

BTI 2010 | Turkmenistan Country Report

Status Index	1-10	3.55	# 114 of 128	
Democracy	1-10	2.78	# 124 of 128	➔
Market Economy	1-10	4.32	# 96 of 128	➔
Management Index	1-10	2.28	# 119 of 128	

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

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	5.0	HDI	0.74	GDP p.c.	\$	5997
Pop. growth	% p.a.	1.3	HDI rank of 182	109	Gini Index		40.8
Life expectancy	years	63	UN Education Index	0.91	Poverty ²	%	49.6
Urban population	%	48.2	Gender equality ¹	-	Aid per capita	\$	5.7

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

In 2007 and 2008, Turkmenistan underwent a crisis of political succession for the first time since independence when Saparmurat Niyazov, called “Turkmenbashy” (Head of all Turkmen), died on 21 December 2006 from heart failure. Former Vice Prime Minister and Minister of Health Gurbangly Berdymukhamedov unconstitutionally became acting president with the help of the security apparatus. He subsequently won the presidential election on 11 February in large measure by banning oppositional politicians from participating. Berdymukhamedov initially showed commitment to continue in 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 months following the election, Berdymukhamedov gradually began to dismantle Niyazov’s personality cult without committing himself to political liberalization. In contrast, Berdymukhamedov moved to arrest potential opponents, like the head of the presidential guard General Rejepov. He 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 power position impeded any progress toward democratic transformation. With regard to economic transformation, some positive changes can be assessed. Turkmenistan maintained an almost double-digit GNP growth rate during the observation period, which resulted from increasing market prices for the country’s natural gas and petro-chemical products. However, considering the absence and increased inadequacy of statistical data, one must cautiously evaluate Turkmenistan’s economic and developmental indicators. Most statistical data is not available for 2007 and 2008. The country’s population 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. It maintains an inefficient state-controlled bank sector; it does not secure property rights; and it keeps agricultural productivity low by setting low fixed purchase prices for grain and cotton.

The situation with regard to the population's income remains tense, although the decree signed by President Berdymukhamedov in September 2008 raising the average nominal monthly wage from \$90 to \$190 offered some relief. Because no additional state funding is provided for this increase in salaries and social benefits, people often do not fully receive their income or get it on time.

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 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 and confirmed in the presidential election of 21 June 21 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 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, a president worked to create for himself a personality cult, which imbued him with a larger-than-life public presence as the "head of all Turkmen" (Turkmenbashy). When the failure of the 1991 August putsch sealed the fate of Marxism-Leninism as a ruling ideology, sociopolitical organization began to revolve around ethnic and national identity. In this context, the president accelerated the Turkmenization of government and educational institutions.

At the beginning 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 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 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 (2007). 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 remained at a low level, (in 2003 714,000 tons were said to be 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 product 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. 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 by the presidential election on 11 February 2007.

Transformation Status

I. Democracy

Turkmenistan made virtually no progress in any area of political transformation. Two trends have marked Turkmenistan's political system in the period of observation. On the one hand, President Berdymukhamedov preserved the super-presidential structure initiated by his predecessor and continued to exercise firm control over dependent ministers and vice prime ministers. He increased the number of vice prime ministers and ministries to 9 and 23 respectively and tried to supervise their activities by splitting competences and chairing a 40-member council of ministers. The new president also discouraged ministers and governmental officials from taking any legislative initiative and spread an atmosphere of fear, which prevented officials from doing their work. He also continued to hold tight control on journalistic activity and mass media. He blocked all oppositional groups from operating within the country by targeting them with state security and intelligence services. In order to uphold a democratic façade, Berdymukhamedov allowed five other candidates – all of them middle level officials and previously unknown – to contest the presidency. After two years in office, Berdymukhamedov's authoritarian rule stands unchallenged. The president has even removed most of the ministers appointed by former president Niyazov.

On the other hand, Berdymukhamedov has started to dismantle the personality cult of Turkmenbashy by removing images and statues from public places and renaming streets, calendar names and public institutions. The constitutional amendment of September 2008 abolished the People's Council (Halk Maslahaty), which was a 2,507-member rubber-stamp parliament established by Niyazov to applaud his dictatorship. The amendment upgraded the second chamber of the Mejlis to a more professional 125-member parliament. Some positive changes have been observed ground in health care and education, areas in which Berdymukhamedov canceled some of his predecessor's damaging "reforms." Transformation deficiencies continued to persist in the areas of stateness, political participation, rule of law, institutional stability and political and social integration.

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. Contrary to the fears of political observers, the first political succession after independence did not challenge the state's monopoly on the use of force, as the security apparatus actively supported the new president after the death of Turkmenbashy.

Monopoly on the use of force

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 been increased, more than 300,000 Uzbeks did not find a single Uzbek candidate eligible for the parliamentary election on 14 December 2008.

State identity

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. Raids and deportations in punishment for peaceful religious activity among Baptists and Jehovah's Witnesses were frequently reported.

No interference of religious dogmas

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

Basic administration

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 oppositional politicians was allowed to enter even the country. During the presidential election, five contenders for presidency were nominated. All of them were members of the president's Democratic Party and

Free and fair elections

unknown to the public at the beginning of the campaign. These alternative candidates also lacked independent funding and sufficient access to mass media. In the parliamentary elections held on 14 December 2008, only 288 candidates ran for 125 parliamentary seats. Government-controlled institutions like the Democratic Party of Turkmenistan, the Central Women's Council and veteran or youth organizations had nominated all of the candidates.

President Berdymukhamedov has complete control of the power to govern. No veto groups have established themselves to challenge presidential power. In September 2008, a new constitutional law was adopted, which abolished the People's Council (Halk Maslahaty) as the country's supreme legislative organ and granted formal supreme legislative power to a professional parliament (Mejlis). Like his predecessor, Berdymukhamedov continued to orchestrate all state affairs. He is chairman of the Cabinet of Ministers, supreme commander of the army and holds tight control over the security and intelligence services.

Effective power to govern

Although formally anchored in the constitution, actual freedoms of assembly or association for political and civil groups do 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

Dissemination of information and the means to shape public opinion remain state-controlled. The state promulgates a tremendous amount of propaganda. In 2007, President Berdymukhamedov initially supported the personality cult of Turkmenbashi and adhered to the state ideology of "Ruhnama." In 2008, however he started to dismantle the personality cult of his predecessor. This shift was not linked with the establishment of free mass media. Internet access remains highly restricted. The president directly controls all four TV channels and journalists cooperating with independent media such as Radio Free Europe/Radio Liberty are persecuted. In order to prevent the spread of Russian broadcastings, the government also instituted a ban on individual satellite dishes.

Freedom of expression

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 controlled the election of parliamentary deputies and 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

Separation of powers

apparent commitment to raise the professional level of the public administration is limited by the highly corrupt practices of political and administrative officials.

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. The trials of government opponents that took place during the reporting period were summary proceedings. There is no court with constitutional jurisdiction. Seminars of organizations like the OSCE or the German Society for Technical Cooperation had little impact on establishing an independent judiciary.

Independent
judiciary

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 May 2007, he purged the government and removed some of Niyazov's close associates. Among them was the powerful head of the presidential security service, Akmyrat Rejepov, who served Niyazov for 17 years as head of the 2,000-person presidential bodyguard service and who supported Berdymukhamedov's bid for the presidency half a year before. Within his two years of office, Berdymukhamedov already has removed a considerable number of his own appointees and seems unsuccessful in combating corruption within the judiciary and the state administration.

Prosecution of
office abuse

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 Turkmenbashi 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.

Civil rights

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 like Seventh-day Adventists or Baptist Christian 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.

Performance of democratic institutions

Formal democratic institutions are part of the authoritarian regime. 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

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. All state controlled associations and the Democratic Party of Turkmenistan continued to assemble under the umbrella of the national revival movement Galkynysh established by Turkmenbashy in 1994.

Party system

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. In October 2008, 29 of the 40 members of the Council of Ministers were born in Ahal. Whereas the Balkan and Mary regions continued to be represented within the government by six and four ministers respectively, only one official of ministerial rank was from the Lebap velayat and none came from Dashoguz.

Interest groups

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

Consent to democratic norms

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

Associational activities

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 provide services formerly taken care of by the state or the collective farms, such as housing construction and maintenance.

Independent groups, including unrecognized religious communities, are subjected to state repression. Private institutions financed from abroad, such as Turkish private 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. During the presidential and parliamentary elections, Berdymukhamedov continued to exclude independent civil society agents from political participation.

II. Market Economy

Lacking a sound economic strategy, President Berdymukhamedov took steps on single issues, such as currency reform and the reduction of import and export taxes and tariffs. These isolated reforms did not support a sustainable transformation of Turkmenistan's economic order. Transformation deficiencies persist in the organization of the market and competition, monetary policy, privatization, protection of property rights, and the sustainability of educational and infrastructure policy. Nevertheless, higher prices in the export-oriented gas and petrochemical sectors increased hard currency revenues in 2007 and 2008. The world economic crisis and the decline of oil prices deteriorated the external environment for economic reforms.

6 | Level of Socioeconomic Development

Key indicators show a low to medium level of 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 (2005) slightly deteriorated, 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 2008 GDP are not available and the World Bank's estimate for 2007 is \$12 billion. Population figures for 2007 are between 5 and 6.77 million. Official economic figures do not reflect

Socioeconomic
barriers

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.

The Gini coefficient shows a constant level of inequality, although in July 2007, January 2008 and January 2009, salaries at Turkmenistan's state budgetary organizations, as well as labor and war veterans' pensions, state allowances and benefits, have been increased or restored. 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. He also ordered 23,000 teachers to return to work, reestablished the 10th year of secondary education, extended studies at universities from three to five years and reopened the academy of science. The inclusion of per capita GDP as a development indicator is problematic, as growth of GDP depends on the export sector with relatively low returns for the population.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	6837.2	8102.8	10279.9	12926.5
Growth of GDP	%	17.2	13.0	11.4	11.6
Inflation (CPI)	%	-	-	-	-
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	5.2	5.2	7.1	6.2
Export growth	%	13.2	25.0	-	-
Import growth	%	20.3	-4.9	-	-
Current account balance	\$ mn.	-	-	-	-
Public debt	\$ mn.	1226.6	877.8	730.5	648.2
External debt	\$ mn.	1522.4	1058.0	886.0	743.4
Total debt service	% of GNI	6.0	4.1	2.6	1.6
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	12.7	13.2	-	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	3.2	3.3	2.5	-

		2004	2005	2006	2007
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

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 levels. Nevertheless, President Berdymukhamedov initiated some economic reforms: in March 2008 currency convertibility was introduced, 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. Import and export taxes have been sliced in half. Turkmenistan has initiated these reforms without IMF loans. Both the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB) continued to keep their financial commitment in Turkmenistan on a low scale but declared interest in financing larger Caspian oil and gas projects.

Market-based competition

The state monopolizes all strategically important economic resources like 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

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.

Liberalization of foreign trade

Foreign trade is to a great extent state-controlled. 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

Banking system

directive, 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 directed lending to the cotton sector. President Berdymukhamedov promised that Turkmen residents would have the opportunity to obtain 30-year mortgages at just 1 percent interest to buy apartments, but this promises has not yet materialized.

8 | Currency and Price Stability

After hyperinflation rose above 1,000% in the first half of the 1990s, Turkmenistan was able to hold inflation on a low level during the observation period, although official data is not available. According to IMF estimates, inflation was at 6.5 % in 2007 and is estimated by the ADB to be 9% in 2008. Inflation was increased by an eight-fold rise in gasoline prices to \$0.16 per liter, which should have raised consumer prices up to 15 % in September.

Anti-inflation /
forex policy

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

Macrostability

Profits from exports have allowed Turkmenistan to avoid a budget crisis. The government, however, spends a large portion of these export earnings off-budget by placing them in special funds for infrastructure projects and showpiece architecture. The new president has claimed that his predecessor's off-budgeted 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 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 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. During the observation period, interferences in the property rights of the regime's opponents, journalists and dismissed senior officials persisted.

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 since 1996 might lead to the establishment of private land ownership. During the

Private enterprise

observation period, tenants were able to claim new desert land through irrigation and by not carrying out unprofitable cotton cultivation in established irrigational zones.

Private businesses are primarily permitted to operate in the textile, construction and trade sectors with a greater deal of foreign (mainly Turkish) investment. The business environment has become slightly more favorable towards middle and small enterprises. Bureaucratic interventions were less frequent.

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, especial among young recruits in the army.

Social safety nets

Equality of opportunity improved slightly during the period under assessment. Because of previous university enrollment cuts, to a large extent only the children of elite functionaries are able to go to college. The income gap continued to exist between the ever-wealthier government elite, businessmen and successful tenant farmers at the one side and the impoverished population of Turkmenistan at the other.

Equal opportunity

The state decreased the gradient between rural and urban areas by reestablishing health care institutions in the provinces. Public investment, on the other hand, is still concentrated in the capital and creates jobs there.

The multiple burdens borne by mothers remained heavy due to previous increases in women's working hours 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 like Uzbeks, Kazakhs and Russians have low career chances 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 their low export level in 1999. The country's recovery picked up later as export revenues increased. As a result of these increases, the balance of trade became positive. 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 5% in 2004 and 9.6% in 2005, much lower than the official and overstated Turkmen estimates. In general, economic growth is driven and dependent on higher prices of gas exports. In 2006, president Niyazov was able to raise the price of natural gas for its main customer, Russia, from \$66 per thousand cubic meters to \$100.

Output strength

Although agricultural production doubled after the switch to a tenancy system, the new system did not prevent bad cotton harvests in 2005 and 2006, which resulted from low state-controlled retailer prices and ineffective management methods. Reliable data about the economic growth in 2007 and 2008 are not available. In July 2007, the gas price was increased to \$150 per 1,000 cubic meters. Economic growth remained limited to export sectors and scarcely affected the hidden unemployment and poverty suffered by large portions of the population. The decline of the oil price in autumn 2008 will have a negative impact on economic growth.

12 | Sustainability

Legislative and executive environmental consciousness is low. Although the Turkmen government is obligated to protect the environment by signing a number of international environmental agreements, 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.

Environmental policy

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. The new President Berdymukhamedov reestablished the academy of science and university studies to five years. High school education was also extended to ten years. The state has promoted the study of Russian and other foreign languages. In September 2007, teachers' salaries and student stipends were increased up to 40%.

Education policy /
R&D

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. Complicating 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 high. There is no consensus on democracy or accepted democratic rules of the game. On the other hand, rising oil prices provide the economic potential for transformation.

Structural
constraints

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. Severe state control inhibits the emergence of independent social, economic or cultural groups. On the contrary, the authoritarian leadership promoted a subject culture 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

Although Turkman society is split in different regions, which are identified with major tribal descent groups, this circumstance had not 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 Turkman society – unlike the Uzbek or Tajik one – is not familiar with the scholarly traditions of Islamic law (Shari'ah) and education. Nonetheless, in September 2008 there were reports that an Islamic military group

Conflict intensity

occupied the water plant building in Khitrovka (near Ashgabat), which could only be stormed after two days. The operation reportedly left nine special services officers killed.

II. Management Performance

14 | Steering Capability

In Turkmenistan, the president sets all strategic political and economic aims.

Prioritization

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 like Uzbekistan and Azerbaijan and participating in international organizations. The new president does not support political liberalization but seems to be committed to improve the population's low standard of living and to secure national independence by reforming the economy and raising the professionalism within the administration and state institution.

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 introducing currency convertibility are insufficient for developing a diversified economy with sustainable growth. The new president continues to rely on short-term ministerial appointments and an inflated government of 40 ministers. 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.

During the period of observation, Turkmenistan made some efforts to introduce elements of a free market democracy. 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. Nevertheless, agriculture remained state controlled and the state continued to force farmers to sell cotton and grain under market value. Property rights are still not secured. The banking sector remains inefficient. The lack of reliable economic statistics makes the implementation of economic reforms even more difficult.

Implementation

As a collective body, Turkmenistan's government is not capable of carrying out long-term reforms and its problem-solving capacity is constrained, because it remains completely dependent on the president's will and faces a high degree of fluctuation. President Berdymukhamedov undid the health and education policy of his predecessor, even though he had been the responsible minister for these policies in the previous government. Policy learning will be only institutionalized in Turkmenistan if ministers are charged with the responsibility to formulate and implement administrative and economic goals during their term of office.

Policy learning

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. Human resource development in the education and health care sectors has slightly improved during the last two years.

Efficient use of assets

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

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 deputy prime ministers and other ministers with portfolio. 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 partial and not carried out.

Anti-corruption policy

The government distributes resources on the basis of patronage networks. Short-term appointments and dismissals of ministers and top officials do little to change the situation. Investments in the export economy and infrastructure, such as roads, pipelines and railroads, are not always coordinated and have inappropriate priorities, such as capital intensive railway construction to destinations where roads are in a desperate state. 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 reciprocally denouncing the rival's "corrupt practices."

16 | Consensus-Building

No consensus exists among the political actors about building a liberal democracy. President Berdymukhamedov's repressive electoral campaign demonstrated that he is unwilling to accept democratic norms. In the campaign, he used his power to prevent oppositional leaders both in and outside of Turkmenistan from participating in the presidential and parliamentary elections of 11 February 2007 and 14 December 2008. Berdymukhamedov seems to be committed to a market democracy and to a professional administration of the state. Many of his officials do not share these goals.

Consensus on goals

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

Anti-democratic veto actors

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 calm. Most non-Ahal Turkmen perceive the political change under Niyazov and Berdymukhamedov as an "Ahalisation" 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.

Cleavage / conflict management

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 severed some financial assistance to NGOs from international donors and led to the co-opting of some independent groups by state-backed bodies. Not being able to open bank accounts, rent space, or install internet connections make the operation of independent NGOs difficult inside the country. Only pro-governmental organizations, such as the Women's Union, Turkmenistan Democratic Party (the only political party in the country) and the Turkmenistan Youth Union are registered.

Civil society participation

Former president Niyazov had few scruples about the moral and political consequences of his decisions. As such, the new president faced a considerable heritage of political prisoners and disowned citizens and former officials. During his two years in office, President Berdymukhamedov has sent mixed signals. On the one hand, he started to undo some of the excesses of Niyazov's rule by re-establishing health facilities and higher education. He also gave back pension entitlements and social benefits to the poor and needy. On the other hand, he continued to keep most of the Niyazov's political prisoners, like the former foreign

Reconciliation

minister Shikhmuradov, under arrest. He has also handled potential and putative opponents within his government much like his predecessor.

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 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) started to increase its engagement in Turkmenistan, whereas the Asian Development Bank (ADB) continued assistance and loans 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. The activities of International NGOs are also extremely limited. Berdymukhamedov increased international cooperation and intensified diplomatic relations with neighboring and economically important states.

Effective use of support

Turkmenistan is not regarded as a credible and reliable partner with regard to democratic reforms but earned some applause after introducing currency convertibility.

Credibility

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. During the assessment period, Turkmenistan increased its participation in the CIS organizations' multilateralism and intensified 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 could not be settled. Relations with Uzbekistan were also enhanced in the last two years. Relations with Kazakhstan and Russia have developed on the basis of mutual benefits and intensified cooperation in the export of Turkmen gas.

Regional cooperation

Strategic Outlook

President Niyazov's sudden death on 21 December 2006 left a power vacuum in Turkmenistan, which was quickly filled by former Vice Prime Minister Berdymukhamedov. Berdymukhamedov went on to secure 89% of the vote in the presidential elections 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 did not decrease during the observation period. Under the current political conditions, a fast 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 new 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 his desire to restructure government. Instead, he has been complaining about his officials' poor standard 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 caused up to 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 were not integrated in 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, Turkmenistan's transformation picture 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 can be observed, but Berdymukhamedov will need national consensus and international assistance to diversify the economy and make Turkmenistan less dependent on fluctuations of oil and gas prices. 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 funding and residents waiting for the establishment of promised medical facilities.