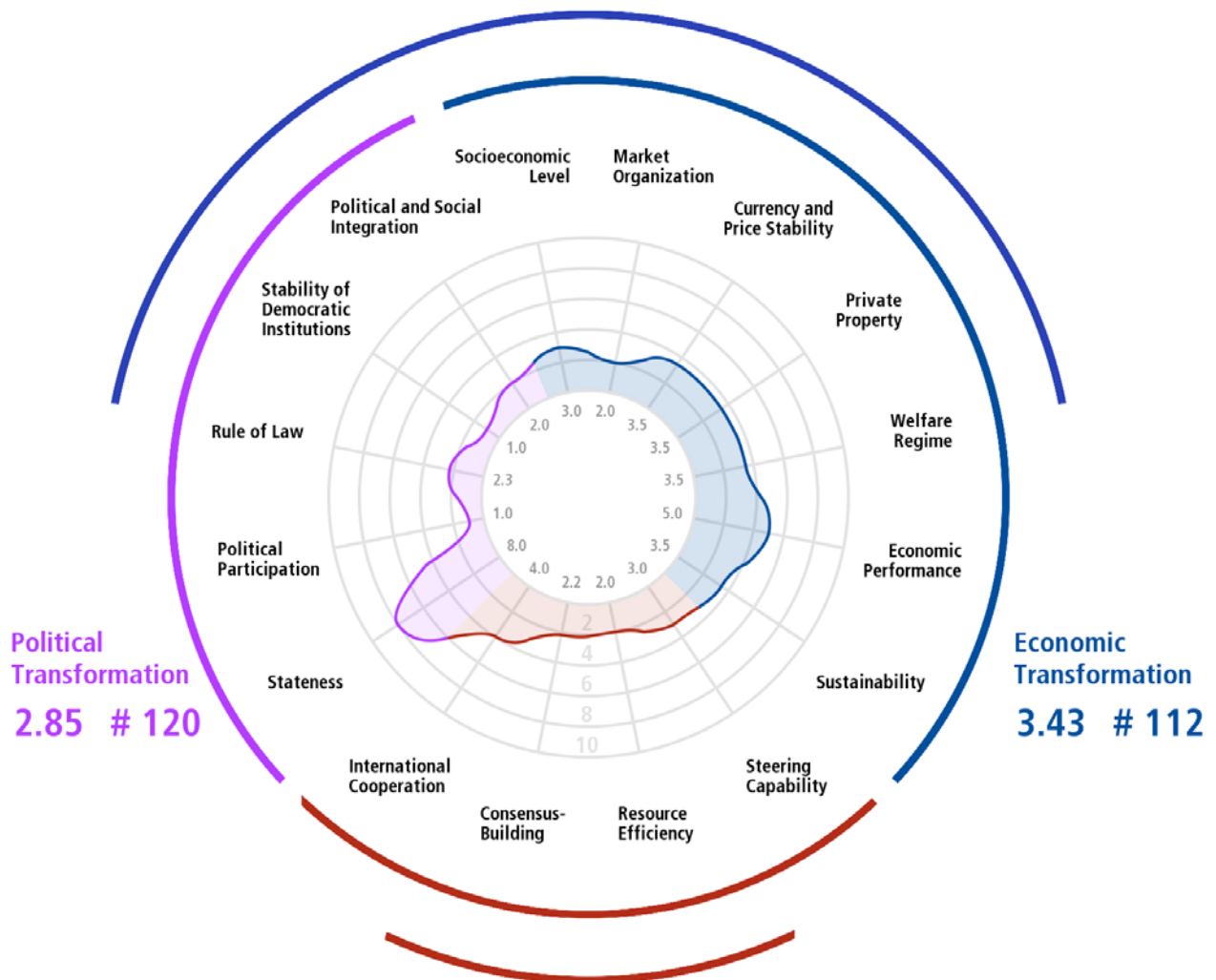


Turkmenistan

Status Index

3.14 # 119

on 1-10 scale out of 129



Political Transformation
2.85 # 120

Economic Transformation
3.43 # 112

Governance Index

2.51 # 118

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	5.7	HDI	0.691	GDP p.c., PPP \$	16880
Pop. growth ¹	% p.a.	1.7	HDI rank of 188	111	Gini Index	-
Life expectancy	years	67.6	UN Education Index	0.634	Poverty ³	% -
Urban population	%	50.4	Gender inequality ²	-	Aid per capita \$	4.2

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

During the period under review, the government undertook reforms to harmonize legislation with international standards while intensifying cooperation with foreign countries and international organizations. The new legislation, however, has neither facilitated democratization nor has it been properly implemented. Instead, in the context of worsening economic conditions underway since 2014 to 2015 – the single most important challenge in the reporting period – the dictatorial nature of politics in the country has become acute in all aspects of society. Introducing further restrictions upon civil liberties, the government aims to forestall any potential attrition of its power or threats to social and political stability.

The government's attempts to cultivate economic and political relations with foreign countries have not led to any efforts to democratize at home. The government's international activities are motivated by a desire to appear open and, more recently, to attract foreign funding for industrial and infrastructure projects.

President Gurbanguly Berdimuhamedov's accession to office in early 2007, following the death of President Saparmat Niyazov in 2006, brought an end to the latter's omnipresent cult of personality and breathed some life into a moribund society. Berdimuhamedov adopted a handful of liberal economic laws, promoted private sector development and formally introduced a multiparty system.

Turkmenistan also tried to shed its reputation as a fundamentally closed and internationally isolated nation. The country is a member of several international and regional organizations and actively promotes the Association of Turkmen of the World and its international activity. Numerous international conferences are held each year in the capital Ashgabat and in the tourist region of Avaza on the Caspian Sea. Massive projects in the oil and gas (including gas-chemistry) sectors and initiatives to build an international multimodal transport corridor have attracted a great deal of international attention.

The government is involved with more than 40 bilateral commissions and working groups with foreign partners. Through these forums, the government engages in regular exchange on bilateral relations in all fields of social life and explores new projects. The revival of political and economic contact with other republics in Central Asian and the South Caucasus is noteworthy as a condition to Turkmenistan's integration into regional and international energy and infrastructure projects.

Nonetheless, the country's gradual opening has yielded sobering results and not really departed from the methods of self-staging under Niyazov. Hopes for a genuine departure from massive state control over society and a shift toward democratization and economic liberalization have not yet been fulfilled. Many reforms have been little more than cosmetic in nature.

The cult of personality associated with President Berdimuhamedov has intensified considerably during the period under review. And although not as extreme or bizarre as the veneration of his predecessor Niyazov, Berdimuhamedov's personality cult has taken on increasingly grotesque characteristics. Songs of praise and poems dedicated to the president fill the pages of the country's few print publications, as do excerpts from his "academic" work. Berdimuhamedov's "literary work" is mandatory reading in literature classes and has been integrated into tertiary-level lectures and seminars.

Beginning in 2016, schools throughout the country were required to replace the presidential portraits hanging in their buildings with new portraits of Berdimuhamedov. The costs incurred were "voluntarily" covered by teachers. Events organized by regional or central authorities – which are populated primarily through the obligatory attendance of students and civil servants as onlookers, folklorists and national dancers – conclude with the phrase "Türkmenistan – şöhratşanyň Arkadag" (Turkmenistan is the distinguished guardian). In May 2015, a massive gold-leafed statue featuring the president atop a horse was inaugurated in the country's capital, Ashgabat. The president continues to honor his predecessor Niyazov with posthumous awards for his service.

Indeed, more than ever, the president's will determines domestic policies. All significant projects in any area of society must be initiated by presidential decree. Direct personal contact with the president and his closest advisers is indispensable for any activity.

Data published by international financial institutions are of limited use, as they are generally based on the flawed and distorted data provided by Turkmenistan authorities. The absence of official statistics on the country's population, for example, complicates efforts to assess socioeconomic development in the country.

History and Characteristics of Transformation

Turkmenistan, as one of the Soviet Union's 15 constituent republics, was catapulted to independence following the collapse of the USSR in October 1991. Saparmurat Niyazov, who was appointed by Mikhail Gorbachev in 1985 as the first party secretary of the Communist Party of the Turkmen Soviet Socialist Republic, took over Moscow's political role in determining policy to steer the country's post-independence course. He was elected president of the republic in a direct vote (October 1990) and was later reelected (in the presidential election of 21 June 1992 and the referendum of 15 January 1994).

In May 1992, Turkmenistan drafted a constitution that declared the country a democratic presidential republic based on a separation of powers and offered formal guarantees of basic political and liberal rights to citizens. De facto, however, all forms of unauthorized political activity were suppressed and an autocratic regime established that is reliant upon domestic intelligence services and the security apparatus. Domestic legitimacy was established through a cult of personality surrounding President Niyazov that imbued him with a larger-than-life public presence as the chief of all Turkmen (Turkmenbashi). When the failed August coup in 1991 sealed the fate of Marxism-Leninism as a ruling ideology, ethnic nationalism formed the foundation of the new sociopolitical order, and the "Turkmenification" of state and educational institutions was aggressively pursued.

Turkmenistan faced considerable pressure to adapt to a new situation in the 1990s as Soviet-era producer and consumer relations dissolved. Export revenues from gas, oil and cotton, over which the state now had control, were not enough to compensate for the loss of Moscow's budgetary financial transfers. Natural gas production in 1997 and 1998 reached only 17% of that achieved in 1990 (87 billion cubic meters) as a result of the country's smaller capacity share in the Russian gas pipeline system, outstanding payments from the country's top customer (Ukraine) and a lack of investment in infrastructural maintenance and improvements. Thousands of workers lost their jobs as numerous facilities were closed. In 1993 the government sought to cushion the effects of high inflation and accelerating impoverishment by introducing free supplies of water, natural gas and electricity to households, as well as subsidies for gas and basic foodstuffs.

Shortly after independence, the government adopted a number of new laws ostensibly targeting a gradual transformation of the economy (e.g., "On Businesses," "On Corporations," "On Commercial Activity," "On Foreign Investment," "On the Denationalization and Privatization of Property"). However, genuine structural reforms failed to materialize. Denationalization of the economy remained limited to small actors in the retail and service sectors and to the most unprofitable state-run enterprises in other sectors. From 1994 to 2012, only 55 enterprises in the industry sector were privatized. During a wave of optimism in the mid-1990s, a series of joint ventures were founded, primarily with Turkish and Iranian firms in the food and retail industries.

Many of these businesses proved short-lived in the face of resurgent statism during subsequent years.

In the agricultural sector, collective farm enterprises (*kolkhozy*) began to be dissolved in the mid-1990s, with farmers' cooperatives subsequently created on the basis of lease agreements. However, the state continues to maintain its control over land use and holds a purchasing monopoly on grain and cotton. As a result, incomes for farmers who lack access to good land or subsidized goods and services remain low. The restructuring of the agricultural sector has been complicated by the long-term environmental consequences of decades of intensive cotton cultivation, which has rendered hundreds of thousands of acres of land unusable.

The accession of Gurbanguly Berdimuhamedov as the new head of state and government early in 2007 ushered in a wave of hope through the country for a loosening of political, economic and social controls. Yet, today, ten years after Berdimuhamedov's entry into office, little real change has taken root and transformation toward a market economy seems as distant as ever. The entrenchment of informal politics, vast corruption and the country's particular brand of highly personalized political culture partly explain this unaltered situation. Berdimuhamedov's "state network" relies on his supporters and relatives from the Ahal Region, particularly near the cities of Baharly and Gökdepe, many of whom hold positions of power in politics and business. Regime stability and longevity are aided by low education levels, apolitical attitudes, a lack of press and information freedoms and an absence of support for potential reforms from within government ranks. Deep fear among the population that any form of criticism of the president will be met with repression of oneself or one's family also serves to curb dissent.

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

Transformation Status

I. Political Transformation

1 | Stateness

The dominant role afforded President Gurbanguly Berdimuhamedov underpins the state's functioning and secure monopoly on the use of force that extends throughout the country's entire territory. The state's administrative design as a presidential republic and the strong position ascribed to the office of the president as head of state in steering domestic and foreign policy and in determining legislation and shaping economic, social and cultural developments are anchored in Articles 1 and 68 to 72 of the August 2016 constitution. Ultra-centralized rule does not give scope to regional elites to develop their own power bases.

Informal political groupings and alliances that exist in more or less rudimentary form at the regional level are virtually invisible due to massive state persecution and the overwhelming power of the president and his nearest associates, and have no opportunity to develop further.

The constitution formally guarantees all citizens equal rights, equal protections and equal rights of opportunity (Articles 4, 5 and 25–65). In practice, however, these constitutionally guaranteed rights are not ensured. The rights of national minorities in particular, such as members of the Uzbek, Russian, Kazakh, Balochi and Kurdish communities, are frequently circumscribed. Yet many Turkmen are also denied their constitutionally guaranteed rights.

These circumscribed rights apply, in particular, to freedom of movement within the country; travel to and from the country; and access to the civil service, parliamentary, regional and local administrative bodies, social services and education. Tens of thousands of people (more than 40,000, according to unofficial sources) are on a "black list" for various reasons. These people, who include many critics of the regime, officials who have fallen from grace, members of religious communities, relatives of dissidents living in exile, journalists, artists, scholars, graduates of universities abroad and (often) their family members, are not allowed to travel outside

Question
Score

Monopoly on the
use of force

10



1

State identity

7



1

the country. Members of the Ahal Teke tribe are generally given preferred treatment in state education and personnel policies.

The right to choose where one lives and works is also limited. Renting or buying an apartment in the capital is more or less impossible for those from other parts of the country. The introduction in 2016 of a state authorization process effectively forbids individuals from migrating to Ashgabat for the purpose of work, as authorizations for taking a job in the capital city are rarely, if ever, issued. There are no fair court proceedings in the country.

Turkmenistan is a secular state. Religion and state are formally separated in this predominantly Muslim society. Religious dogma has no significant influence on policies or the law. For the population, Islam is an element of the country's traditional culture and history that serves to maintain their moral values, customs and conventions. Officially, some 90% of the population are Sunni Muslim (Hanafi school), though much of the country's urban population is not particularly religious.

In Turkmenistan, Islam is not anchored in long-established traditions and there is no religious fanaticism. The president sees in faith a source of support for his power and the country's national identity. The state shows a relatively stable, if narrow, degree of latitude when it comes to exercising the constitutionally guaranteed right to religious freedom. The state – that is, the president – exercises his control over religion through the Council for Religious Affairs (CRA) and appoints high-level officials within religious communities. In addition to Islam, the Russian Orthodox and Roman Catholic Churches and a handful of minority religious groups (e.g., Hare Krishna, Baha'i) are recognized officially as religions. The latter two exist in enclaves within the country.

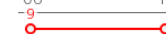
Religious writings and other media are strictly censored by the CRA, following the interests of the state in strongly preventing the dissemination of knowledge about Islam and other religions. Importing religious materials is a punishable offense. The possession of Christian writings requires authorization, which is effectively never granted. More recently, Christian Turkmen have been subject to growing pressure from Muslim Turkmen to convert to Islam. The difficult conditions faced by non-Muslims in Turkmenistan are highlighted in the World Watch List (WWL) issued by the interdenominational Christian organization Open Doors. The 2016 WWL ranks Turkmenistan among 20 states worldwide in which Christians are most severely persecuted.

Unregistered religious activity is forbidden. For registered religious groups, a mere three minor violations of an “applicable law” can spell the end of registration. According to the new On the Exercise of Religion and Religious Organizations Law issued in March 2016, only those organizations with a minimum of 50 members can register (previously a minimum of five members was required).

No interference of religious dogmas

9

'06 '18 10



1

Since 2014 to 2015, foreign financing of religious organizations has been subject to strict control. Fears of foreign Turkmen jihadists exercising a growing influence on the country's politics and religion were instrumental in this decision. However, the elite's interest in maintaining control over religious communities – including Muslim Turkmen – also played a role here. Fears that Turkmenistan nationals involved in Islamic jihadism in the Middle East (Islamic State (IS) group militants) and in the Indian subcontinent (al-Qaeda terror network) could eventually become active in Turkmenistan itself are not unfounded.

The state's basic infrastructure extends throughout the country's entire territory, although it is inefficient and faulty – due to the president's frequently renewed and often contradictory decrees, the growing self-interest of those in power at the central and regional levels, and still-rampant corruption within the bureaucracy. Many government and public administration offices serve a “representative” function alone, given that President Gurbanguly Berdimuhamedov and his high-ranking subordinates are the primary decision-makers. Nothing has changed in this regard during the period under review. In fact, this system has only been further “perfected.” Since 2015, six deputy prime ministers have held exclusive responsibility for the implementation of socioeconomic development in rural areas through the National Program for the Transformation of Social and Living Conditions in Villages, Towns, District Cities and District Centers through 2020.

The continuity and effectiveness of public administration has suffered from the constant rotation of civil servants. The president frequently and arbitrarily dismisses officials, citing ostensible unfulfilled plans and targets, the failure to complete investment projects on time or poor outcomes. Personnel re-shufflings are carried out on the pretext of containing corruption, although this aim has met with only moderate success. High-level appointees in agriculture, the oil and gas sector and the textile industry are frequently compelled to give up their office.

This perpetual rotation provides fertile ground for ever-increasing bribes to obtain high-level posts. Indeed, the supply of good jobs is a key factor in Turkmenistan's widespread nepotism and favoritism. Layoffs observed since 2015 in government agencies and state-owned enterprises have hit skilled workers without insider contacts the hardest.

2 | Political Participation

Universal suffrage is guaranteed in Turkmenistan, but the electoral process is anything but democratic, free and fair. Former President Saparmurat Niyazov was appointed for life on December 28, 1999, by Turkmenistan's highest legislative body, the national People's Council [Halk Maslahaty], dissolved in 2008 under the new constitution. The current president, Gurbanguly Berdimuhamedov, was elected in February 2007 with 89% of all votes. In the February 2012 presidential elections, he

Basic
administration

6

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5 6

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Free and fair
elections

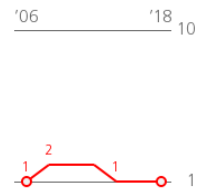
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received 97% of the vote and was thus confirmed for the next five years in office. The president's electoral "rivals," who came from his near circle and deferred fully to him, were no more than token candidates. Election observers from Western countries were not invited.

For the first time in Turkmenistan's history, citizens were allowed to "choose" between two parties in the parliamentary elections of December 15, 2013. The Democratic Party of Turkmenistan won 47 seats in parliament and the Party of Industrialists and Entrepreneurs 14 seats. The remaining seats are held by the Federation of Trade Unions, the Central Women's Council, the Youth Association and various citizens' groups. Invited officially as an observer to the parliamentary elections, the Organization for Security and Cooperation in Europe's (OSCE) Office for Democratic Institutions and Human Rights (ODIHR) issued a damning report on March 4, 2014, noting that citizens' basic freedoms were ignored in the course of an election held in a strictly controlled political environment. As in previous ballots, the electoral process was not transparent, voting procedures were irregular and election campaigning was not based on internationally recognized and customary democratic principles.

A total of nine candidates were set to run in the presidential elections scheduled for February 12, 2017, including those from the country's three registered political parties: The Democratic Party, The Party of Industrialists and Entrepreneurs and The Agrarian Party. The constitution and law on elections require candidates to have lived in Turkmenistan and worked in the public sector for the last 15 years, have a good command of the state language and collect 50,000 signatures in support of their nomination. These stipulations in essence prevent candidates from the opposition who live abroad, particularly in Moscow, Oslo and Vienna, from running for the presidency. Given the repressive atmosphere in the country, there is effectively no domestic opposition.

At the time of this writing (January 2017), it is clear that Berdimuhamedov will win the presidential election in a landslide victory. A mechanism introduced in 2011 and implemented in 2012 that allows independent political parties, public associations and citizens' initiative groups to nominate candidates is purely formal and intended to give the appearance of open elections and political pluralism. In September 2016, constitutional amendments were approved extending the president's term in office from five to seven years and eliminating the 70-year upper age limit on candidates, thereby preparing the way for Berdimuhamedov (now 59) to legally secure presidency for life.



President Berdimuhamedov exercises strict control over the government and society. He appoints all key positions at the local, regional and highest levels of government, as well as Turkmenistan's representatives in international organizations and committees. He is simultaneously head of state (president), chairman of the Cabinet of Ministers, supreme commander of the military and chairman of the State Security Council of Turkmenistan.

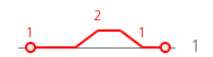
All political, economic, social and cultural programs in the country, including individual projects or changes made to programs, are confirmed by the president's consent and signature. He also confirms basic approaches and strategies in domestic and foreign policy, exercising centralized power over various aspects of policy-making. Moreover, the president controls revenues and, in particular, off-budget revenues, which comprise a substantial part of the state's budget. High-level deals with foreign firms must go through the president. Alternative political groups have no opportunities to question or challenge the existing power structure.

The formal right to assemble is guaranteed by both the September 2016 constitution and a law "on gatherings" that first came into effect in July 2015. The law allows for peaceful gatherings to take place, but they must be approved in advance and are not allowed to take place anywhere near government buildings and other locations determined by the state. As a result of the repressive atmosphere in the country, it is essentially impossible to hold an unauthorized assembly without suffering adverse consequences. The state security apparatus responds quickly – and often with violence – to local protests against, inter alia, violations of labor rights (unpaid wages) and human rights (forced displacement). Critics of the government face consequences such as fines, arrest or forced unemployment.

The constitution, the law on political parties, and the Law On Public Associations formally guarantee the right to establish and register social organizations, though these provisions remain unimplemented. Independent organizations, where they exist, are rudimentary at best. Politically active civil society organizations are, in practice, prohibited, and while there are some 300 registered non-governmental organizations (NGOs), the vast majority of these are government organized. Not a single new NGO has been registered with the Ministry of Justice since the enactment of the Law On Public Associations.

The few NGOs active in the country are subject to strict state monitoring. In 2016, the government announced Turkmenistan's first-ever action plan (2016–2020) for human rights, committing itself to the creation of favorable conditions for the registration, development and activity of NGOs and to the inclusion of civil society and media organizations in various projects. The planned activities will likely remain limited to national and international conferences that do not require the government to commit to improving the state of human rights in Turkmenistan.

Effective power to govern



Association / assembly rights



The media law that went into effect in early 2013 formally guarantees the establishment of an independent media, the independence of reporting and freedom of expression. These rights exist only on paper, however. Turkmenistan ranks among those countries with the lowest degree of press and media freedom worldwide. It holds one of the lowest positions in Reporters Without Borders' 2014 World Press Freedom Index, at 178th out of 180 states examined. Along with North Korea and Eritrea, Turkmenistan has for years occupied one of the bottom three spots on the index. Turkmenistan scores poorly in all six categories surveyed (pluralism, media independence, journalistic environment and self-censorship, legislative framework, institutional transparency and production infrastructure).

Freedom of
expression

1
'06 _____ '18 10

1 ————— 1

There are only two dozen newspapers and magazines in the country, each of them with very small circulation numbers and no genuine political or economic content. The president or the Cabinet of Ministers are the founders of virtually all press media, which almost without exception print only the speeches of the president; official press statements; chronicles of state activities; and the “advertising contributions” of ministries, state-owned enterprises and state research institutions. Critical and analytical reporting is severely repressed, and journalists who engage in critical reporting must reckon with serious harassment and punishment. The mouthpiece of the Union of Industrialists and Entrepreneurs, officially proclaimed as the country’s only “private and independent newspaper,” echoes the editorial line of official state media.

The government’s monopoly on public opinion includes the local book market, radio, television and the internet. The internet is subject to strict oversight by the government provider, Turkmentelekom. Monthly fees for a private landline connection with 256 kB to 1 GB per second are kept high (\$54–\$271) in order to limit internet availability. Only some 15% of the population have access to the internet. Critical internet sites are blocked, and access to social media is curbed. At Turkmentelekom’s rare points of public internet availability, surfers must submit personal identity cards or passports for purposes of oversight. A law adopted in late 2014, “On the Legal Regulation of the Development of the Internet and the Provision of Internet Services in Turkmenistan,” provides formal guarantees of free access to the internet. In practice, however, nothing has improved in this regard.

The population has virtually no access to international media, other than through foreign television stations received via satellite. As of January 1, 2016, only 25 representatives of the foreign press were officially accredited. Most applications for accreditation are denied.

3 | Rule of Law

The separation of powers is formally anchored in the constitution. However, there is a considerable gap between the provisions of constitutional law and on-the-ground practice. The president and head of government, Gurbanguly Berdimuhamedov, rules the country by decree. The legislative and judiciary branches of government are dominated by the executive. The lack of judicial independence creates ample opportunity for the abuse of office for political gain. Berdimuhamedov's executive orders shape activity in politics, economics and every other aspect of social life. The president appoints all senior civil servants and dismisses or transfers them to a different department at will. He alone can officially criticize other government actors and make high-level personnel changes. The effective power to govern thus rests primarily with the president.

Formally, the judiciary is institutionally differentiated, independent and established at all administrative levels. In practice, however, the judiciary is highly politicized and an integral aspect of the executive's administrative command. The enforcement and modification of legal norms often depend on the personal will and wishes of the president. Legal judgments can be subject to the president's corrections "as needed." Receiving a slot to study law, passing law-school exams or obtaining a position as a judge or lawyer are near impossible without offering "donations."

Judges are appointed by the president for terms limited to five years, which renders them dependent on the president during their tenure. The Ministry of Justice issues permits to practice law through an opaque process. Turkmenistan's judicial system features a weak procedural logic and lacks an independent judicial oversight or audit authority. Even international audit firms are obliged to work with state authorities and have only limited access to documents, facts and data. To date, there is no Constitutional Court and no law governing the legal status or activity of lawyers.

The prosecution of office abuse in Turkmenistan barely exists. The official press regularly publishes heavily filtered information in which the president criticizes incidents of corruption, publicly reprimands high-level officeholders by name and, frequently, confiscates their assets. Political motives and the president's desire to appear determined in the fight against corruption usually drive these activities. The persons subjected to such punishment are usually those who have given the impression of potentially being able to act independently (e.g., by having voiced some criticism or by having made a decision without first consulting the president or one of his associates).

In those areas most affected by corruption (i.e., public education, the health system, customs, tax administration, the judiciary, the police and the prison system), incidents of corruption are only sporadically investigated and these investigations are almost always personally motivated. The systematic prosecution of abuse of office is

Separation of powers

2

'06 '18 10



Independent judiciary

2

'06 '18 10



Prosecution of office abuse

3

'06 '18 10



impossible in Turkmenistan because the country's political, economic and legal systems are themselves based on corruption.

Civil rights, (i.e., the rights to privacy, speech, movement and assembly) are subject to systematic violation. Constitutional protection of privacy and citizens' access to justice, including the right to receiving effective legal aid and fair court proceedings, are not guaranteed in practice. Private property rights are often arbitrarily disregarded for political reasons. Women rarely have access to positions of power in politics and business. Same-sex relations are punishable by law with a prison sentence of two to three years.

As all spheres of society have become increasingly 'Turkmenified,' national minorities are subject to discrimination in exercising their civil rights. Since taking office, Berdimuhamedov has done nothing to revive or expand Russian-language schools, and educational institutions where Kazakh or Uzbek were the primary languages of instruction have not been reopened. Students of non-Turkmen origin are generally required to wear traditional Turkmen clothing. Now more than ever, members of national minorities are excluded from public service. To date, nationals with both Russian and Turkmenistan citizenship, who wish to travel to Russia, continue to face difficulties.

In 2013, Turkmenistan's Migration Service issued new-style passports – mandatory for travel outside the country – to its citizens who also held Russian citizenship, but only if that citizenship had been acquired before 2003. This move was an attempt to persuade dual Russian-Turkmenistan passport holders to relinquish their Russian citizenship. Turkmenistan authorities subsequently informed Russian officials that recognition of dual citizenship would cease altogether.

Members of the political opposition and their families are monitored, bullied and harassed by the national security service. The vast majority of political prisoners jailed during Saparmurat Niyazov's tenure remain subject to often-inhumane conditions in prison. Prison inmates are generally deprived of their legal rights. Egregious physical and mental torture, abuse and humiliation are widespread in prisons and penal camps at the hands of police and security agencies. Prison inmates suffer from disastrous hygienic conditions, chronically overcrowded cells, inadequate medical care and malnutrition. Inmates rarely file complaints against their tormentors for fear of reprisals (against their family members as well).

Civil rights

2

'06 '18 10



4 | Stability of Democratic Institutions

The criterion regarding the stability of democratic institutions is not applicable in Turkmenistan, as there are no truly democratically functioning institutions in the country. At best, the country features only various “precursors of democracy.” Although the constitution formally postulates a separation of powers, the country’s political situation contrasts almost diametrically with this fundamental societal value. The president rules the country autocratically through presidential decrees and makes decisions that are not in his jurisdiction. The legislature and the judiciary remain subordinated to an executive dominated by the presidential administration.

The strength of the president’s powers effectively crowds out any room for other political forces. This is true too of the party pluralism that was officially proclaimed in 2012. Formal democratic institutions are ultimately elements of the authoritarian presidential regime, and thus cannot function properly. For instance, while Ashgabat’s National Institute of Democracy and Human Rights is concerned with the analysis of the observance of human rights, its position as a subordinate organization within the presidential administration does not allow it to carry out objective analytical work or reporting.

In an effort to strengthen its relations with Europe, since 2008 Turkmenistan has engaged in human rights dialog with the EU involving representatives from the National Institute of Democracy and Human Rights. However, even after eight rounds of talks (the last was in May 2016), human rights have not improved in the country.

The new 2016 constitution calls for the country’s first-ever human rights ombudsman to be established. The On the Ombudsman Statute that went into effect on January 1, 2017, grants the ombudsman extensive powers, including the freedom to collect information, carry out unannounced visits to public institutions, participate in legal regulations, contact international human rights organizations and establish regional contact points. International observers regard the ombudsman, who is recommended by the president to parliament and is subject to his control, as a primarily formal institution without real powers of oversight.

Performance of democratic institutions



Commitment to democratic institutions



5 | Political and Social Integration

By adopting the On Political Parties Law on January 15, 2012, the Berdimuhamedov leadership paved the way for the introduction of a multiparty system in Turkmenistan. The law defines the legal framework for the establishment of parties, their rights and obligations, guarantees for their activity and further regulates their relationships to state organizations. Shortly thereafter, in March 2012, the Union of Industrialists and Entrepreneurs of Turkmenistan established its own party, the Party of Industrialists and Entrepreneurs of Turkmenistan. In September 2014 the Agrarian Party was founded.

The two alternatives to the dominant state Democratic Party of Turkmenistan (the former Communist Party of the Turkmen Soviet Socialist Republic) are not opposition parties in the true sense. Rather, they provide a veneer of party pluralism, while functioning as agents of state governance and control in the expanding private industry sector (The Party of Industrialists and Entrepreneurs) and implementing the regime's development programs targeting rural regions and food production (The Agrarian Party). Indeed, each party's chair, Ovezmammed Mammedov (The Party of Industrialists and Entrepreneurs) and Redzhap Bazarov (The Agrarian Party) are close confidants of Berdimuhamedov.

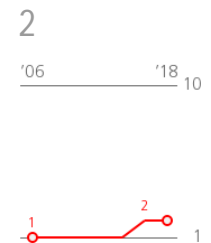
The deeply precarious mechanisms of mediation between society and the political system did not improve during the period under review. The parliaments and assemblies of elders established at the local, regional and national levels in the context of formal democratization serve a merely acclamatory function. There are no independent professional associations or trade unions.

Civil society interests are profoundly underrepresented in Turkmenistan's political system. As the demand for the expertise of an educated elite has grown, some of interests typical of civil society are finding their way into the political system. The arbitrary dismissal and transfer of ministers and other top officials, along with the preference for the recruitment of elites from the Ahal Region, limits the leadership's ability to mediate between society and the political system.

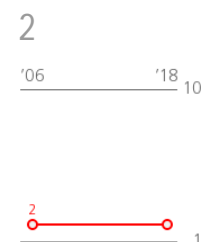
There is no reliable survey data in Turkmenistan on public attitudes toward democracy as a form of government. Research focusing on public internet comments made by Turkmenistan citizens, as well as discussions held between foreign and Turkmenistan participants at the margins of the numerous international forums and congresses now carried out in the country, clearly indicate a growing desire for more democracy among at least part of the population.

These wishes are primarily articulated by people with a high level of education who have routine or at least sporadically close contact with foreigners, and particularly by

Party system



Interest groups



Approval of democracy



n/a

Year	Score
'06	n/a
'18	n/a

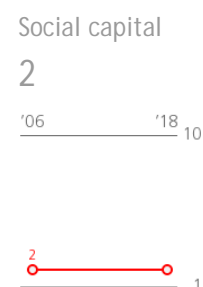
those who have become familiar with democratic systems in other countries as the result of visits abroad. As a result of the one-sided state-dictated information policy, a large part of the population still lacks information about democratic processes and practices.

Self-organization within civil society remains grossly underdeveloped. It is not welcomed by the state, which seeks to limit its capacity and strictly monitor any such activity. Education, health care and social services are provided almost exclusively by state-funded institutions and organizations. Even the farmer's cooperatives founded in 1996 remain forced into a straitjacket of state regulation. Self-help groups, usually informal networks that grow from personal relationships, tend to emerge in response to specific events and provide services otherwise handled by the state or collective farms, such as housing construction and maintenance.

Independent groups are subjected to state repression. The activities of private institutions financed from abroad are subject to state control. In 2014, amid the state's fears of increasing Islamization of Turkmenistan's youth, all privately financed, Turkish educational institutions were forced to discontinue their activities. There remains only a single Turkish school for the children of Turkish embassy staffers and Turkish businesspeople.

Levels of societal trust are low; such trust exists only within networks of personal relationships. In light of the specific political and difficult economic situation in the country, there exists a sense of solidarity and trust among the population. Mutual support and taking care of one's neighbors are characteristic of a large part of the Turkmenistan population.

However, the president's increasingly unpredictable personnel policies have exacerbated mistrust and insecurity within the administrative and security apparatus.



II. Economic Transformation

6 | Level of Socioeconomic Development

Key economic indicators for Turkmenistan point to a low-to-medium level of socioeconomic development that precludes adequate freedom of choice for its citizens. Social exclusion in the country is driven primarily by high levels of poverty, discrimination faced by ethnic minorities and non-Muslims, as well as by those members of the titular nation who are not members of leading Turkmen tribes. Given the corruption-driven high costs associated with education and health services, these groups have little access to good education or sound health care. Annual state

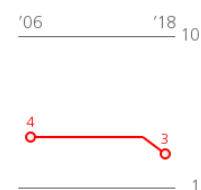
Question
Score

Socioeconomic
barriers
3

spending on education and health care is generally below 2% of GDP for each of the country's administrative regions, which is very low by international standards.

Turkmenistan's status on the Human Development Index (HDI) welfare indicator remained unchanged during the review period (other such indices are not available). Given the double-digit growth reported since 2014 by official statistics, this unchanged status is somewhat surprising. However, as international observers point out, the macroeconomic and several micro level data reported by the government are exaggerated. In addition, Turkmenistan's massive gray market is not reflected in official data.

The large and growing gap in income levels among the population is difficult to quantify in a context of faulty or absent data and inadequate transparency regarding incomes. According to official statistics, monthly gross wages rose annually between 2012 and 2015 by an average of 10.5% in nominal terms and 4.3% in real terms. The average monthly gross wage of \$360 reached in 2015 is skewed strongly upward by a few high earners in the oil and gas sectors and the state apparatus. For average wage earners, rapidly rising prices for food and all sorts of consumer-good imports combined with the elimination or reduction of some state benefits (free access to gasoline, gas and electricity subsidies) has weakened their purchasing power. Only one in five of the country's employed population earns regular wages. The largest portion of the "employed population" are effectively self-employed and often earn only sporadic or seasonal incomes. Market observers estimate that one in every four residents must survive on an income either at or below the poverty level. According to unofficially published statistics referring to the 2012 census, 45% of the country's total wealth (tangible assets) are said to belong to only 4% of the population.



Economic indicators		2013	2014	2015	2016
GDP	\$ M	39197.5	43524.2	35799.6	36179.9
GDP growth	%	10.2	10.3	6.5	6.2
Inflation (CPI)	%	-	-	-	-
Unemployment	%	9.0	9.0	8.7	8.6
Foreign direct investment	% of GDP	9.5	9.6	11.9	12.5
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-	-	-	-

Economic indicators		2013	2014	2015	2016
Public debt	% of GDP	22.1	18.0	19.4	23.9
External debt	\$ M	506.9	411.2	402.9	508.7
Total debt service	\$ M	48.2	53.7	54.1	40.0
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	1.4	1.3	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Turkmenistan lacks the fundamental framework for fair market competition. At best, some incipient moves in this direction can be observed in the small and medium-sized entrepreneur sector. However, the Union of Industrialists and Entrepreneurs (UIE) places restrictions on the activities of these firms, which must establish and maintain facilitating networks within government. Private businesses are subject to strict government regulations and any realization of their projects depends on benevolent support from both the UIE and local state administrative authorities. The UIE has increasingly assumed a supervisory role for the state through the issuing of, inter alia, permits and licenses for entrepreneurial activity.

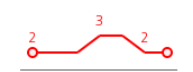
The state continues to control all key sectors of the economy. State-owned enterprises are exclusively responsible for the production and export of oil, natural gas, electricity, raw cotton, oil-based products, and other raw and semi-finished products, and even most finished products within the manufacturing sector. For cotton and grain, the state's purchasing and trade monopoly produces prices under world market levels. In several branches (of both consumer and industrial goods), prices continue to be set by the government.

Upon achieving office, Berdimuhamedov made limited improvements to investment legislation. Furthermore, due to reductions in import tariffs, fees and taxes, as well as

Market-based competition

2

'06 '18 10



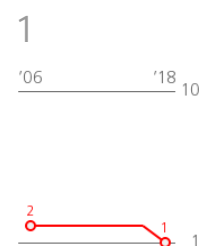
the promotion of small and medium-sized (private) enterprises, some positive developments with regard to international trade have occurred. Several large construction projects have helped drive a growth in imports of construction materials. However, construction is the most corrupt industry in Turkmenistan and awarding construction contracts is the leadership's preferred way to provide elites with opportunities to pocket funds. Notable expansion has taken place in oil and natural gas refinement (fuels and fertilizers). However, foreign direct investment remains limited almost exclusively to a few projects in textiles and the oil and gas industry, owing to an absence of investment and entrepreneurial freedom and legal certainty. Other major hurdles to foreign direct investment include rampant corruption, a massive informal sector, the state's constant interference in business matters and growing problems with currency convertibility.

The state monopolizes all strategic business sectors such as the production and export of natural gas and oil, petrochemical products, additional chemical products (fertilizers, iodine/bromine, chemical salts), the electricity industry, cotton and grain, the banking sector and the publishing and tourist industries (hotels/hostels and travel agencies). Trade in luxury goods is dominated by high-ranking government officials. Trade in other goods can take place relatively freely, but remains regulated in many ways by the state. Anti-monopoly legislation in line with Western standards does not exist in Turkmenistan. To date, there have been no signs of any moves to develop fair competition legislation.

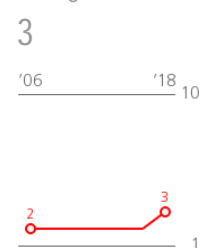
The scope of tariff trade barriers (customs, duties and taxes), as well as non-tariff trade and protectionist barriers (technical requirements, trade quotas and bans) is relatively limited. The main obstacles to trade include the state's massive interference in foreign trade matters and the lengthy and, at times, costly bureaucratic procedures involved in the export and import of goods. Added to the mix are the lack of transparency of customs clearance for goods and an often confusing and time-consuming set of procedures involved in obtaining a visa for business travel to Turkmenistan. The state maintains its monopoly over foreign and wholesale trade and its control over the bulk of goods exported and imported (types, volumes and prices of goods) through the State Commodity and Raw Materials Exchange of Turkmenistan. Liquid goods can only be exported through the exchange.

A few positive developments in the foreign trade sector were registered during the period under review. From 2013 to 2016, the share of total imports outside the state-run sector increased from 25%-30% to an estimated 40%. This development is driven primarily by the foreign trade activities of members of the Union of Industrialists and Entrepreneurs. Turkmenistan has also demonstrated a growing interest in purchasing high performance machinery, equipment and devices. In the wake of falling export revenues since 2015, the government has adopted strict measures to regulate the foreign exchange market, leading to a decline in import volumes.

Anti-monopoly
policy



Liberalization of
foreign trade



In 2013, the government established an interministerial commission to explore and prepare for the possibility of accession to the World Trade Organization (WTO). Dialog with the WTO intensified during the review period. However, the government is unwilling to comply with international trade standards (in terms of customs, taxes, insurance or export finance). Membership in the WTO is improbable in the medium term.

On a purely formal level, Turkmenistan has a two-tiered banking system with a central bank and ten commercial banks (including nine state institutes), the State Development Bank of Turkmenistan (founded in 2011 to finance large state projects), as well as two very small foreign institutions that handle business with Pakistani and Iranian firms (National Bank of Pakistan, Ashgabat branch; Bank Saderat Iran, Turkmenistan branch). Since 2012, the country's commercial banks have published their financial statements in line with the International Accounting Standards (IFRS) for banks. In the years preceding 2013, the banking system aggressively expanded its balance sheet totals, showing moderate gains in the subsequent years. However, the ratio of assets to the country's gross domestic product, at just one-fourth (2015), is still very low by international standards.

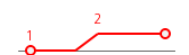
In addition, the banking system suffers from a large cash shortage, due in part to falling export revenues and the lack of public trust in domestic banks. Three state banks dominate the banking sector: Turkmen Vnesheconombank (foreign trade and project finance), Dayhan Bank (agricultural sector) and Turkmenbashi Bank (extraction and heavy industry, transport, telecommunications, construction and retail trade). Together, these three banks account for nearly four-fifths of the market. Turkmen Vnesheconombank alone comprises nearly two-fifths of the market. The country's only private credit institution, the Rysgal Credit Institute, founded exclusively by private investors under the auspices of the Union of Industrialists and Entrepreneurs, is de facto managed by the government.

Although state and non-state elites exploit banks much less than they did before 2006/2007, the practice of financing state institutions and enterprises through credit institutions continues to date. Indeed, the central bank is far removed from acting as a genuinely independent oversight and regulatory institution and operates simultaneously as a commercial institution. It continues to manage the accounts of key state actors in the oil and gas sectors and a large share of foreign-exchange reserves. Ultimately, it is the president and his closest advisers who determine the central bank's activities and guidelines.

Banking system

2

'06 '18 10



8 | Currency and Price Stability

The manat (TMT), Turkmenistan's currency, is not freely convertible. On 1 May 2008, Turkmenistan introduced a single exchange rate between the manat and the U.S. dollar, with a fixed rate to the dollar. From the January 2009 manat reform to the end of 2013, the exchange rate remained unchanged at \$1 to TMT 2.85, despite an estimated annual real inflation rate of around 10%. On January 1, 2015, as a result of pricing turbulence in the international oil and gas markets and, in particular, the massive depreciation of the Russian ruble (Russia accounts for one-fifth of Turkmenistan's exports, including the export of finished goods), the manat was devalued by around one-fifth to a new fixed exchange rate (\$1 = TMT 3.50). This exchange rate continues to apply today, despite a strong rationale for a second devaluation.

Real annual inflation rates are considerably higher (double digits) than the officially reported increase in prices (5% to 7%). The basket of goods used to determine price indices does not correspond to the needs of the population and encompasses too few services and imported consumer goods.

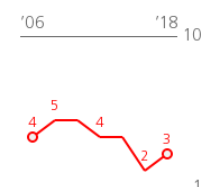
The fall in oil and gas export revenues underway since 2014, combined with a shortage of foreign currency in Turkmenistan's finance market, have led to considerable restrictions on currency convertibility. Only businesses supported by the president or state enterprises involved in the realization of key projects or prestige buildings are allowed to exchange foreign currencies at the official rate, while average citizens are subject to severe restrictions in exchanging currencies (in theory, however, a maximum of 60% of one's documented monthly income can be exchanged).

The forex shortage has fostered the reemergence in Turkmenistan of a foreign currency gray market with exchange rates far above the official rate, prompting soaring price increases for certain goods. Given that a large quantity of foodstuffs as well as non-food goods are imported, many daily commodities have become unaffordable for average citizens. The president's inner circle, the forex of which needs are covered by the favorable official exchange rate, profits from this policy.

Macroeconomically (with regard to budget balance and debt), Turkmenistan was, until 2014, in a comfortable position. Government debt never exceeded 30% of GDP by much (in 2015 it reached 36.5% according to World Bank data). The reason lies in its revenues from the export of oil and oil products. Surpluses accumulated in a stabilization fund established in 2008. The fund could have become a sound basis for a balanced and long-term investment policy in the interests of economic diversification. However, it lacks credible information both about its income and its working methods, much less about the use of its accumulated revenues. The president

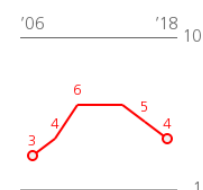
Anti-inflation /
forex policy

3



Macrostability

4



continues to have access to non-transparent, extra-budgetary funds that he can use for his own purposes, particularly for the discretionary establishment of prestige projects.

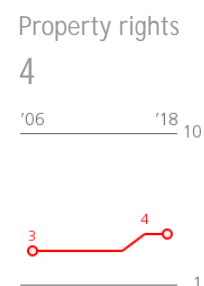
In 2015 and 2016, the economic situation in Turkmenistan deteriorated dramatically as a result of massive export losses due to falling global market prices for hydrocarbons and Russia's suspended purchase of natural gas. Several economic indicators regarding the balance of payments, budget revenues, employment/labor figures and the population's purchasing power have taken a clear turn for the worse during the period under review and are expected to continue in this vein in 2017. It is unlikely that the government will introduce truly effective measures designed to improve this state of macroeconomic affairs. In the face of unprecedented economic decline, the construction of prestige projects continued, including the building of an (estimated) \$5 billion Olympic village in Ashgabat, which is to be inaugurated in September 2017 for the Asian Indoor and Martial Art Games.

9 | Private Property

In addition to the right to acquire property, rights guaranteeing the protection of private property are formally anchored in the constitution and legislation. In practice, however, these rights are not protected. Even minor infractions, such as missed tax payments or running behind schedule in updating a license or permit can result in the confiscation of private property. Forced relocations and even expropriation in the state's "interest" – usually without any justification, notice or compensation – are not uncommon. Motivated by government elite and business interests, Ashgabat's municipal government unilaterally terminated at the end of 2016 all rental contracts in the renowned Yimpas business and shopping center, bypassing private renters and ignoring the validity of existing rental contracts. There has been no compensation for incurred costs among those affected.

In 2015 and 2016, several residential and weekend homes were expropriated and entire settlements subject to forced relocation in Ashgabat and Turkmenbashi. Police violence was reported throughout. More than an estimated 100,000 people were reported to have been affected by the forced relocations, although only a small portion were assigned new living quarters. The demolition of homes and entire settlements was carried out for the most part on orders from the president to improve the "appearance" of Ashgabat as a prestige area. In several neighborhoods throughout the city, the municipal government dismantled satellite dishes and external air conditioners on a regular basis and without prior notice, citing urban beautification. However, it is more likely that the state's genuine motivation is to limit access to foreign channels.

Given the country's political environment, domestic and foreign investors alike must reckon with the potential expropriation of their businesses or assets at any time and without compensation. This danger is reflected in the country's low score in the



Heritage Foundation's Property Rights Index. From 2013 to 2016, Turkmenistan consistently scored among the lowest globally in terms of protecting property rights, receiving only five out of a possible 100 points.

The environment for the protection of intellectual property rights is similarly dire. The law implemented in 2012 "On Copyright and Related Rights" offers copyright guarantees in line with international regulations, although these rights are generally ignored in practice or ensured only in the interest of certain businesses.

The Turkmenistan economy is centrally controlled and will remain so in the future. However, the private sector is slowly gaining traction. During the review period, the volume of small and medium-sized economic entities in private sector (aside from the many small merchants in the bazaars and marketplace) grew, in terms of both absolute numbers and turnover. Active primarily in the retail trade and distribution and construction sectors or the agro-industrial complex, the new private entities are usually members of the Union of Industrialists and Entrepreneurs (UIE), which had 15,000 members by the end of 2016. Officially independent, the UIE is de facto regulated by the state.

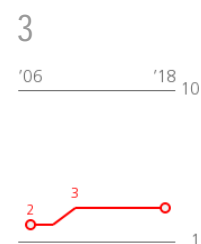
The positive developments in terms of enterprise growth do not dovetail with a genuine improvement in the business environment for private-enterprise activity. Business decisions regarding individual projects are often politically motivated and demand mastery in managing bureaucratic hurdles. Young entrepreneurs must have family members and/or close friends working in government agencies and access to funding.

Throughout the period under review, there was little evidence of the privatization program announced by the government for the 2013 to 2016 period. Only a few unprofitable companies and unfinished projects had been sold. The vast majority of enterprises in the manufacturing sector are state-controlled and are likely to remain so in the future. To date, the government has not put forth a genuine strategy or plan for navigating the transformation toward an economy based on private property.

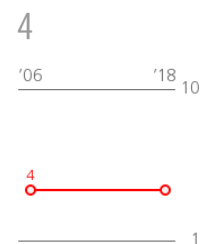
10 | Welfare Regime

In recent years, Turkmenistan has introduced a new legislative framework for its welfare regime. This has involved establishing a new social security system (Law on Social Safety Nets) that went into effect on January 1, 2013; a pension plan (Law on State-funded Pensions) as well as a pension fund at the Ministry of Labor and Social Welfare (2012); the adoption of programs designed to develop health care, education, the labor market, child care, and sport for children and youth; and attempts to facilitate home ownership. Not all citizens have benefited equally from the implementation of these measures and programs.

Private enterprise



Social safety nets



Within the framework of a long-term strategy (2012-2020) for the development of the health sector, dozens of new medical facilities have been built or modernized each year. Many of these facilities are prestige projects in the capital and not easily accessible to the average Turkmen, and require large bribe payments. For the vast majority of the population and for rural residents, in particular, the state of health services remains less than satisfactory. Medical and health care continues to suffer considerably from the sweeping cutbacks made under former President Niyazov. The acute shortage of skilled workers is a key problem. By the end of 2015, the country had only 13,600 physicians, or 2.5 doctors per 1,000 inhabitants. Official annual per capita spending on health care is low (\$130).

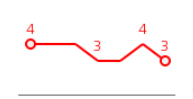
A unique feature of Turkmenistan's welfare regime is the generous energy and utilities (water, gas, electricity, et cetera) subsidies provided to citizens, regardless of their income. These subsidies have helped to soften the impact of poverty in the country. However, in 2016, the government announced its intent to reduce these subsidies, citing current economic difficulties and a tighter national budget. Observers fear that large portions of the population will suffer as a result of this change in policy, as there is no state safety net in place for the needy. Indeed, the socioeconomically disadvantaged are heavily dependent on the support of family and neighbors, village support networks, informal structures and the charity of those who are better off.

The constitution formally guarantees equal access to social participation for all citizens, regardless of their physical (dis)abilities, ethnicity, religion or social status. In practice, the country is far removed from providing equal opportunity for everyone.

Less than one-fourth of those officially registered as employed are engaged in an activity involving a formal contract. Well-paying jobs are given only to those with the requisite contacts. A further requirement to secure a position with good remuneration is the capacity to afford the "fees" involved in maintaining it. Aside from employees in the bloated civil service sector, most of the "employed" must earn their living through ongoing or spotty employment in the agricultural sector, retail or transportation and have no or little safety net. The Committee for Economic, Social and Cultural Rights under UNESCO estimates Turkmenistan's real unemployment rate at anywhere from 50% to 60%. Of particular concern are unemployment rates in rural areas and among youth.

Equal opportunity is also not a feature of the country's education sector. Despite government measures in recent years intended to reform the education system and establish new tertiary-level institutions and vocational schools, nearly three-fifths of

Equal opportunity
3
'06 _____ '18 10



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secondary school graduates face no real prospects for higher education. For instance, in 2016/17 only 7,256 new students were admitted (of reportedly roughly 35,000 applicants). Youth living outside the capital face particularly slim chances in this regard, as there is only one university (with 4,000 students) that is not located in Ashgabat.

Following a seven-year freeze, diplomas acquired in foreign countries after 1993 are now recognized, though the procedure involved is lengthy, opaque and laden with bureaucracy. Applicants must pass two state exams in the Turkmen language and submit massive paperwork regarding the course of study completed abroad. Those who completed degree coursework through distance learning are excluded from this process. An estimated 13,000 Turkmenistani citizens are affected by this form of discrimination.

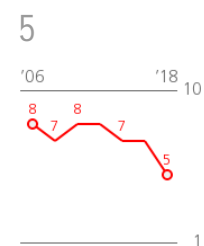
As a result of the elite-driven “Turkmenization” of society, ethnic minorities and non-Muslims are finding it increasingly difficult to take advantage of their rights guaranteed in the constitution. This is true in particular for the higher and vocational-education sectors and the public sector. The state of affairs for women in society remains difficult: women are equal to men under the law in all social and economic realms, but, as a result of cultural bias, women do not enjoy the same rights of self-determination as men. Women are rarely appointed to high positions and are often employed in poorly paid or low-skilled jobs.

11 | Economic Performance

Owing to a decline in global energy prices, the slump in the Russian ruble and a slowdown in China’s economy, in the 2015-2016 period Turkmenistan’s economic performance and overall economic health deteriorated significantly. Gross domestic product in 2016, as measured in U.S. dollars, was only two-thirds that of 2014. Profits in the state-owned sector, the primary source of revenues for the Turkmenistan state, fell sharply. Officially, the government announced real GDP growth of more than 6% in 2015 and 2016 (as compared to double-digit growth in previous years). However, these growth rates are unrealistic according to a number of parameters – not least the government’s significant understatement of the inflation rate.

Thanks to its hydrocarbons sector and its production of cotton fiber and textile products (annual production of raw cotton: 1.1 to 1.2 million tons), Turkmenistan enjoys a stable source of revenues. Natural gas, oil and oil products account for nine-tenths of the country’s export business. According to the World Bank, the country has comfortable currency reserves. At the end of 2016, foreign-exchange reserves were sufficient to cover 30 months of imports. Gross fixed capital formation also remains at a relatively high level. In 2015 and 2016, this totaled around \$15 billion

Output strength



and \$17 billion, respectively, with investment flowing primarily into oil and gas production, as well as into housing and urban construction.

With the launching of the Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline in 2009, Turkmenistan freed itself from its dependence on the Russian gas trade. Due to Russia's 2016 decision to stop purchasing Turkmenistan gas, and the continued relative export insignificance of the country's SWAP gas business with Iran (discontinued in January 2017), Turkmenistan's gas sector is today highly dependent on deliveries to China. In the interest of diversifying the export of its gas and gas chemistry products, Turkmenistan is pursuing ambitious projects for the construction of a pipeline that leads towards Afghanistan, Pakistan and India (TAPI project), as well as several major facilities for the processing of natural gas into liquid fuels and gas-chemistry products (primarily olefins and fertilizers).

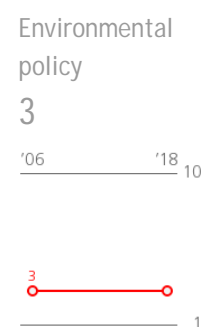
It is highly unlikely that the TAPI Pipeline – which would run a total of 1,735 kilometers and cost up to an estimated \$10 billion – will be able to commence operations in 2019 as planned, in part owing to the unstable political situation in Afghanistan. The line is ultimately slated to pump up to 33 billion cubic meters of gas annually to the partner countries. The first major new gas and chemistry plants are expected to begin operations in 2019 or 2020. These projects will undoubtedly contribute to the strengthening of the export sector.

Outside of the hydrocarbons industry, notable economic sectors include agriculture (cultivation of cotton, grain, fruit and vegetables); food, textile and clothing industries; a few product categories in the chemistry and building-materials industries; and the construction sector. The manufacturing sector is characterized by low efficiency, with profit levels in the mostly state-owned enterprises generally low.

12 | Sustainability

The government's rhetoric has increasingly included environmental awareness, but the issue receives little attention in the legislature and broader executive administration. By signing numerous international environmental protection agreements and adopting a number of new environmental laws (“On State Environmental Assessments” in 2014, “On Waste” in 2015), the country has at least formally committed itself to environmental protection. However, environmental concerns are deemed secondary to overall economic growth. Major industrial sites are badly polluted. Previously conducted or initiated measures, such as to improve ecological conditions at the Turkmenbashi Oil Processing Complex or at the fertilizer plants in Mary, have been nowhere near sufficient to enable recovery of the environment at these sites.

Many towns and settlements lack access to a continuous, high-quality water supply. Most pipeline networks and pumping stations are worn out. Desalination plants are



failing. More than 70% of the irrigation systems currently in operation need to be modernized, requiring optimization in the form of improved routing, concrete beds and covering. Thanks to ineffective or absent bedding seals, as well as high levels of evaporation, considerably less than 50% of the Amudarja River waters flowing through the country's manmade canals, actually reach the fields. Only a fraction of the country's ostensibly irrigated land (1.4 million hectares) is served by efficient water systems. It is therefore not surprising that, according to the World Bank, Turkmenistan is the world's number one water waster.

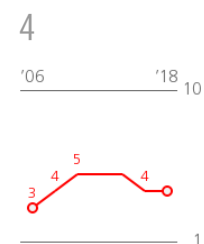
In 2012 and 2013, the country's Supreme Council for Science and Technology prepared a National Strategy for Climate Change on behalf of Turkmenistan's president, although it has yet to be implemented. The plans provide for the accelerated introduction of energy efficient and energy-saving technologies, as well as for the use of renewable energy sources in state industries, the public transportation sector and municipal housing.

During the Soviet era, Turkmenistan had an educational system with relatively high standards and good access for all social strata. Hence the literacy rate is close to 100% among both men and women. As a consequence of the transformation crisis and the sweeping education sector cuts implemented by former President Niyazov, thousands of Russian and numerous Turkmen educators left the country. The school system was thus reduced both qualitatively and quantitatively to a minimum level. Incumbent President Berdimuhamedov has increased the duration of study for general education as well as for vocational and university education to the previous number of required years and pushed forward the construction of new school facilities.

The new vocational institutions and universities offer training and courses aligned with the needs of economic sectors that have proved dynamic in recent years, including oil and gas extraction, geology, oil processing, energy, agriculture, textiles and chemicals, railway transport, construction and construction engineering. Beginning in 2013, the duration of general secondary schooling was raised from 10 to 12 years. Foreign lecturers and language teachers are once again allowed to work in the country. Berdimuhamedov has also revived the Academy of Sciences dissolved by his predecessor. On June 12, 2014, Turkmenistan's first technology center was opened on the premises of the Ashgabat technology park with support from the Academy of Sciences.

Despite these activities, the current situation in the education sector is extremely critical. Turkmenistan has among the world's lowest university capacities, with only about 65 students per 10,000 residents (as compared to 117 students in 1989). Most vocational education facilities offer no more than short training courses of between six and 18 months. There is an acute lack of qualified teachers and academically sound teaching materials. Study and training programs are burdened with

Education policy /
R&D



ideologically laden “social science” curricula. All aspects of the education system are state run.

Investment in the education sector totals little more than a 1% share of GDP (2015), a very low level compared to international averages. The volume of this investment was halved in 2015 as compared to 2014, to little more than \$400 million. Total expenditures on education accounted for just 6.5% of the state budget in 2015. The fact that universities and vocational schools do not have the capacity to take on large numbers of students is a driver of corruption within the educational sector. In popular fields of study, “gratuity” payments of \$10,000 or more are typical.

Governance

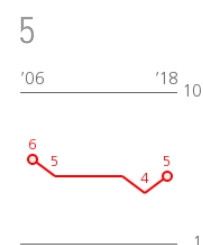
I. Level of Difficulty

In principle, Turkmenistan has a number of basic requirements in place for a successful transformation of its economy and society to a liberal democratic and economically capable state. These include the society's relatively high education level (measured on the basis of the literacy rate and the share of the population with a general secondary-level education), the effective state monopoly on the use of force, and the strict separation between church and state. The majority of the population is loyal and faithful to the country and patriotic-minded. As a country rich in raw materials, Turkmenistan has the ability to accrue substantial foreign-exchange earnings, and thus the option of using this to boost sustainable development.

However, transformation is rendered considerably more difficult by the society's many structural problems, infrastructural inadequacies and less advantageous geographic factors. Among these are pronounced regionalism and particularism, the lack of effective structures supporting the rule of law, the lack of well-trained workers for the implementation of new industrial projects (gas-chemistry, oil processing and other sectors) and other economic sectors (information technology, livestock breeding, et cetera), the president's absolute control over all state revenues and the state apparatus, the unfavorable internal situation and the significant distances between the country's few large population centers. In addition, there is considerable accumulated need for the creation of well-functioning transportation and communications infrastructures. In the interest of future socioeconomic development and income security, Turkmenistan urgently needs to diversify its gas exports to a much greater extent.

On top of all this, its political system proves an obstacle which cannot be overcome. It operates in accordance with the logic of neo-patrimonialism, which requires that government and business elites, supported by compliant legislative and judicial branches, form patron-client relations by distributing rent-making opportunities in exchange for political loyalty and financial kickbacks. Export revenues are usually diverted into offshore accounts or circulate among a small group of insiders. The security services reap much of the share of the profits and are essential in maintaining

Structural
constraints



the regime. A successful transformation would mean the end of the regime, and the regime's primary goal is self-preservation.

The underdevelopment of civil society renders Turkmenistan's socioeconomic development more difficult. Existing informal networks, which have typically emerged based on their participants' tribal affiliations or economic activities, represent a certain substitute for formally established civil society organizations. Those networks that emerged before the Soviet era continued to be cultivated in the Soviet Union at a lower level of activity. Today they mostly operate under strict state control. The officially registered NGOs active in the country are isolated, and are subject to strict regulation and systematic interference with their activities.

Turkmenistan's society holds considerable potential for conflict. However, open outbreak is relatively infrequent due to the state's repressive power. President Gurbanguly Berdimuhamedov relies considerably more than his predecessor, Saparmurat Niyazov, on traditional tribal and regional loyalties. In implementing his political and economic ambitions he gives preference to his own tribe, the Ahal Teke. Political and economic events in Turkmenistan are overall today determined by a very small number of elite families.

Members of other Turkmen tribes have little prospect of being involved in key decisions. Citizens of other ethnicities are subject to the strong pressures of Turkmenization in all spheres of society and are being systematically deprived of many of their constitutionally guaranteed rights. During the review period, the state showed a decreasing tendency to observe human rights, the right to privacy and the right to private property, leading to an increase in conflict intensity within Turkmenistan's society.

II. Governance Performance

14 | Steering Capability

The most important strategic goals in Turkmenistan are specified by the president and the presidential administration. The country's permanent state of neutrality as declared in December 1995, as well as stable political relationships with neighboring countries, including Afghanistan and the Caspian littoral states, are regarded as core elements of foreign policy. Berdimuhamedov's recent strongly articulated desire for closer relations with the European Union was driven by an interest in significantly expanding economic relations with a focus on the energy sector (the supply of natural gas, oil and oil products).

Political liberalization, that is, a diminution of the state's repressive function and granting of more rights and freedoms to the population, is not supported by the

Civil society traditions

10



Conflict intensity

3



Question

Score

Prioritization

3



president or his closest advisers. Nevertheless, a certain trend toward the promotion of greater professionalism in public administration and state-owned companies can be discerned in the interest of securing national independence. However, these efforts are undermined by significant levels of corruption.

In his first years after taking office, President Berdimuhamedov enacted a number of economic reform laws in the area of private enterprise. However, no far-reaching economic liberalization has occurred, and there is no clear strategy for the development of the business sector. The state wants to retain its dominance in the industrial sector, many service sectors and the cotton and cereals sectors. The state-owned economic sector suffers from ineffective management, a non-transparent staffing policy and an absence of clear long-term strategies.

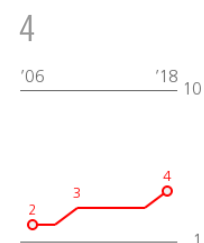
Following his accession to office, Berdimuhamedov introduced certain free market policy elements (free currency conversion, reduction or elimination of import and export duties, reduction of approval and licensing procedures, expansion of items approved for private export), largely with success. However, the lack of an independent judiciary, the significant degree of state intervention in all economic areas and the reluctance to privatize industry are all key factors impeding economic liberalization in Turkmenistan. While the government has articulated market reforms in principle, in reality it has pursued this course only selectively, with its underlying interest remaining the retention of undiminished power.

In the 2016 edition of the Index of Economic Freedom published annually by the Heritage Foundation and the Wall Street Journal, Turkmenistan falls at an inglorious 174th place out of 179 surveyed countries. The poor placing makes reference to the vast difficulties faced by private companies in the country. Turkmenistan scores below average in five of the ten categories surveyed, including investment freedom, property rights, financial freedom, freedom from corruption and labor market freedom.

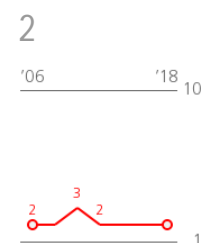
As a collective body, Turkmenistan's government has not displayed the capacity to carry out long-term reform. The state's problem-solving capacity is weak, and decision-making – based almost entirely on the president's will – is capricious. While a cursory analysis suggests that President Berdimuhamedov has reformed substantial parts of the economy, many aspects remain unchanged in practice. Foreign NGOs cannot operate efficiently in the country, which impedes innovation and flexibility.

Policy learning will only be institutionalized in Turkmenistan if ministers are charged with the responsibility for formulating and implementing administrative and economic goals during their terms of office. A certain readiness to engage in policy learning can be observed in adaptation to international norms, as has been required by international organizations. Recent laws and amendments to the labor and social codes, for example, have included international labor and social standards promulgated by the International Labor Organization (ILO).

Implementation



Policy learning



15 | Resource Efficiency

Turkmenistan is still far from using its human and economic resources in effective ways. The labor market in the public sector suffers from inefficient hiring processes, high levels of job rotation, and overemployment in many areas. These issues derive from widespread nepotism, cronyism and ineffective administrative processes. Bureaucratic regulations impede the recruitment of urgently needed medical professionals, for example. Young graduates of foreign medical schools must go through a complicated degree recognition process that typically takes up to two years.

Outrageously expensive presidential prestige projects are justified on economically dubious grounds. Among these are numerous oversized palaces and administrative, school and cultural buildings in Ashgabat, as well as the establishment of the large national tourism zone of Avaza, which stretches over 16 kilometers of Caspian Sea coastline. Between 2008 and 2016, around \$4 billion flowed into the construction of little-used hotels and other tourist facilities in this zone. Other buildings are slated to follow, with a further cost of \$2 billion to \$3 billion. Public servants are obliged to spend their holidays here, but there are almost no foreign tourists.

Approximately \$5 billion will have been spent between 2010 and 2017 on the construction of an Olympic Village where, in September 2017, the Fifth Asian Indoor and Martial Games will take place. It is already evident that many of the 15 sports venues and other facilities at the site will be used only sporadically after the end of the games.

Despite clear signs of an economic crisis, the government still expends considerable resources on building construction and to some extent on infrastructure expansion, which are, in many cases, expensive and inefficient prestige projects. However, in the purely economic sector, there are at least some qualitative signs of improvements with regard to resource efficiency. This is particularly true for the first major projects begun in the gas and petrochemical and transport sectors, as well as in the chemical industry.

Because the government lacks a coherent reform agenda, the coordination of conflicting policies by 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 coordinated slowly and implemented poorly in Turkmenistan, owing to corruption and reluctance among civil servants to take initiative for fear of reprisal.

Efficient use of assets



Policy coordination



The March 2014 adoption of the first Turkmenistan anti-corruption law, “On Combating Corruption,” has changed nothing with regard to the sprawling corruption in the state administration (including the procurement sector), the judiciary and security branches, and the education and health sectors. Between 2014 and 2016, dozens of high-ranking public servants, central agencies and regional and local administrative leaders have been forced by presidential decree to relinquish their positions due to their “corrupt behavior.” However, these sporadic actions do not change the basic problem of widespread and little-fought corruption. Media do not have any access to information on corruption cases. Only the president is entitled to make such cases public.

Abuses of power and corruption are a part of daily life for Turkmenistan’s population. Turkmenistan has for years occupied one of the lowest places in the relevant corruption indices.

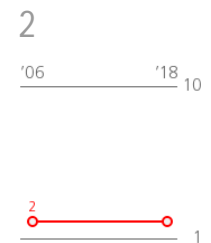
16 | Consensus-Building

There are no major political actors or interest groups in Turkmenistan willing and in a position to establish democracy or a free-market economy. The current president does not allow the formation of any opposition groups that could challenge his authority. Because of the president’s dominant position, rivalries between different state institutions such as the security apparatus, the judiciary and the ministries take the form of reciprocal denunciations of rivals’ “corrupt practices,” but are not related to – or portrayed as – conflicts over basic policy goals.

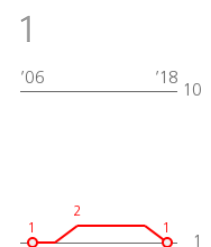
There is also no class of independent Turkmen businessmen able to strive for a more open market economy, as is the case in neighboring Kazakhstan. The ruling president sets the agenda and permits economic liberalization only when it increases government revenues or facilitates import substitution. Moreover, elites in the various ministries and agencies tend to formulate agendas with only short-term benefits for the population.

In Turkmenistan, the state is fundamentally anti-democratic. President Berdimuhamedov is not committed to liberal democracy and suppresses almost all activity in support of democratic reform.

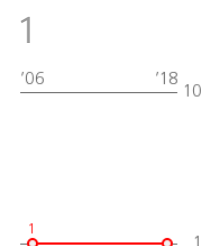
Anti-corruption policy



Consensus on goals

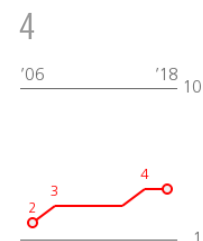


Anti-democratic actors



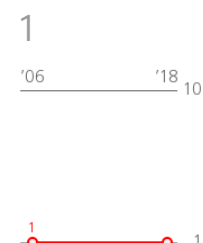
Cleavages exist along regional, ethnic, social and religious lines in Turkmenistan, but the president's personal rule and the extensive control of the security services keep dissent to a minimum. Non-Ahal Turkmen are marginalized and generally denied access to political and economic positions. The "Ahalization" of the republic has resulted in the government offering jobs and investment almost exclusively to residents of the Western Ahal region. Despite such favoritism, tight control over the population prevents cleavage-based conflicts from escalating. As long as the president is able to maintain control over the various regional factions, the prospect of conflict remains low.

Cleavage /
conflict
management



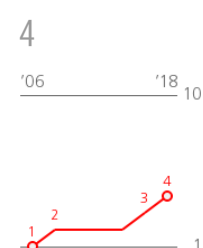
The political leadership suppresses and excludes civil society actors from the political process. It is almost impossible for independent NGOs to operate legally unless they are completely loyal to the regime. Only officially registered NGOs are able to open bank accounts, rent office space or install internet connections. Only pro-government NGOs, such as the Women's Union, the Veterans' Association, the Turkmenistan Youth Union, in addition to three political parties, have been granted official registration. However, there are several unofficial NGOs and informal groups that operate covertly limited social networks (e.g., the ecological movement).

Civil society
participation



Turkmenistan's prisons still hold many prisoners who were given severe sentences in unfair trials or who fell into disfavor around the turn of the millennium, particularly after the alleged assassination attempt on former President Niyazov in November 2002. In most cases, no information has been released for years on the fate, whereabouts or the state of health of detained persons. Family members have been denied information and contact. Due to the lack of transparency within the Turkmenistan judicial system, there are no reliable data on the total number of political prisoners in the country.

Reconciliation



An international campaign called Prove They Are Alive launched by human rights groups in 2013 has sought to bring light into this darkness by seeking clear statements from Turkmenistan's government on the whereabouts of more than 100 disappeared people. After several massive campaigns demanding this information, the government released some details in May 2016 about 49 people imprisoned during Niyazov's tenure. However, this list overlapped only marginally with that produced by Prove They Are Alive. Nothing has changed during Berdimuhamedov's tenure in office with regard to the practice of arrests and deprivation of liberty without due judicial process, and the government agenda contains no policy aiming at reconciliation or making amends for unjust acts.

17 | International Cooperation

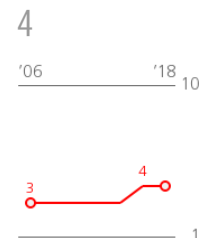
Turkmenistan is a member of the United Nations, the Non-Aligned Movement and the Organization for Security and Cooperation in Europe (OSCE). It cooperates with many other international organizations that provide economic and social development support. As of the beginning of 2017, the country had signed 135 international treaties and conventions. While the president and government have declared support in several of these agreements for the implementation of reforms for more democracy and openness in all spheres of social life, this has remained largely without repercussions in practice.

However, the president and his retinue feel obliged to join other international conventions, partially fulfill treaty obligations, and develop more democratic and market economic elements in the country from a formal legislative perspective. This trend results from efforts to pursue deeper integration into the international economy, particularly with regard to the European gas market and the regional logistics business.

Turkmenistan passed a long-term National Program for the Socioeconomic Development of the Country from 2011 until 2030. The program aims at macroeconomic stability, the introduction of market principles, strengthening of the private sector and an accelerated diversification of the economy. This, however, is to be enacted by the state, (i.e. the president). So far, the declared opening of the country toward a liberal society and economy has remained what it is, a declaration. It can hardly be expected to materialize in the medium term.

International donor banks withdrew from the country in the mid-1990s due to the strong state regulation of their activities and the reluctance to release any information regarding the real state of Turkmenistan's economy. Recently, the Turkmenistan market has seen more activity from these institutions, thanks to a tentative opening that has seen small and medium-sized private businesses develop in small steps, as well as a slight improvement in the willingness to disclose some economic data. The European Bank for Reconstruction and Development (EBRD) provided credit to some private-enterprise projects and signed a memorandum of understanding with the Union of Industrialists and Entrepreneurs in 2016. The Asian Development Bank (ADB) and the Islamic Development Bank (IDB) are involved in projects in the transport sector (gas, railroads), as well as in projects aimed at conveying electric power to Afghanistan. EU activities in Turkmenistan focused from 2014 through 2016 on projects in the educational sector, including vocational training.

Effective use of support



The government of Turkmenistan certainly makes efforts to present itself as a reliable and predictable partner for international organizations. The country can point to some foreign-policy successes with regard to international organizations, including membership in the executive committee of the United Nations Educational, Scientific and Cultural Organization (UNESCO; 2013-2017); the U.N. Economic and Social Council (ECOSOC; 2013-2015); and in three ECOSOC commissions (2016/17 – 2020/21): the Commission on Science and Technology for Development, the Commission for Population and Development and the Commission for Social Development. In May 2014 the U.N. General Assembly unanimously adopted a draft resolution by Turkmenistan spotlighting the international significance of a reliable and stable energy transportation system.

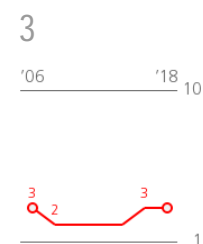
The country's involvement in international organizations and bodies should be seen in the light of Turkmenistan's significance as a neighbor of Afghanistan (with a shared 744-kilometer border), as a major gas provider to China, and as a potentially important transit country on the China-Europe route in the framework of China's new Silk Road project. At the U.N. General Assembly meeting on September 29, 2014, Turkmenistan Foreign Minister and Deputy Prime Minister Rashid Meredov declared that his country was willing to support intra-Afghanistan dialog under the aegis of the United Nations. Turkmenistan maintains close political and economic relations with Afghanistan, and is active there in the areas of power supply, rail transport and the prospective supply of gas.

The country's exuberantly positive self-presentation as an emerging market with a liberal political regime stands in contrast to the reality of the situation. The government's actual degree of credibility as a reliable international partner remains low, but this has shown a slight tendency toward improvement during the review period.

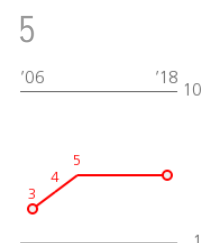
During the review period, there have been slight improvements in relations with some of the neighboring states in the Caspian Sea region, Central Asia and the South Caucasus, including Georgia. At the microeconomic level, however, cooperation with these partners remains broadly underdeveloped due to the difficult business environment in Turkmenistan and a multitude of bilateral disputes.

The country is a member of the Economic Cooperation Organization. In 1995, it downgraded its status in the Commonwealth of Independent States (CIS) from full member to associate member, and it is the only Central Asian state outside the Shanghai Cooperation Organization; it has also eschewed membership in the region's primary security alliance, the Collective Security Treaty Organization. President Berdimuhamedov considers Russia and China to be the country's most important strategic regional partners, followed by Turkey, the United States and the European Union. Turkmenistan seeks regional partnerships in the interests of expanding cooperation in the international transport, energy and industrial sectors. Relations with its major Central Asian neighbors, Kazakhstan and Uzbekistan, became more

Credibility



Regional cooperation



active during the review period. The emerging 2016 trend of a revival of political contacts with Russia is in part due to both countries' anxieties regarding the escalating conflict in the four Afghan provinces along Turkmenistan's border (which forms a part of the external CIS border).

Particularly noteworthy is the increasing intensity in the revival of bilateral relations with Azerbaijan. These were wholly frozen from 2001 until Berdimuhamedov's accession to the presidency, owing to a (still unresolved) dispute over the ownership of the offshore Kapaz/Serdar field (and portions of other fields) in the Caspian Sea. Agreements on cooperation in the fuel, energy and transport sectors, signed at the highest levels in 2008, have been fleshed out in subsequent years. The realignment of bilateral relations can be seen from the perspective of the long-planned Trans-Caspian Gas Pipeline, which has been an increasing policy focus for Turkmenistan in recent years. The roughly 300-kilometer gas pipeline, leading through the Caspian Sea, under discussion since the 1990s, is envisioned as a means of transporting gas from Turkmenistan to Western European customers via Azerbaijan, Georgia and Turkey.

However, the Caspian littoral states have been unable to reach a consensus – required for the implementation of the project – on the legal status and demarcation of the Caspian Sea. In addition, Russia and Iran have vehemently opposed this gas route on both legal and environmental grounds. The East-West national pipeline (766 kilometers), completed in 2015, forms the basis for a potential export route toward Western Europe. An agreement between Turkmenistan and Turkey on Turkmenistan gas deliveries in Turkey, signed on November 7, 2014, indicates interest in both countries in the construction of the Trans-Caspian Pipeline, which nonetheless faces major impediments to realization.

Strategic Outlook

The state of democratic and economic reform in Turkmenistan is clearly not encouraging. President Berdimuhamedov is consolidating his rule more than ever and increasingly restricting the scope of democratic freedoms. The powers of the presidential system are so great that they are effectively free of any control by the legislature or judiciary. The president's growing power is based on new constitutional provisions, his network of relationships with Teke tribe members in his former home region (Ahal), as well as Turkmenistan's powerful and repressive security apparatus.

A number of democratic and constitutional measures have been introduced in the legislature in recent years, resulting in the adoption of new laws and presidential decrees in areas such as freedom of opinion, assembly and the press; human rights; and the right to free worship. However, the ground rules for political rights and democratic freedoms enshrined in these legal acts and the constitution are not applied in practice or, at best, applied only slightly. In addition, efforts to implement these rules are undermined by informal mechanisms of state power.

Genuine democratic reform cannot be expected in the coming years. Reforms begun or announced have turned out in almost all cases to be purely rhetorical. The authoritarian presidential regime is still characterized by significant arbitrariness, oppression and censorship. In the interest of retaining undiminished power and control over all important events in the country, Berdimuhamedov engages in a practice of regular rotation of elites. The president remains fixed on the construction of his prestige projects, which offer little in the way of synergy with sustainable national development. Inequity between the poor and the rich will continue to grow, if only because of the undiminished levels of corruption and the social exclusion of entire groups.

However, Turkmenistan's government is under considerable pressure to engage in further liberalization, at least in some areas of politics and the economy. Massively diminished revenues from hydrocarbon exports have eaten into budgetary reserves and thus the leadership's flexibility to implement state projects and purchase imports. The country is today extremely dependent on an inflow of foreign funds to finance high-priority industrial, infrastructural and private sector import-substitution projects.

Such inflows will require certain improvements in Turkmenistan's political and business environments. However, the government appears to be only marginally prepared to take the necessary steps. It will probably endure the economic hard times, while placing its hopes on the flow of revenues from the export of liquid fuels and other gas chemistry products beginning around 2019 to 2020. In addition, the government hopes further (medium-term) revenues will come from gas exports to Southeast Asia (TAPI pipeline) and possibly also to Western Europe. Privatization (particularly of businesses in the manufacturing industry) could boost the private sector, but this is not currently under consideration by the government.

Given the country's worsening economic crisis in 2016 to 2017, market observers have predicted an upsurge in popular protest against Berdimuhamedov's authoritarian regime. However, such expressions of dissent have not as yet occurred, and show no immediate signs of doing so. The population's great political apathy, together with its substantial fear of reprisal from the state's security apparatus are the crucial factors in the continued stability of Turkmenistan's authoritarian regime.