irrigation and drainage systems are in poor condition, endangering the groundwater supply.

In addition, overcropping and lack of crop rotation are straining soil quality. Despite these serious concerns, environmental issues receive only sporadic consideration, especially if they are linked to economic growth. The Golden Lake project, designed to collect polluted drainage water in northern Turkmenistan, has begun without proper consideration of its environmental consequences, especially for neighboring Uzbekistan. There is a long-term political effort to reduce the economic dependence on raw materials by promoting a domestic textile industry, although this remains insignificant compared to the export market.

Turkmenistan inherited an education system from the Soviet Union with comparatively high standards. It was also quite accessible for all social and regional strata. After the dissolution of the Soviet Union, this educational system suffered as a result of the emigration of Russian specialists and professionals who had been its mainstay. In addition, the education policy of former President Niyazov led to the de facto destruction of higher education. Niyazov's successor, President Berdymukhamedov, has reestablished the Academy of Sciences and increased

Environmental  
policy  
3

Education policy /  
R&D  
5



university studies to five years. High school education was also extended from nine to ten years. The state has promoted the study of Russian and other foreign languages.

Nevertheless, progress is slow; Ruhnama, the sacred text used in Niyazov's personality cult, continued to be an important subject in school and university, and the payment of bribes of up to \$20,000 is widespread in order to secure the enrollment of students in colleges such as the Institute of Economics and Management, the Police Academy or other military and energy-related institutes.

## Transformation Management

### I. Level of Difficulty

Turkmenistan possesses certain basic preconditions for the transformation of its economy and society. These include the population's relatively high level of education, the effective state monopoly on the use of force and the separation of church and state. Mitigating circumstances include the high percentage (25%) of national minorities in the total population, strong regionalism and clientelism, the lack of efficient constitutional structures, and the president's absolute control over government revenues and the state apparatus. Considering the structural socioeconomic conditions affecting the political process, the degree of difficulty for transformation must be rated as high. There is no consensus on democracy or accepted democratic rules of the game. On the other hand, rising revenues from the export of oil and gas provide the economic potential for transformation.

Structural  
constraints  
5

The lack of civil society traditions also impedes development. Regional and informal networks formed along the basic tribal groups substitute for more formalized civil society organizations. These networks date back to pre-colonial history. Strict state control inhibits the emergence of independent social, economic or cultural groups. On the contrary, the authoritarian leadership promoted a culture of obedient subjecthood in Turkmenistan, which is not typical for Turkmen, who lived as a people "without head" in pre-colonial times. The government also discouraged and prevented the emergence of independent NGOs in Turkmenistan.

Civil society  
traditions  
10

Although Turkmen society is split into different regions that are identified with major tribal descent groups, this circumstance had not been politicized. Nevertheless, this cleavage continues to put political stability at risk. President Berdymukhamedov retained the unbalanced regional bias of his predecessor by continuing to promote Ahal interests above all others. The reorientation of Turkmen politics around ethnic lines has created tremendous pressure on ethnic minorities like the Uzbeks and Kazakhs to assimilate. Discrimination in the economic and political sphere might spark ethnic unrest. Conflict based on Salafist interpretations of Islam are not likely in Turkmenistan, as Turkmen society – unlike Uzbek or Tajik society – is not familiar with the scholarly traditions of Islamic law (Shari'ah) and education. Nonetheless, in September 2008, there were reports that an Islamic

Conflict intensity  
3

military group occupied a water plant building in Khitrovka (near Ashgabat) and held it for two days until the facility was stormed by special forces. The operation reportedly left nine special services officers killed. No such incidents have been reported during the period under observation.

## II. Management Performance

### 14 | Steering Capability

Question  
Score

In Turkmenistan, the president sets all strategic political and economic aims. In the first month of his presidency, Berdymukhamedov initially pledged to continue the work of state founder Turkmenbashy but soon abandoned it by gradually dismantling the personality cult of his predecessor. Berdymukhamedov also ended Turkmenistan's diplomatic isolation by reviving bilateral relations with neighboring countries, such as Uzbekistan and Azerbaijan, and participating in international organizations. The new president does not support political liberalization, but seems to be committed to securing national independence by increasing the professionalism of administrative and state institutions, reforming the economy and diversifying pipeline routes for gas exports.

Prioritization  
3

President Berdymukhamedov seems to have no consistent strategy to achieve his goals. Without major administrative and legal reforms, his piecemeal reforms of price controls and introduction of currency convertibility are insufficient to develop a diversified economy with sustainable growth. In January 2011, the president restructured the cabinet, but continues to rely on short-term ministerial appointments and an inflated cabinet of ministers that consists of 11 vice prime ministers and 24 ministers and headed by the president himself. This structure perpetuates corruption in the public sphere. He does not seem to realize that he needs to win associates within the government who support the same strategy and national aims and who are willing to reform the state and its core, the administration.

Turkmenistan made some efforts to introduce elements of a free market economy. These measures included establishing the free convertibility of the manat, reducing tariffs, cutting import and export taxes in half, and giving investors the right to own companies and buy real estate. The forced cessation of all operations of the Russian telecommunication company MTS in December 2010, however, was contrary to such moderate reform endeavors.

Implementation  
3

The government lacks a reform agenda in other spheres. Agriculture remained under the control of the state, and the state continued to force farmers to sell cotton and grain under market value, although higher retail prices were instituted during the observation period in order to stimulate productivity. Property rights are still not secured. The banking sector remains inefficient. The lack of reliable economic statistics also makes the implementation of economic reforms difficult.

As a collective body, Turkmenistan's government is not capable of carrying out long-term reforms and its problem-solving capacity is constrained and fluctuates to a high degree because it remains completely dependent on the president's will. President Berdymukhamedov dismantled the health and education policies of his predecessor, despite the fact that he was the minister responsible for these policies under former President Niyazov. The NGO Médecins Sans Frontière (MSF) closed the last of its programs in December 2009, citing the lack of transparency in the health care system. MSF fears a looming tuberculosis crisis due to the refusal to effectively address, or even acknowledge, communicable diseases such as TB and HIV. This explicitly indicates the highly limited policy learning capacity of the government.

Policy learning

2

Policy learning will only be institutionalized in Turkmenistan if ministers are charged with the responsibility to formulate and implement administrative and economic goals during their term of office.

## 15 | Resource Efficiency

The government did not make efficient use of available human and economic resources during the reporting period. Personnel expenses relative to services offered were not well balanced. A relatively high number of government employees, who officially receive low wages, offer little service to the population. Top officials continued to be hired and fired arbitrarily by presidential decree. In turn, these officials hired their subordinates on the basis of loyalty and patronage consideration without publicly advertising the positions. The government also wastes a great deal of its resources on the construction of representational objects. The president's latest prestige project is the Avaza Tourism Zone on the Caspian Sea, where grandiose hotels and other buildings are currently being built without being used by tourists. Human resource development in the education and health care sectors has not improved during the last two years.

Efficient use of assets

2

Because the government lacks a coherent reform agenda, the coordination of conflicting policies of different ministries is not a relevant issue. The president formulates policy ambitions and dictates them to the ministers for implementation. As a result, policies are slowly coordinated in Turkmenistan and policies often lack implementation due to funding problems and corruption.

Policy  
coordination  
2

The Turkmen government has no effective independent auditing controls. The administrative organization and the implementation of the laws are unclear in some areas because of overlapping authority among ministries and state agencies as well as between vice prime ministers and other ministers with portfolios. There is no indication of any decentralization of the administrative processes. Local self-governing institutions enjoy very little legal and financial autonomy. The implementation of laws intended to strengthen the market economy was frequently only carried out to a partial degree.

Anti-corruption  
policy  
2

## 16 | Consensus-Building

There are no major political actors in Turkmenistan who want to establish democracy and a free market economy. The current president continues to marginalize any opposition groups. There is also not a class of independent Turkmen businessmen who could strive for a more open market economy. The ruling president sets the agenda and he seems to permit elements of a market economy only if they increase the state's export revenues. Governmental elites in different ministries and agencies do not formulate reform agendas that fit their short periods of office. Because of the president's dominant position, rivalries between different state institutions, such as the security apparatus, judiciary and the ministries, take the form of reciprocal denunciations of the rivals' "corrupt practices."

Consensus on goals  
2

President Berdymukhamedov is not committed to liberal democracy and suppresses all supporters of democratic reforms.

Anti-democratic  
actors  
1

Cleavages exist along regional, ethnic, social and religious lines in Turkmenistan, but the personal rule of the president and the extensive control mechanisms of the security apparatus keep dissent to a minimum. Most non-Ahal Turkmen continue to perceive the political change under Berdymukhamedov as an "Ahalization" of the republic, which means that the government offers jobs and investment to residents of the Ahal region and leaves other regions in a desperate state. Nevertheless, tight control over the population prevents cleavage-based conflicts from escalating.

Cleavage /  
conflict  
management  
3

The political leadership suppresses and excludes civil society actors from the political process. A 2003 law on public associations led to the involuntary curtailment or suspension of many groups' activities. The law also cut off some

Civil society  
participation  
1

financial assistance from international donors to NGOs and led to the co-opting of some independent groups by state-backed bodies. It is difficult for independent NGOs to operate, as they are not able to open bank accounts, rent space, or install Internet connections. Only pro-governmental organizations, such as the Women's Union, the Turkmenistan Democratic Party (the only political party in the country) and the Turkmenistan Youth Union, are registered. Mobile Internet access has improved the situation of independent NGOs, at least up to December 2010, when services from MTS were suspended.

Former president Niyazov had few scruples about the moral and political consequences of his decisions. As such, the new president inherited a considerable legacy of political prisoners, disowned citizens and former officials. During his time in office, President Berdymukhamedov has sent mixed signals. On the one hand, he began to undo some of the excesses of Niyazov's rule by re-establishing health facilities and higher education. He also returned pension entitlements and social benefits to the poor and needy. On the other hand, he continued to keep most of Niyazov's political prisoners under arrest, including former foreign minister Shikhmuradov. He has also handled potential and putative opponents within his government much like his predecessor.

Reconciliation  
2

## 17 | International Cooperation

Turkmenistan is a member of the United Nations and a number of other international organizations that provide aid programs for economic and social development. However, the influence of these external actors remains low. Despite formal declarations to the contrary, Turkmenistan frequently opposed the implementation of reforms intended to strengthen democracy. The new president, however, seemed to be committed to some elements of a market economy. During the observation period, the IMF did not grant Turkmenistan any loans to support the Turkmen currency. The European Bank for Reconstruction and Development (EBRD) increased its engagement in Turkmenistan by supporting micro-, small- and medium-sized businesses, whereas the Asian Development Bank (ADB) funded some ADB technical assistance projects at a low level. The Organization for Security and Co-operation in Europe (OSCE) has maintained a mission in Ashgabat since May 1999, but its influence on political development is limited. In addition, the activities of international NGOs are extremely limited. Berdymukhamedov increased international cooperation and intensified diplomatic relations with neighboring and economically important states.

Effective use of  
support  
3

The government seeks to present itself as a reliable partner for international organizations. This presentation is not considered very credible due to the restrictions the government places on its officials' freedom to make decisions. However, Turkmenistan earned some praise after introducing currency convertibility.

Credibility  
2

During the assessment period, Turkmenistan continued to participate in the CIS organizations' multilateralism and maintained bilateral diplomacy. Relations with Afghanistan and Iran remained good. Relations with Azerbaijan improved considerably, although the dispute over the use and ownership of oil fields in the Caspian Sea is still to be settled. Relations with Uzbekistan were also enhanced in the last two years when Uzbek President Islam Karimov visited the Dashoguz velayat in October 2010. Relations with Kazakhstan and Russia have developed on the basis of mutual benefits and intensified cooperation in the export of Turkmen gas. Disputes over gas prices halted gas exports to Russia for nine months in 2009.

Regional  
cooperation  
5

## Strategic Outlook

President Niyazov's sudden death on 21 December 2006 left a power vacuum in Turkmenistan that was quickly filled by former Vice Prime Minister Berdymukhamedov. Berdymukhamedov subsequently secured 89% of the vote in the presidential election of 11 February 2007. Since then, he has consolidated his political power base and brought his appointees into most governmental positions.

In Turkmenistan, democratic transformation has yet to be initiated. The democratic deficits are enormous in most areas and remained unchanged during the observation period. Under the current political conditions, rapid liberalization of the political system would have destabilizing effects and could lead to a regionalization of the republic and the breakdown of state unity. Thus, the ruling president would have to start with legal and administrative reforms of the political system before more enduring forms of political liberalization could be institutionalized. Administrative reforms, including entrance examinations, career tracks and life-time posts for officials, would also be necessary to initiate sustainable economic reforms. So far, President Berdymukhamedov has not expressed a desire to restructure government. Instead, he has complained about his officials' poor standards of professionalism.

With regard to economic transformation, some reorganization occurred in several areas prior to the observation period. By breaking up the Soviet-era collective farms and introducing a tenancy system with the prospect of property acquisition, Turkmenistan was able to partially increase agricultural productivity and income. Investment in the export sector and a rise in gas exports boosted revenues enormously and resulted in double-digit GDP growth rates. Important structural reforms for a market economy system – such as free convertibility of the local currency and the reduction of import and export taxes and tariffs – have been initiated, but these single reforms are not integrated into a coherent reform strategy. Property rights are still not secure, as supply-and-demand-based pricing does not affect many sectors of the economy.

Overall, the outlook for Turkmenistan's transformation is mixed. In the political arena, the separation of powers stipulated in the constitution has been completely overwhelmed by the president's unlimited power, the government's suppression of political opposition and the harassment of independent journalists. In the economic sphere, some positive steps towards a market economy are evident, but Berdymukhamedov will need national consensus and international assistance to diversify the economy and make Turkmenistan less dependent on oil and gas price fluctuations. By opening new gas pipelines to China and Iran, Turkmenistan started to wean itself from its dependency on Russia. A clear political commitment to supply gas for the Western-sponsored Nabucco with an underwater pipeline along the bottom of the Caspian Sea



still has not materialized. The signing of an agreement for the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline in December 2010 could diversify Turkmen gas exports even more, although this project is currently unlikely to be implemented due to political instability in Afghanistan.

Due to the lack of reported data, the current state of the economy is difficult to assess. Occasional reports indicate, however, that many centrally formulated policies are not implemented in the regions, leaving pensioners waiting for their funds and residents waiting for access to the promised medical facilities. The increase of prices for transport and food exercised a deleterious effect on poor people in Turkmenistan.