

## Turkmenistan

<b>Status Index</b> (Democracy: 1.4 / Market economy: 1.9)		<b>3.3</b>	<b>Management Index</b>		<b>1.0</b>
<b>System of government</b>	Autocracy		<b>Population</b>	4.7 mill.	
<b>Voter turnout</b>	98.9 % (official data, Parl. elections 1999)		<b>GDP p. c. (\$, PPP)</b>	4,320	
<b>Women in Parliament</b>	26 %		<b>Unemployment rate</b>	n. a.	
<b>Population growth<sup>a</sup></b>	2.4 %		<b>HDI</b>	0.748	
<b>Largest ethnic minority</b>	9 %		<b>UN Education Index</b>	0.92	
			<b>Gini Index</b>	40.8 (1998)	
Data for 2001 – if not indicated otherwise. <sup>a)</sup> Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

### 1. Introduction

June 1997 saw a worsening of Turkmenistan's budgetary and economic crisis after President Saparmurat Niyazov stopped exporting gas through the Russian pipeline network and more evidence of his regime's corrosion surfaced. After recovering from a coronary bypass operation, the president not only continued his practice of hiring and firing top administrators in ever-shorter intervals, he also limited the influence of the group of deputy prime ministers who had invented his personality cult and given their support to Niyazov's increasingly autocratic and unpredictable governing style. During the last two years, this development led to the persecution under criminal law of many ministers and deputy prime ministers.

It is the conclusion of this assessment of the status of democratic and market-economy transformation in the past five years that the president's increasingly arbitrary use of power has resulted in further regression in democratic transformation, despite the low starting level. As for economic transformation, Turkmenistan's double-digit GDP growth during the observation period resulted in significantly positive trends in the quantitative development factors. However, considering the absence or inadequacy of basic data, these indicators should be interpreted with care.

Economic growth was achieved almost solely by recommencing natural gas exports and investing in the processing of cotton and petrochemical products. For the most part, these profits have been invested off-budget and ineffectively, so that education and health services have seen radical cutbacks, despite economic growth. The population's income situation remains extremely tense, due to the tying up of private sector wages to the low average state wage.

## 2. 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 being neither politically nor economically prepared for autonomy. 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 had himself elected president of the republic by direct election in October 1990, then confirmed in office in the presidential election of June 21, 1992, and subsequent referendum on January 15, 1994.

In May 1992, Turkmenistan promulgated a constitution declaring Turkmenistan a constitutional, democratic, presidential republic based on the separation of powers, and formally guaranteeing political and liberal basic rights to all citizens. In reality, however, all forms of political activity were suppressed, and an autocratic regime was established that became increasingly dependent on its domestic secret service and security forces. To shore up domestic political legitimacy, a personality cult was created around the president, giving him a larger-than-life public presence as the head of all Turkmen (*Turkmenbaşy*). When the failure of the August putsch sealed the fate of Marxism-Leninism as a ruling ideology, sociopolitical organization was moved to an ethnic/national level and the Turkmenization of government and educational institutions was accelerated.

At the start of the 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 compensate partially for the diminishing of budget revenue transfers for the state sector by gaining control over the sinking export profits from the sale of natural gas and cotton. The collapse of entire branches of the economy, low state wages, and the discharge of labor in health care, science, education, and culture increased employment in the primary agricultural sector to 44 % of the employable population in 1996. This sector, however, generated only 25 % of GDP (\$2.175 billion). At the same time, GDP fell to 58 % of its 1991 level. High inflation, approaching 3000 % in 1993, led to 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.

No serious structural reforms occurred in Turkmenistan before the start of the observation period. Privatization remained limited to small businesses in the service sector and unprofitable state-owned enterprises. Because 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 Turkey. Expansion of the area under cultivation for grain crops reduced Turkmenistan's initial complete dependency on imported food. This, though, was no guarantee against the bad

harvests that led to the dissolution of the Soviet-era collective farms (*kolkhozi*) and the foundation of leasehold-based farm cooperatives in 1996. The agricultural land use and the purchasing monopoly for grain and cotton remains state-controlled and keeps agricultural profits low for farmers without access to fertile soils and subsidized benefits and services.

Despite decreasing profits from natural gas exports, low wages in the state sector have kept the budget deficit to less than 2 % of GDP since independence. The balance of payments has remained positive. When natural gas exports came to a halt in June 1997, the budgetary and economic situation worsened.

### **3. Examination of criteria for democracy and a market economy**

#### **3.1 Democracy**

Turkmenistan has made no progress in any of the areas of assessment in the transformation of its political system. It has even noticeably lost ground in some areas, despite low starting levels. Transformation deficiencies persist in the areas of stateness, political participation, the rule of law, institutional stability, and political and social integration.

##### **3.1.1 Political regime**

(1) *Stateness*: The president's dominant position has enabled Turkmenistan to maintain the state's monopoly on the use of force. Regional encroachment from informal political alliances, such as clans, recurs periodically, but was rarely visible during the observation period, due to presidential omnipotence. Formally, all citizens have the same civil rights. In practice, members of national minorities are discriminated against in education and the civil service. Religion and state are largely separate. Religious dogmas have no influence worth mentioning on politics or law. The state's fundamental infrastructure extends to the entire territory of the country, but its operation is extremely deficient, due to the irregularity of the president's directives and the personal interests of the public officials.

(2) *Political participation*: Only parliamentary elections occur on the basis of universal suffrage, as the president was appointed for life. The right to run for office is tightly restricted. Moreover, rulers are not determined by elections. The president, who was confirmed before the observation period by general election and by a referendum, has complete control of the power to govern. No veto groups to the president have been able to establish themselves.

Although formally anchored in the constitution, there exist in reality no freedoms of assembly or association for political and civil groups. Politically relevant civil-

society organizations are suppressed as a rule, while the occasional rallies that break out as protests against individual measures from the regime are always immediately dispersed by security forces. Dissemination of information and shaping of public opinion remain state-controlled and are subjected to tremendous amounts of propaganda and manipulation. The government systematically uses the media to perfect the president's personality cult and publicize the "Turkmen Golden Age" everywhere and anywhere.

(3) *Rule of law*: Although the separation of powers is formally anchored in the constitution it does not exist in reality. The president, who also controls the election of parliamentary deputies and hires and fires the judges and prosecutors, appoints all top ministers and officials in the administrative and executive system. Officially, the justice system has been institutionally differentiated and enforced 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.

The president appoints judges to five-year terms and they remain dependent upon him. Procedural efficiency must therefore be assessed as very low. No independent judicial monitoring or auditing authorities exist. Trials of government opponents are summary proceedings; the president amends the sentences as he chooses. There is no court with constitutional jurisdiction. Legal punishment of corruption and abuse of authority takes place on the president's orders. Accused officials are prosecuted on the basis of applicable laws, sentenced, and their assets confiscated. The president has publicly humiliated many of his former deputy prime ministers and comrades-in-arms and had them sentenced for abuse of authority, even when they were charged with implausible offences.

The frequent practice of appointing governors and ministers for terms of only half a year has increased corruption to the point that subordinate departments are put under unofficial pressure to turn over part of their income to their superiors due to nonfulfillment of state planning targets. Civil rights are systematically violated. Members of the political opposition and their families are subjected to arbitrary arrest and sentenced to long prison terms.

Property rights are violated for political reasons—many single-family homeowners whose property was confiscated to build parks, wide exit roads, and showpiece architecture have received either no compensation or inadequate compensation. National minorities such as the Uzbeks, Russians, and Kazakhs have been discriminated against as a result of the Turkmenization of state, economic, and educational institutions. Although the constitution guarantees freedom of religion, the only officially recognized religions are Sunni Islam and the Russian Orthodox Church. Other religious communities are prosecuted under criminal law, and some of their representatives have been sent to prison.

### 3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: This criterion is not applicable for Turkmenistan.

(2) *Political and social integration*: No party system exists. The observation period saw a worsening of the already barely established mechanisms for mediation between the society and the political system. The parliaments and assemblies of elders organized on local, regional, and republic levels as part of the formal democratization exercise only an acclamatory function. There are no independent professional associations or trade unions.

Some civil interests are being introduced into the political system, due to the demand for the expertise of the educational elite. During the observation period, however, their know-how was used increasingly 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, has reduced the scope for informal mediation of regional interests via patronage-based networks. There is no reliable survey data on the population's attitude toward democracy as a form of government.

Civic self-organization is 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 tend to form in response to specific situations, along the lines of informal networks based on personal relationships, to provide services formerly taken care of by the state or the collective farms, such as housing construction and maintenance.

Independent groups, the unrecognized religious communities among them, are subjected to state repression. Private institutions financed from abroad, such as Turkish private schools, are only allowed to operate under state control. Confidence is low within the society and exists only within the personal relationship networks. Owing to the president's unpredictable staffing policies and the dismissal and/or prosecution of former ministers and top functionaries of the security forces, mistrust and uncertainty have increased over the last two years, even within the administration and security forces.

## 3.2 Market economy

Turkmenistan has hardly made any progress toward transforming its economic order. Transformation deficiencies persist in the organization of market and competition, monetary policy, privatization, protection of property rights, and the sustainability of educational and infrastructure policy.

### 3.2.1 Level of socioeconomic development

The key indicators show a low level of development. The country's development status does not give its citizens an adequate *freedom of choice*. Social exclusion exists, above all due to poverty and ethnic discrimination against the Russian, Uzbek, and Kazakh minorities. During the observation period, available indicators showed socio-economic improvements in the area of "average human development".

Even though income distribution retained a relatively high level of inequality, the indicators show a considerable reduction in poverty and slight improvements in education. These numbers are problematic, though, not only due to the faulty and incomplete provision of official statistical data, but also because of the heavy emphasis on per capita GDP as a development indicator. In 2000, some 60 % of Turkmenistan's GDP (\$4.059 billion) came from the state monopoly on the export of raw materials and textiles. That same year, the state's entire budget, including all other sources of income, was only \$710 million. The income situation has not truly improved for the majority of the population. In addition, access to education and health care worsened considerably during the period under observation.

### 3.2.2 Market structures and competition

The foundations of market economy-based competition are not assured. The state continues to control almost all aspects of the economy, as state companies carry out all production and export of oil, natural gas, and other raw materials, while the state enforces purchasing and trade monopolies on cotton and grain at prices well below world market levels. There is no currency convertibility. The IMF has granted no foreign currency loans, in the absence of readiness to reform. The EBRD has stopped granting loans to Turkmenistan's public sector because of the high degree of state control over the economy and the slow pace of structural reform.

Freedom of trade is extremely limited. Foreign business people, primarily from Turkey, are given preferential treatment when concessions are awarded. Repatriation of profits has been made more difficult and linked to re-investment, with the result that fewer financially powerful investors have withdrawn from Turkmenistan. Foreign trade is state-controlled to a great extent. After the regional financial crisis caused by the devaluation of the Russian ruble in August 1998, the banking sector was restructured by presidential decree and the state's share increased. Eight of the nine domestic banks are state-owned or state-controlled. Domestic banks are subject to presidential influence. Their business practices are limited by directives, such as the abolition of the debts of certain ministries. Foreign debt increased during the observation period from \$2.26 billion in 1998 to \$2.5 billion in 2000.

### **3.2.3 Stability of currency and prices**

After hyperinflation rose above 1000 % in the first half of the 1990s, Turkmenistan made progress in fighting inflation during the observation period. The central bank's restrictive credit policy and the freezing of the average civil service wage at \$20 per month helped reduce inflation from 16.8 % in 1998 to 6 % in 2001. The central bank is not independent. There is no currency convertibility. Despite inflation, the exchange rate has remained officially fixed at 5200 manats to the dollar since 1999, less than one quarter of the black market value in 2002. Turkmenistan has managed to avoid a budget crisis due to profits from its exports. However, a large portion of the export earnings remains off-budget, being managed in special funds for infrastructure projects and showpiece architecture.

### **3.2.4 Private property**

The law formally enshrines property rights and the regulation of the acquisition of property, but these rights are very much subject to the arbitrary use of state power. Private property was established via a small-scale privatization, but there has been expropriation and dispossession with inadequate compensation to facilitate infrastructure and showpiece projects. During the observation period, interference in the property rights of the regime's opponents and dismissed senior officials increased. Some 2,000 of 4,343 businesses were privatized in mid-1999 as part of the National Privatization Program. Most of these were small businesses in the service sector.

Bigger businesses were privatized only if they were unprofitable and equipped with obsolete technology. Share packages were frequently used to preserve state influence. However, the tenancy system practiced in the agricultural sector since 1996 holds out the prospect of the establishment of private land ownership. Private businesses are primarily permitted to operate in the textile, construction, and trade sectors, with a great deal of foreign investment. It is easy to confiscate, on the president's orders, the property of successful Turkmen entrepreneurs for "illegal business practices."

### **3.2.5 Welfare regime**

During the observation period Turkmenistan was able to preserve some aspects of the old Soviet welfare regime, including free natural gas, water, and electricity, as well as subsidies for basic foodstuffs. The state social security system provides very low levels of basic assistance. The old, sick, unemployed and unemployable in Turkmenistan must therefore rely on their networks of friends and relations. Massive cutbacks in health care and education, and the fact that people are now

obliged to pay for these services, have worsened access for the poor in both the country and the cities.

Equality of opportunity worsened during the period under assessment. Due to university enrollment cuts, to a large extent only the children of elite functionaries are now able to go to college. Indeed, university education has been *de facto* abolished, after secondary schooling was reduced from seven to five years, and university studies to two years, with the elimination of graduate-level training. The gap has widened between the ever-wealthier government elite, successful tenant farmers, and the impoverished population of Turkmenistan. The gradient between rural and urban areas was made steeper by cutbacks in educational and health care institutions, which are being concentrated in the capital city. The multiple burdens borne by mothers have grown heavier following increases in women's working hours, as they must also accept the 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.

### **3.2.6 Strength of the economy**

Turkmenistan's economic performance is highly dependent on the production and processing of natural gas, oil, and cotton. Those sectors accounted for over 90 % of exports and over 50 % of GDP in 2000. The economic recovery apparent since 1996 was considerably retarded by the almost complete stoppage of natural gas exports in 1998 and the low export level in 1999. As a result, the balance of trade was extremely negative from 1997 to 1999. Exports fell to almost one third of the 1995 volume.

The Russian financial crisis in August 1998 also had harmful effects, but did not lead to a liquidity crisis in Turkmenistan. After exports resumed, rising oil prices and investments in petrochemical and cotton processing resulted in GDP growth rates of 15 % and 20 %, starting from low levels. Although agricultural production doubled after the switch to a tenancy system, the new system was unable to prevent bad harvests in 2000 and 2002 caused by unfavorable climate conditions and ineffective management methods. Economic growth remained limited to these sectors and scarcely affected the hidden unemployment and poverty suffered by large portions of the population.

After an assassination attempt was supposedly made on the president in November 2002 and opposition groups were suppressed, the president tripled pensions and wages for government employees in January 2003. If inflation remains unchanged, this could mean a redistribution of resources from the creation of parks and showpiece architecture to broad sectors of the population. Because negative tax incentives have been used to link private sector wages to the

average state wage, this measure will boost domestic purchasing power, strengthen domestic demand, and invigorate the economy from within.

### **3.2.7 Sustainability**

Basic social assistance to compensate for poverty exists, but is inadequate. Citizens are thus dependent on good networks of friends and acquaintances. Equality of opportunity and access to public services continue to decrease for impoverished families and ethnic minorities. Hardly any mechanisms are in place to help correct for discrimination against women, the handicapped, and the socially disadvantaged. Women and national minorities are disadvantaged when it comes to access to tertiary education, income, and public office. Although the law states that women and men have equal rights, women remain disadvantaged and unable to establish independent households.

Legislative and executive environmental consciousness is low. Although the Turkmen government is obligated to protect the environment and has signed a number of international environmental agreements, pollution has not decreased. Traffic and the petrochemical industry keep air pollution levels high. Drinking-water quality has partially reached health-threatening levels, while the irrigation and drainage systems are in poor condition, endangering the groundwater. In addition, overcropping and widespread monocultures are putting a strain on soil quality. Environmental interests are subordinated to growth interests.

Government spending on education amounted to 37 % of the approved national budget and 5.3 % of GDP in 1999, but was cut back with the reduction of total public schooling to nine years and university education to two years. Exact numbers are not available. Research spending has been low since the dissolution of the Academy of Sciences and radical reductions to university institutes. No precise figures are known.

## **4. Trend**

*(1) Democracy:* Before the assessment period, the government had succeeded in guaranteeing a monopoly on the use of force, as well as public safety and order, with limitations. In every other area, the minimum conditions of a constitutional democracy under the rule of law were not met or were met only to a low degree. Administrative and judicial performance and effectiveness have decreased, due to ever-shortening terms of office and the in part arbitrary dismissals of management. Their dependence on the president persists. Citizens' opportunities for free organization and civil organizations' opportunities to act freely remain completely suppressed. Public safety has declined slightly, due to encroachments on the population by security forces.

The parliamentary elections of 1999 were administratively manipulated in the same way as in 1995. Freedom of opinion and freedom of the media have suffered. Since the end of 2002, politically uninvolved citizens who even question official political propaganda can be punished under both civil service law and criminal law. The viability of civil rights has suffered from interference in property rights and arbitrary arrests of people allegedly opposed to the government, and their relatives.

The system of mutual checks and balances between the government's executive, parliamentary, and judiciary branches, almost nonexistent before, is now worse, even for the loyal political elite, because the president's behavior is no longer predictable. The president claims that his ruthlessness against ministers and leading officials is in response to accusations of corruption, which, indeed, are not always completely unjustified. But the ever-accelerating personnel merry-go-round is increasing pressure to use contributions from clients and subordinated offices to amortize expenditures for purchasing offices and for failing to reach planned targets. The president's broad use of authority has completely undermined the basic constitutional institutions.

(2) *Market economy*: Basic development indicators show significant improvement in average development during the assessment period. Sustainability indicators suggest the same. The Gini index remained unchanged. However, the reliability of these quantitative indicators, some of which have not been available for the last two years, remains questionable. They have to be calculated on the basis of whitewashed official statistics. Available economic and social data for Turkmenistan is extremely incomplete and contradictory. What remains beyond dispute is the economic growth resulting from the export of raw materials. During the assessment period, however, this did not lead to any noticeable improvement in the standard of living nor in wage levels kept artificially low by the state.

**Table: Development of socioeconomic indicators of modernization**

	<b>HDI</b>	<b>GDI</b>	<b>GDP index</b>	<b>Gini index</b>	<b>UN education index</b>	<b>Political representation of women</b>	<b>GDP per capita (\$, PPP)</b>
1995	0.660	0.66	0.361	40.8	0.9067	18	2,345
2000	0.741	(0.738)*	0.61	41 (1998)	0.92	26	3,956

\* Turkmenistan's 2000 GDI was only determined for one ranking list in which the republic placed 88th, between Jamaica (0.739) and Sri Lanka (0.737). A more precise index has not been calculated.

Sources: Human Development Report 2002 (<http://hdr.undp.org/reports/global/2002>) [evaluated Feb. 10, 2003]; Human Development Report 1998, UNDP, New York 1998 <<http://www.undp.org/hdro/hdrs/1998/english/98hdi.htm>> [evaluated Feb. 10, 2003].

The absence of institutional framework conditions for market-economic activity persists in Turkmenistan. Economic and competition regulation continues to stand in the way of the development of a free market economy and has hardly changed at all. Overall economic development improved, owing to investment in the production and processing of cotton and hydrocarbons and to the resumption of natural gas exports. Although starting levels were low, the economy did demonstrate very high growth dynamics. The economic growth did not appreciably benefit the fight against poverty during the assessment period, however, and it was accompanied by serious cutbacks in education and health care.

**Table: Development of macroeconomic fundamentals (1998–2002)**

	1998	1999	2000	2001	2002
Growth of GDP in %	1	15.5	16	20.5	17.6
Export growth in %	-20.9	100	111	5.2	n. a.
Import growth in %	-14.9	46.7	20.8	17.5	n. a.
Inflation in % (CPI)	16.8	24.2	7.4	6.0	n. a.
Unemployment in %	n. a.	n. a.	n. a.	n. a.	n. a.
Budget deficit in % of GDP	-2.6	-0.026	0.037	0	n. a.
Current account balance, in bn \$	-0.961	n. a.	n. a.	n. a.	n. a.

Sources: Economic and Social Commission for Asia and the Pacific (UN), Statistical Yearbook, New York 2002; The Europe World Year Book, London 1999-2002; ABD, Key Indicators of Developing Asian and Pacific Countries; ADB, Annual Report 2001 ([www.adb.org/Documents/Reports/Annual\\_Report/2001/tkm.asp](http://www.adb.org/Documents/Reports/Annual_Report/2001/tkm.asp)) [evaluated Feb. 10, 2003]; The UN System in Turkmenistan, Common Country Assessment, New York 2000; EBRD – Turkmenistan ([www.ebrd.com/country/turk.htm](http://www.ebrd.com/country/turk.htm)) [evaluated Feb. 10, 2003];

## 5. Transformation management

### 5.1 Level of difficulty

The medium-range economic and societal development level, the population's relatively high level of education, the effective state monopoly on the use of force, and the separation of church and state all provided certain basic preconditions for the transformation of the Turkmen economy and society. Complicating circumstances included the 25 % proportion of national minorities in the total population, strong regionalism and particularism, the lack of efficient constitutional structures, and the president's patrimonial control over government revenues and state apparatus. As far as structural socio-economic conditions

affecting the political process, the transformation's degree of difficulty must be rated high. There is no consensus about democracy and there are no central democratic playing rules.

Other complications are the lack of civil society traditions and political experience with loose tribal structures in precolonial times. The transformation conditions of foreign trade and exchange were hardly affected at all by the difficult regional and global economic situation. Instead, rising oil prices increased the economic scope for action in managing the transformation.

## **5.2 Reliable pursuit of goals**

As a collective body, Turkmenistan's government was not capable of carrying out long-term oriented reforms because it was completely dependent on President Niyazov during the assessment period and subject to an extremely high degree of fluctuation. All political decisions depended on the president's approval and goodwill, which greatly constrained the government's ability to make decisions and solve problems. As the head of state and the head of government, Niyazov's rule was arbitrary, lacking in legal restrictions, and characterized by a selective sense of reality. His word is now law and is implemented immediately by officials on demand. Frequently, the result is vacillating and contradictory political directives and target setting.

The president is not trying to generate confidence among domestic and foreign economic actors and other key actors in the society, and Turkmenistan is not making efforts to introduce free market democracy. Instead, the president is attempting to create through his directives a traditionalistic, atomized, Turkmenized society, sealed off from the outside world, regulated by state monopoly, and completely subject to Niyazov. Recruitment of inexperienced young officials into top positions and periodic purges of the administrative and security forces are intended to nip potential opposition in the bud.

Economically, a detectable strategy is investing in the processing of petrochemical products and cotton to increase export revenues, which are then used to make symbolic improvements to the capital city. During the assessment period, the president's self-willed decisions, such as the temporary stoppage of gas exports, caused great fluctuations in economic indicators and in government revenues and expenditures.

## **5.3 Effective use of resources**

The number of government employees is inadequate for the services the state provides. The human resources remain low because wages are kept low. Top officials hired and fired arbitrarily by presidential decree in turn hire their

subordinates without publicly advertising the positions, on the basis of loyalty and patronage considerations. State spending remains non-transparent, as various funds are not included in the budget and the president has personal authority over export revenues. Transparent planning and appropriate execution of the state budget do not exist.

There are 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 deputy prime ministers and other ministers. There is no indication of any decentralization of the administrative processes. Local self-government institutions enjoy very little legal and financial autonomy. The implementation of laws intended to strengthen the market economy were frequently only partial and not seen through.

Investments in the export economy and functional infrastructure, such as roads, pipelines and railroads, are not always coordinated. They may, however, ease a future regime's introduction of transformation steps. The government wastes a great deal of its resources on the construction of representational objects. Human resource development in the education and health care sectors was seriously neglected during the assessment period. Government resources are distributed on the basis of patronage-based networks. Ever-briefer appointments and dismissals of ministers and top officials are doing little to change the situation. The government is making use of cultural traditions not to carry out sustainable reforms but for self-legitimizing purposes.

#### **5.4 Governance capability**

The reigning president does have some organizational and learning capabilities, but these capacities are limited by his ideological orientation, adherence to state monopolism, and interest in maintaining his power. Mistaken developments and ineffective policy are in principle blamed on the responsible ministers, even when ordered by the president in person or when the minister in question could not possibly have been in office long enough to have had any influence.

Although the efficiency of agricultural production has clearly improved after the introduction of a tenancy system in stages, inflexible state purchasing prices have limited this improvement. Investment in the processing of raw materials has led to detectable increases in the GDP, but power interests have kept Turkmenistan from abandoning an isolationist foreign policy that keeps the country from entering into strategic alliances with neighboring states to develop a new export route for natural gas. The president himself lost credits of the educational elites after the massive cutbacks in education and health care. Arbitrary purges of the administration and security organizations have created the potential for opposition, even within the previously loyal government forces.

Niyazov's economically unproductive urban construction program has wasted a considerable portion of export profits. However, because of the president's monopoly on power, there were no other relevant political actors able to drive political, economic, and civil reforms during the assessment period.

### **5.5 Consensus-building**

No consensus exists among the political actors about building a free market democracy. Such a political consensus would be meaningless at this time because the president and the political elite that supports him are not trying to achieve a free market democracy and because the head of state decides all political questions on his own authority.

### **5.6 International cooperation**

Turkmenistan is a member of the UN and a number of other international organizations that provide aid programs for economic and social development. The influence of these external actors remains relatively low, however. Despite formal declarations to the contrary, Turkmenistan has frequently opposed the implementation of reforms intended to strengthen democracy and the market economy. During the observation period, the IMF did not grant Turkmenistan any loans to support the Turkmen currency because of the country's lack of interest in reforms.

For similar reasons, the EBRD stopped all additional loans to Turkmenistan for public sector development in April 2000. Subsequently, Turkmenistan joined the Asian Development Bank (ADB) in August 2000. But the ADB is also showing restraint in issuing loans. The OSCE has had a mission in Ashgabat since May 1999, but its influence on political developments is extremely limited. International NGOs' activities are extremely limited. Turkmenistan did not join the alliance against international terrorism, remained neutral in the war in Afghanistan, and opened its borders only for humanitarian aid.

The government tries to present itself as a reliable partner for international organizations, but is considered not very credible due to its restrictions on freedom of action. During the assessment period, Turkmenistan also avoided the CIS organizations' multilateralism and sought economically advantageous cooperation alliances, primarily on a bilateral level. While relations with Afghanistan and Iran remained good, relations with Azerbaijan have worsened because of disputes over oil fields in the Caspian Sea.

Relations with Uzbekistan also remained tense, due to attempts to Turkmenize the Uzbek minorities in the border areas and the suspicion that Uzbekistan was supporting Turkmen opposition groups. Relations with Kazakhstan and Russia

improved during the assessment period and enabled the resumption of natural gas exports through Kazakh-Russian pipelines. Turkmenistan's readiness to participate in regional cooperation partnerships, e.g. in the area of sustainable utilization of the environment and of water resources, remains low.

## 6. Overall evaluation

In view of the starting conditions, current status, and evolution achieved, as well as the actors' political achievements (management), this assessment concludes the following:

*(1) Starting conditions:* The transformation's starting conditions were difficult on the whole. A state monopoly on the use of force existed before the observation period, which guaranteed public safety. The education system was well developed during the Soviet era, but regressive tendencies were observable in the areas of science and research. Sovietization left Turkmenistan with a strongly anchored secularism that, together with pre-colonial tribal traditions, leaves little room for the politicization of Islam. Transformation is hindered by the absence of effective government structures, as well as of civil society and democratic traditions, and by the high proportion—more than 25 %—of national minorities in the population.

Strong regionalism and particularism, widespread destruction of the country's independent traditional legal culture, and the Soviet-installed primacy of the political also proved to be complicating circumstances for a successful transformation. Some free market adjustments have been made since the country's independence to accommodate the new international economic situation, but there were increasing signs, even before the start of the observation period, that state monopolies would be perpetuated in key economic areas.

*(2) Current status and evolution:* No democratic transformation has yet begun. The democratization deficits are enormous in most areas and grew during the observation period with the president's increasingly arbitrary use of power. Even if the president had been deposed at the end of 2002 by his former secretary of state, serious doubts persist about whether large portions of the opposition are willing to democratize. Under the current societal conditions, serious democratization of the political system would have very destabilizing effects and could lead to a regionalization of the republic and the breakdown of state unity.

In the market-economic transformation, some reorganization occurred in a few areas during the observation period. By breaking up the Soviet-era collective farms and introducing a tenancy system with the prospect of property acquisition, Turkmenistan has been able to partially increase agricultural productivity and income. Investment in the export sector and resumption of gas exports boosted revenues enormously and caused double-digit GDP growth, albeit starting from

low initial levels. Important structural reforms for a market economy system, such as the protection of property rights, freedom of trade, elimination of market entry barriers, and supply-and-demand-based pricing, have yet to take place.

(3) *Management*: Management efforts to promote democracy and a market economy have to be given a low rating. Despite formal expressions of belief in democracy, the political elite is not making efforts to attain this form of government. Although ground was lost in the area of democratization, some successes were achieved in the economic transformation. These developments were countered by flagrant misallocation of funds and ineffective resource management. The long-term sustainability of economic development is being neglected as services are cut in education and health care. The government's capacity for more effective transformation management was seriously impaired by the expansion of presidential power and the high personnel turnover rates.

## **7. Outlook**

Turkmenistan's transformation picture is negative. In the political arena, the separation of powers stipulated in the constitution has been completely overwhelmed by the president's unlimited power. Were he to leave office now, Niyazov would leave behind a power vacuum in which the political elites from the different regions would compete for influence and the country's top office. How successful the president's successor will be in putting political institutions onto a new footing remains uncertain. No immediate measures for democratizing the society are to be expected. Niyazov's successor is much more likely to attempt to diversify the economy to make Turkmenistan less dependent on fluctuations in the export markets. The dismantling of the public health care and secondary, university, and research institutions will also have to be undone.