# TURKMENISTAN




**Polity:** Presidential
**Economy:** Statist
**Population:** 5,200,000
**GNP per capita at PPP $ (1999):** 3,099
**Capital:** Ashgabat
**Ethnic Groups:** Turkmen (77 percent), Uzbek (9.2 percent), Russian (7 percent), Kazakh (2 percent), other (5 percent)
**Size of private sector as % of GDP (mid-2000):** 25

NATIONS IN TRANSIT SCORES

| | 1997 | 1998 | 1999-2000 | 2001 |
|---|---|---|---|---|
| Democratization | 6.90 | 6.90 | ↓ 6.94 | 6.94 |
| Rule of Law | na | na | 6.38 | ↓↓ 6.63 |
| Economic Liberalization | 6.38 | ↓ 6.42 | 6.42 | ↓ 6.50 |

KEY ANNUAL INDICATORS

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|
| GDP per capita ($) | 517.0 | 606.7 | 480.2 | 520.6 | 511.3 | 374.4 | 415.3 |
| Real GDP growth (% change) | -17.3 | -7.2 | -6.7 | -11.3 | 5.0 | 16.0 | 17.6 |
| Inflation rate | 1,748.0 | 1,005.0 | 992.0 | 83.7 | 16.8 | 24.2 | 8.3 |
| Exports ($ millions) | 2,176.0 | 2,084.0 | 1,692.0 | 774.0 | 614.0 | 1,162.0 | 2,350.0 |
| Imports ($ millions) | 1,691.0 | 1,644.0 | 1,388.0 | 1,005.0 | 1,137.0 | 1,328.0 | 1,720.0 |
| Foreign Direct Investment ($ millions) | 103.0 | 233.0 | 108.0 | 108.0 | 62.0 | 89.0 | 100.0 |
| Unemployment rate | na | na | na | na | na | na | na |
| Life Expectancy (years) | na | na | na | 65.7 | 65.9 | 66.1 | 66.0 |

# INTRODUCTION

Among all the former Soviet republics, Turkmenistan remains the least changed politically and economically since the collapse of the Soviet Union. During Soviet times, Communist Party boss Saparmurad Niyazov and his predecessors governed Turkmenistan with an iron fist.

Since the collapse of Soviet central power, Niyazov's power has, if anything, increased. Political dissent is not permitted. The economy remains mostly state-owned and centrally planned, and is run for the personal benefit of cronies of the system.

As long as Niyazov retains his dictatorial powers, there seems little hope for positive political or economic development in the country. But neither is it possible to predict a future course with any sense of certainty. The recent history of transitions in authoritarian, dictatorial regimes without solid infrastructures shows that there is always hope for a transition to democracy, if only gradually, after a change in leadership.

Since Turkmenistan became an independent country in 1991, the government has not allowed any political pluralism and has routinely prohibited, reprimanded, and oppressed opposition movements, religious minorities, and the press. Under the leadership of President Saparmurad Niyazov, Turkmenistan has become the worst-case scenario of post-Soviet development. Human Rights Watch does not shrink from calling Turkmenistan one of the most repressive countries in the world. Alone among the post-Soviet bloc countries, Turkmenistan remains a one-party state. And even that party is a mere shadow of the former ruling Communist Party. All real power resides in the country's dictator, who savagely crushes any opposition or criticism. In December 1999, Niyazov proclaimed himself president for life, thus deepening his already omnipotent cult of personality.

Turkmenistan's economy remains dependent on state control, and there have been few reforms of the Soviet-style command system. Turkmenistan contains among the world's largest known gas reserves, which, along with oil, account for much of the country's export revenues. Despite this wealth of natural resources, the potential for the country's energy sector continues to be limited by a lack of adequate export routes. The economy suffers from a large trade deficit and foreign debt. Corruption, poor infrastructure, and an inadequate legal environment discourage foreign investment. The predominantly state-controlled agricultural sector, especially cotton cultivation, employs nearly half of all workers, and most of Turkmenistan's citizens live in poverty.

In 2000, President Niyazov introduced a series of new laws on banking and education that will dramatically increase the seclusion of the state. In June, he barred citizens from holding foreign bank accounts, and in July, he announced that all potential university students would be screened—back three generations—to filter out all but "the most worthy" applicants. Students previously approved to study in the United States have been barred from departing. All told, these measures effectively prevent most legitimate cross-border contact, discourage investment, and isolate the country.

Turkmenistan survives by virtue of its vast wealth in natural resources. Although the country must be viewed as grossly unsuccessful economically, its resources are sufficiently great to yield enough income for the economy to limp along and for Niyazov to remain in power. Unfortunately, there have been virtually no advances in human and political rights since independence, relative to the progress made by other former Soviet Republics. One can only hope that a nation of such great human and natural resources will one day begin its long-awaited transition to freedom and prosperity.

# DEMOCRATIZATION

## Political Process

| 1997 | 1998 | 1999-2000 | 2001 |
|---|---|---|---|
| 7.00 | 7.00 | 7.00 | 7.00 |

Since the establishment of Turkmenistan's independence in 1991, President Niyazov has led the country as an authoritarian ruler and has fostered an elaborate cult of personality centered on his adopted title of *Turkmenbashi* (leader of the Turkmen). The president's birthday is a national holiday, monuments to Niyazov are found across the country, and the state controlled media lavish constant praise on the president and his policies. In practice, there are very few checks on executive power.

Turkmenistan is a single party state, and there is little separation between the party and the state. Nearly all outspoken opponents of the regime have either spent time in prison, are currently imprisoned, or are in exile. The legislature and judiciary enjoy no genuine independence from the executive branch. There is still only one political party, the National Democratic Party, which Niyazov leads. On December 28, 1999, Niyazov proclaimed himself president for life.

The 1992, post-independence constitution created a bicameral parliament. The 150-member *Khalk Maslakhaty* (People's Council) meets at least once per year to establish broad policy guidelines and to consider constitutional amendments, treaties, and referenda. A smaller 50-seat *Majlis* (assembly) is directly elected for a five-year term and performs legislative functions. The People's Council is chaired by Niyazov and includes the 50 assembly members; one directly elected member from each of the country's 50 districts; ten appointed regional representatives; the cabinet ministers; regional, district, and city governors and mayors; the chairmen of the supreme court and the economic court; and the general prosecutor. There is no prime minister. The Supreme Soviet became the parliament following the adoption of the constitution, pending elections.

The December 11, 1994, legislative elections bordered on the farcical. Fifty-one candidates "contested" the 50 assembly seats, and officially 99.8 percent of the population turned out to vote. President Niyazov selected the candidates on the basis of loyalty, and nearly all belonged to his Democratic Party of Turkmenistan, the sole legal political party. The remaining candidates were nominally independent but firmly pro-Niyazov. The government did not permit foreign observers to monitor the elections, which were neither free nor fair.

Parliamentary elections were held on December 12, 1999, but the Organization for Security and Cooperation in Europe (OSCE) decided not to deploy any election monitors on the grounds that even the minimum level of pluralism for competitive elections was absent. Virtually no political activity was allowed, and the president reportedly selected the candidates for the Majlis. According to the President's Ten Year Democratization Plan, Turkmenistan should be moving gradually towards a multiparty system. Increased powers are supposed to be granted to the Majlis, and opposition political parties should be allowed to form by 2008 or 2009.

The 1992 constitution declares Turkmenistan to be a secular democracy in the form of a presidential republic. It calls for the separation of powers between the various branches of government but vests a disproportionate share of power in the presidency. In practice, President Niyazov's power is absolute, and the country remains a one-party state. Despite the appearance of decision making by consensus, most decisions are made at the presidential level.

Niyazov ran as the sole candidate in the June 21, 1992, presidential election. The government announced the election barely one month before the polling date. The official results gave Niyazov 99.5 percent of the vote. Voter turnout reported was 99.9 percent. The government did not permit foreign observers to monitor the vote, which was neither free nor fair. In the January 15, 1994, referendum, a reported 99.9 percent of participants approved the extension of Niyazov's rule until 2002, thus eliminating the need to hold the elections scheduled for 1997. International observers did not monitor the referendum, which was neither free nor fair.

By official count, turnout was 99.9 per-cent for the June 1992 presidential elections; 99.9 percent for the January 1994 referendum that extended the president's tenure; 99.8 per-cent for the December 1994 parliamentary elections; and 98.9 percent in the December 1999 parliamentary elections. Anecdotal reports suggested that actual voter turn out was low in all cases. No data are available on the turnout for local elections, or on the actual level of female voter participation.

Turkmenistan is a single party state led by an authoritarian president and his advisors. The ruling National Democratic Party of Turkmenistan is the only registered political party; President Niyazov heads the party, which is the direct successor to the Turkmen Communist Party. Two small democratic reform-oriented parties, Agzybirlik (Unity) and the Democratic Party of Turk-menistan (not to be confused with the ruling party), surfaced respectively in 1989 and 1990. Neither party was registered nor permitted to operate. Most persons involved in opposition activity have left Turkmenistan and now reside in Russia, Turkey, Sweden, or the Czech Republic. In the mid-1990s, Niyazov described opposition groups as lacking both popular support and political programs that offer constructive alternatives to existing policies. He has cited these qualities in disqualifying groups from eligibility to register as opposition parties.

Insofar as such groups have the potential to promote ethnic or other tensions in society, they may be viewed as illegal and, hence, may be banned under the constitution. Given such an environment, opposition in Turkmenistan has been quite restrained. Agzybirlik, originally registered in 1989, consists of intellectuals who describe the party program as oriented towards a multiparty democratic system based on the Turkish model. Unity has devoted itself to issues connected with national sovereignty and the replacement of the communist political legacy.

At the 25th Congress of the Communist Party of Turkmenistan held in December 1991, the party was renamed the Democratic Party of Turkmenistan. Niyazov was confirmed as its chairman. According to its program, the Democratic Party serves as a "mother party" that dominates political activity but promotes the activity of a loyal political opposition. Following Niyazov's proposal, the Peasant Justice Party, which is composed of regional secretaries of the Democratic Party, was registered in 1992 as an opposition party.

The National Democratic Party claimed a membership of 60,000 in early 1995. Party membership is likely to be of importance mainly to government officials and those seeking government office. Given the lack of a competitive party system, however, party membership appears to be solely a means of professional advancement. No data are available on the proportion members who are women. Party and government activities are largely male preserves. Women occupy several key state positions, but they hold only a handful of parliamentary seats and are underrepresented in the bureaucracy.

## Civil Society

| 1997 | 1998 | 1999-2000 | 2001 |
|---|---|---|---|
| 7.00 | 7.00 | 7.00 | 7.00 |

The constitution permits peaceful assembly and association, but severely restricts it in practice. While a number of domestic nongovernmental organizations (NGOs) do exist, they have limited and politically unthreatening agendas like nature conservation or women's rights. The government forbids the formation of any organization with even the slightest suggestion of a political agenda. Only a handful of

unregistered organizations without a political agenda are permitted to function in Turkmenistan. Among them are the Ashgabat Ecology Club, the Dialogue Youth Leadership Center, the Information Consultative Center of Turkmenistan, the Society for Preservation of Nature, and the Dashkavouz Ecological Club. Other even less formalized organizations undertake social activities like assisting battered women. However, information on these groups is sketchy. They fear exposure and contact with foreigners, which may result in the suspension of their work.

There are several government-controlled entities that attempt to occupy a niche filled by NGOs in democratic societies. One of them, the Institute for Democracy and Human Rights, was established in October 1996 and is attached to the Office of the President. It helped bring about some limited penal reform in 1997.

There are few locally led efforts to increase philanthropy and volunteerism. No data are available on the proportion of the population that is active in private voluntary activity. Anecdotal evidence and the small size of the nongovernmental sector suggest that relatively few citizens are involved in civil society. Several unregistered, female-led NGOs provide services such as psychological and legal counseling to female victims of violence and discrimination, legal education, and skills training. Most of these groups have, at the most, several dozen members. They include the Anna Women's Club, the Ynam Club, and Zaman. There are also several associations of businesswomen, including the Center for Businesswomen and the Women's Issue Club, both located in Ashgabat.

The government of Turkmenistan does not encourage the formation of NGOs, and it uses registration requirements to prevent the emergence of potential opposition groups. The political environment in Turkmenistan is hostile to organized independent activity of almost any variety. Article 28 of the constitution guarantees citizens the right to form "social associations" and NGOs. The 1992 Law of Turkmenistan on Social Associations (as amended in 1994) stipulates that citizens may form and register social associations by holding a founding convention or general meeting; drafting a charter; and submitting an application and its charter to the Ministry of Justice or the appropriate local body (depending on the geographical scope of the NGOs activities). In practice, though, the government denies registration to most groups.

The 1992 law guarantees NGO's the right to engage in a variety of activities but does not articulate a set of legal rights or otherwise provide protection from arbitrary state action. The law authorizes state agencies to monitor the financial operations of NGOs, including their sources of income, amounts of contributions, and payments of taxes. The law also authorizes the Ministry of Justice to monitor NGOs' compliance with their charters by, among other means, sending ministry representatives to participate in NGO activities. NGOs function under constant threat of reprisal and, as such, do not push for legal or regulatory reforms or otherwise engage in political activities.

The handful of NGOs that exists in Turkmenistan does so by remaining uncontroversial and limiting its activities. Given Turkmenistan's totalitarian character, the conditions for expanding the NGO sector are poor. Little information on the functioning of Turkmen NGOs is available. Most NGOs have less than a dozen members and, therefore, have simple lean management structures. Some international NGOs provide information on management issues, generally in English or Russian. A few domestic NGOs provide legal and management advice to less developed organizations. Right, an NGO based in Ashgabat, provides legal advice to other NGOs. The Information and Consulting Center distributes information on management issues, helps NGOs develop grant proposals and funding sources for projects, and provides information technology training for administrators and Web masters of local groups.

Little information concerning the financial status of NGOs is available. Some, however, have received external support and work in conjunction with other organizations based in Central Asia. Most NGOs depend on funding from foreign governments, foreign nongovernmental organizations, or international nongovernmental organizations. NGOs enjoy few tax benefits.

According to an April 1998 report by the U.S. Embassy in Ashgabat, religious organizations and entities that are engaged in educational activities approved by the government are exempt from profit tax payments. However, it is not clear how many entities have taken advantage of this benefit. The 1992 Law of Turkmenistan on Social Associations (as amended in 1994) authorizes state agencies to monitor the fiscal records of NGOs, including their revenue sources. There are few procurement opportunities for NGOs in Turkmenistan's statist economy. In general, the government views NGOs with suspicion. This attitude is most evident in the fact that authorities usually deny registration to NGOs that do not even have political agendas. It is difficult to determine the public's attitudes toward NGOs because there is no public opinion polling or other accurate means of evaluating citizens' preferences. Few citizens are involved in NGO activities, but this may reflect the threat of government sanctions more than negative public attitudes towards NGOs. Media coverage of nongovernmental groups is virtually nonexistent. Government officials rarely engage with NGOs. Due to the hostile environment NGOs face, they refrain from policy advocacy.

Turkmenistan has inherited the Soviet system of government-controlled trade unions. Under the 1992 Law of Turkmenistan on Social Associations (as amended in 1994), citizens may form trade unions by holding a founding convention or general meeting in which the delegates represent at least 1,000 people. The Soviet-style Colleagues Union is the only legal trade union federation and claims 1.6 million members. Unions almost never act as true labor advocates, and employers flout workers rights with impunity.

Workers lack the right to hold strikes or bargain collectively. Data are not available on trends in union membership. Although no law specifically prohibits the establishment of independent unions, no such unions exist. No attempts have been made to register an independent trade union during the past few years. In fact, unions in Turkmenistan function as arms of management to monitor and control workers rather than to defend workers' rights.

Interest group participation is limited to government-controlled organizations that take their cues from the president and his most senior advisors. The only, very limited, intervention in the policy process that has been accepted, particularly since 1996, has been advice from some international lending institutions. In reality, the Niyazov regime does not permit interest group participation in politics. Nearly all NGOs work in nonpolitical fields such as agriculture, cultural affairs, business promotion, youth activities, the environment, education, science, health care, and the provision of aid to the disabled. There are no formal human rights organizations, and the government harasses groups like the Ashgabat-based Russian Community that try to protect human rights. The Russian Community is consistently denied registration and faces serious harassment. On January 21, 1999, for example, the Committee on National Security (KNB, the state security and domestic intelligence organization) arrested the cochairman of the Russian Community, Viacheslav Mamedov, but released him on February 3 after forcing him to sign a statement promising not to engage in any "political activities" or to speak to the press.

The government has organized several tightly controlled organizations that ostensibly fill the niche occupied by NGOs in democratic societies. In 1996, the state organized National Institute for Democracy and Human Rights, which reports directly to President Niyazov, began operating. It mainly receives complaints from citizens regarding the judicial process and issues replies. Institute personnel have also conducted investigative tours of prisons and met with local and regional authorities. In practice, the Institute has little, if any, power to obtain redress.

## Independent Media

| 1997 | 1998 | 1999-2000 | 2001 |
|---|---|---|---|
| 7.00 | 7.00 | 7.00 | 7.00 |

The Niyazov regime does not permit private print or broadcast media. At independence, authorities closed several autonomous newspapers and magazines published by individual ministries and other state institutions. Niyazov issued a decree in 1996 declaring himself the founder and owner of all national newspapers. As of July 1999, there were 23 state-owned periodicals. Fourteen newspapers and ten magazines are published in the capital, including one magazine and two newspapers in Russian and one newspaper, *Zaman*, in Turkish. The main government dailies are the Turkmen language *Turkmenistan* (circulation 70,000) and the Russian language *Neutral Turkmenistan* (which received its current name in December 1995 after the United Nations General Assembly granted Turkmenistan the special status of a neutral state (circulation 40,000). *Vecherny Ashgabat* (Evening Ashgabat) is issued three times a week. Almost all newspaper and magazine publishers are located in the Ashgabat Press House. Two nominally independent newspapers, *Adalat* (Justice) and *Galkynych* (Revival), were in fact created by presidential decree and are under state control. In recent years, authorities frequently seized Russian newspapers from arriving passengers at the Ashgabat airport. Since 1998, though, Russian and western newspapers often have been available at hotels in Ashgabat.

The state-owned National TV and Radio Broadcasting Company is the sole domestic broadcaster. Channel One of Turkmenistan TV broadcasts nationally in Turkmen and Russian. The Ashgabat channel (Channel 2) broadcasts mainly in Turkmen to the capital region. Radio-1 broadcasts nationally and features mainly news and entertainment. The National TV and Radio Broadcasting Company delays and censors the Public Russian Television (ORT) and Radio Mayak broadcasts from Russia. Turkish television programs can also be received in Turkmenistan. Radio Liberty's Turkmen Service broadcasts a one-hour program in the Turkmen language three times per day every day on short wave. Authorities permit few foreign journalists to enter the country and often restrict the movement of those allowed to enter.

Since all media are state-owned, their viability is subject only to Niyazov's whim. Journalists are civil servants, and the government funds newspapers largely out of the state budget. Advertising and sales amount to only a small portion of newspapers' income. The government imports and strictly controls the distribution of newsprint, which Turkmenistan does no produce, and controls the availability of equipment and other material required for publishing.

The OSCE Representative on Freedom of the Media reported in February 1999 that Turkmenistan is characterized by a "virtual absence of media freedom" and "offers no independent media nor any healthy debate on the issue." In January 2000, OSCE Representative Freimut Duve condemned parliament's decision to allow the president to serve without term limits. A press release from Duve's office stated that the decision "virtually rules out the possibility of the development of any independent media in Turkmenistan." In March 2000, the New York-based Committee to Protect Journalists (CPJ) said that among all the countries of the former Soviet Union, Turkmenistan stands out as having the most repressive climate for journalists.

The 1994 Rules for Publishing in Turkmenistan place numerous restrictions on the press. Most notably, the rules authorize the cabinet-controlled Committee on Protection of State Secrets in Press and other Mass Media to exercise censorship over all print and electronic media. Each newspaper editorial board reportedly has a designated employee

who maintains regular contact with the Committee on Protection. The 1994 Rules on State Licensing of Publishing Activity require all publications to obtain a permit from the Committee on Protection. In February 1998, the government ordered all publishing houses and printing establishments to obtain a license and to register their equipment. The government controls the distribution system for newspapers.

The presidential press service and the department of press issue guidelines for political content. Party functionaries hold most key positions in the main newspapers, television channels, and radio stations. Overall, the government prohibits the media from covering opposition views, criticizing the president, or reporting on Turkmenistan's political and social problems, with the exception of the president's frequent criticism of government officials. News segments on both domestic television channels are almost entirely devoted to coverage of Niyazov's activities and speeches. They slavishly praise and promote the president's policies and nationalist ideology. In March 1999, Radio Free Europe/Radio Liberty noted that the media "regularly portray Niyazov as a genius or in the role of a wise and benevolent father figure."

Radio Liberty's (RL) short-waive broadcasts are the only alternative, non-state source of information in the Turkmen language. CPJ has documented a regular pattern of state-sponsored abuses against RL journalists, including harassment, beatings (often severe), and detention. Two RL stringers use bylines; the rest write anonymously or use pseudonyms. In 1999, KNB officials questioned Saparmurad Ovezberdiev, a stringer, after his meetings with international human rights monitors. In August 2000, Turkmen authorities ordered Ovezberdiev to stop working. According to a CPJ report, "the authorities claimed he lacked accreditation, although the Ministry of Foreign Affairs had granted permission for RFE/RL journalists to work in the country." The KNB warned several journalists not to meet with an advisor to the OSCE Special Representative on Freedom of the Media who visited Turkmenistan in April.

The European Commission reported in 1997 that a 1995 presidential decree (the text of which has never been made public) apparently dissolved all independent associations of intellectuals, including the Journalists' Union of Turkmenistan. Currently, all press and journalistic associations are under government control. These include the Turkmen Branch of the Central Asian Association of Journalists, located in Ashgabat; the Ashgabat-based Women in Media of Central Asia; and the "Initiative" Center of Young Journalists at Turkmen State University, which offers training to prospective journalists. No data are available on the proportion of their membership that is made up of women.

In January 1999, agents from the Committee for National Security broke up a meeting of journalists in Ashgabat at which participants planned to announce the formation of an independent journalists' association. In February, the OSCE's Representative on Freedom of the Media reported that his advisor had been scheduled to meet in Ashgabat with journalists who were either not employed by the state media or unemployed. None showed up, and some invited journalists reported that intelligence agents had warned them not to participate in the meeting. Others told OSCE representatives that they did not attend the session due to fear of government reprisal.

Internet use in Turkmenistan is low. According to the International Telecommunications Union, Turkmenistan had only 2,000 Internet users in 1999, or 4.56 users per 10,000 inhabitants. In May 2000, the Ministry of Communications revoked the licenses of Turkmenistan's five private Internet service providers and, thus, eliminated all competition to the state-run service. According to the CPJ, one of the five service providers was Ariana, a company launched with assistance from USAID in 1995. Prior to this measure, some NGOs had free access to the Internet at the expense of commercial users. Turkmen Telecom's revocation of licenses seriously damaged the development of NGOs.

Turkmenistan's domain name, .tm, was assigned years ago, but until recently there was no technological infrastructure to make the domain work. Every domain must be run by a root server, which, like a central switchboard, keeps track of all the Web pages in the domain. Turkmenistan lacks the resources to provide such a server and uses the services of NetNames, a London-based private Internet registry. Under an agreement with Turkmenistan, NetNames runs the .tm root server in London and provides various technical services to operate the domain. In exchange, NetNames acquired the right to register companies for a fee under the attractive .tm domain. Purely coincidentally, Turkmenistan's domain name also happens to be the international symbol for the word "trademark." NetNames registers domain name for a fee of $249; the Turkmenistan Network Information Center charges $50 per year for registration. This is the same price as any domain name in the United States.

Freedom House's annual *Survey of Press Freedom* has rated Turkmenistan "Not Free" since 1992.

## Governance and Public Administration

| 1997 | 1998 | 1999-2000 | 2001 |
|---|---|---|---|
| 6.75 | 6.75 | 6.75 | 6.75 |

Article 4 of the constitution states that the government is based on the principle of the separation of powers between the legislative, executive, and judicial branches. Article 68 of the constitution grants the president, deputies of parliament, and the cabinet of ministers the right to introduce legislation in parliament. In practice, President Niyazov has consolidated state power in his hands, handpicks the nominees for parliament, and maintains tight control over the body. He also frequently bypasses parliament entirely by ruling by decree. Parliament does debate and amend draft legislation but otherwise has no real independent power.

The constitution also established the people's council to serve as "the highest representative organ of popular power." Intended to unite the three branches of government, it comprises the president of Turkmenistan, the deputies of the national assembly; members of the supreme court, the cabinet of ministers, and the supreme economic court; 50 peoples' representatives elected from the districts to the council; and officials from scientific and cultural organizations.

Members of the people's council serve for five years without compensation. This body meets at the request of the president or the national assembly, or when mandated by a one-third vote of its members. Functions of the people's council include advising the president, recommending domestic and foreign policy, amending the constitution and other laws, ratifying treaties, and declaring war and peace. In theory, its powers supercede those of the president, the national assembly, and the supreme court. However, the council has been described as a kind of "super-congress of prominent people" that rubber-stamps decisions made by the other national bodies, in most cases the executive. Essentially, the principle of separation of powers in Turkmenistan is a mere formality.

Article 82 of the constitution gives executive authority over local governments to the governors of the regions, districts, and towns. Article 81, however, subordinates the governors to the president. Under Articles 85 and 86, towns, villages, and settlements have elected councils, whose duties include setting basic local priorities in economic social and cultural development, approving the local budget, establishing local taxes and tariffs, and making decisions on the use of natural resources. In practice, Turkmenistan is a highly centralized state, and local authorities have perhaps even less power than they did under the Soviet system.

Under the Article 81 of the constitution, the president appoints and may dismiss governors of the regions, districts, and towns. Niyazov regularly shuffles, dismisses, and often reappoints governors. Towns, villages, and settlements have local councils that in theory are directly elected and serve as representative bodies. In practice, these elections are neither free nor fair.

Article Five of the constitution stipulates that "legal acts" of government bodies must be published for general notice or otherwise made available to the public, with the exception of acts that contain vaguely-defined "state or other legally protected secrets." Article 26 guarantees citizens the right to "receive information," subject to the broad qualification that this information is not a "state, official, or commercial secret." In practice, executive and legislative bodies operate with a minimum of transparency. State media publish legislation only after it becomes law.

According to an August 1998 International Monetary Fund (IMF) report, the Ministry of the Economy and Finance (MEF) does not make the state budget public. Compounding this lack of transparency is the fact that a large number of ministries remain off budget, including "self-financing" ministries that generate their own resources mainly through commercial activities. In addition, the MEF has no control over the revenues and expenditures of four state funds created by presidential decree between 1996 and 1998 in the energy, agriculture, transport and communications, and health sectors. The funds manage the resources of state enterprises in their respective sectors, and receive their revenue directly from the sale of goods and services. Moreover, many ostensibly on-budget ministries have revenues that are not included in the regular budget. The IMF noted in its report that it has an institutional policy of encouraging governments to prepare budgets according to economic categories such as wages and interest in order to make fiscal management and projections more transparent. In 1998, the MEF presented the budget on the basis of economic classification for the first time, alongside its traditional functional classification system.

Turkmenistan is divided into five administrative *velayats* (divisions), headed by governors. Ashgabat, the capital, is geographically located in Ahal Velayat but does not come under the velayat's administrate jurisdiction. The velayats are subdivided into districts, villages and towns. Local governments generally lack sufficient funding to carry out their duties. They are financed by transfers from the central government and by limited tax revenues. The primary local government expenditures are on education, health care, investment, operational spending, and subsidies. Municipal governments have little control over their budgets.

The quality of public administration in Turkmenistan is poor. President Niyazov's practice of frequently shuffling local leaders, civil servants' relative lack of training, and local governments' limited resources all contribute to poor service delivery. There have been no significant constitutional or legislative changes to local power since the country gained independence. The government has also not carried out civil service reform. Local civil servants are generally appointed and employed by the central government.

# RULE OF LAW

## Constitutional, Legislative, and Judicial Framework

| 1997 | 1998 | 1999-2000 | 2001 |
|---|---|---|---|
| 6.75 | 6.75 | 6.75 | 7.00 |

In May 1992, the Supreme Soviet approved a post-independence constitution that was drafted without public consultation. The constitution neither grants the judiciary the power to interpret the constitution nor makes explicit provisions for judicial enforcement of the basic law. In practice, the judiciary has no independent power and has played no role in interpreting and enforcing the constitution.

In June 1997, the rubber-stamp parliament approved a new criminal code that actually contains few true reforms. In April 1999, the Moscow-based Interfax news agency

quoted President Niyazov as saying, "Outrages in law enforcement agencies, such as illegal accusation or detention of citizens, still take place." Nevertheless, Niyazov's repressive style of government suggests that in practice he condones such actions. There have been credible reports that political prisoners are singled out for cruel treatment. Security forces also have used denial of medical treatment and food, verbal intimidation, and placement in unsanitary conditions to coerce confessions. Prison conditions are poor and fall far short of international standards, and in recent years several prisoners have died due to overcrowding or lack of medical attention. Prison officials reportedly often requested bribes to implement releases under amnesties.

The constitution formally guarantees freedoms of expression, assembly, association, and religion, and the right to move freely within the country. Article 9 guarantees citizens the right to own private property, including the "means of production," land, intellectual property, and other material and intellectual "items of value." Article 18 of the constitution states that men and women have equal civil rights. Article 21 prohibits torture or cruel, inhumane, or degrading treatment or punishment. Articles 22 and 23 guarantee the right to privacy. However, Article 19 conditions the exercise of rights and freedoms on the vaguely-defined stipulation that they do not "violate . . . social order, or harm national security." Despite all of these guarantees, state agents violate human rights with impunity.

The KNB and the criminal police, a separate entity that falls under the Ministry of Internal Affairs, cooperate on internal security matters and regularly monitor the activities of suspected or actual government critics and dissidents. However, in May 2000, a law was passed that bans searches of homes without judicial authorization. According to a Human Rights Watch report, the law was intended to keep law enforcement officials from, in the words of President Niyazov, "searching in order to take vengeance on people."

Authorities do not permit peaceful opposition demonstrations. The government requires citizens to carry internal passports, which record their place of residence, as a form of identification. Citizens must obtain exit visas to travel abroad, and in practice the government restricts international travel. In June 2000, the government created the Council for the Supervision of Foreigners to monitor foreign nations living in or visiting the country.

Turkmenistan abolished the death penalty on December 29, 1999, after having announced a moratorium on the death penalty in December 1998. In previous years, hundreds of death sentences had been imposed, mostly for drug-related offences.

There is no state religion in this predominantly Sunni Muslim country. The Law of Turkmenistan on Religious Organizations (as amended in 1996) requires religious groups to have at least 500 adherents who are Turkmen citizens and over the age of 18 in order to register with the government. The only groups that meet these requirements are the Sunni Muslim and Russian Orthodox Christian communities. The government reportedly applies the 500-member standard on a regional rather than national basis, meaning that religious groups seeking to register in a particular city need to have at least 500 adherents in that city. Consequently, Catholics, Seventh Day Adventists, Lutherans, Baptists, Bahai's, and other groups have ambiguous legal status.

Likewise, the government has a consistent track record of harassing representatives of various religious faiths. Raids on religious meetings and places of worship, detentions, deportations, and dismissals from jobs are common tactics. Human Rights Watch reported, for example, that in February 2000 authorities arrested Khoja Ahmed Orazgylych, a Muslim dissident, after he criticized the government in a Radio Liberty broadcast. Orazgylych was sentenced to internal exile and his copies of the Koran in Turkmen were burned. President Niyazov subsequently decreed that Muslim religious schools should be brought under the state's authority.

Article 42 of the constitution protects citizens from having to give testimony against themselves or close relatives. Article 105 mandates that all trials must be open to the public, and Article 108 guarantees defendants the right to obtain legal assistance at any stage of the legal process. The criminal code guarantees defendants the right to have a public trial, to be represented by a defense attorney, to have access to evidence, and to call witnesses to testify on their behalf. In practice, judges frequently and arbitrarily deny due process rights. Corruption in the judiciary remains a serious problem, and the government has not carried out any real reform of the judicial system. Most judges, it seems, remain from the Communist era.

Turkmenistan's court system is divided into three levels. At the highest level, the supreme court consists of 22 members, including a president and associate judges, and is divided into civil, criminal, and military chambers. The supreme court hears only cases of national importance. It does not function as an appeals court. At the next level, appellate courts function as courts of appeal in the six provinces and the city of Ashgabat. Sixty-one trial courts that operate in the districts and in some cities have jurisdiction over civil, criminal, and administrative matters. In courts at this level, a panel of judges presides in civil and criminal suits, and typically one judge decides administrative cases. Outside this structure, military courts decide cases involving military discipline and crimes committed by and against military personnel.

The constitution stipulates that the president of Turkmenistan is responsible for appointing all judges at all levels to terms of five years. The president may reappoint judges indefinitely. The judiciary is subservient to the Ministry of Justice but is especially deferential to the wishes of the president. The office of the procurator general fills the roles of grand jury, criminal investigator, and public prosecutor. It dominates the judicial process, especially criminal proceedings.

According to the U.S. Department of State's report on human rights practices in Turkmenistan in 1999, there are no independent lawyers available to represent defendants, with the exception of a few retired legal officials. As such, attorneys who are employed by the state represent most defendants. The court appoints a lawyer to defendants who cannot afford to pay for one, but public defenders generally only see their clients at trial.

The legal system disregards the role of lawyers in civil and criminal proceedings, and the Ministry of Justice has not permitted the formation of an organized bar. No data are available on the number of new lawyers graduated by the higher education system or on the proportion of lawyers and judges who are women. Given the government's discrimination against women in employment opportunities, it is likely that women are underrepresented in the legal profession and the judiciary.

Article 17 of the constitution guarantees equal rights and freedoms for all citizens regardless of nationality, ethnicity, language, or religion. However, Article 13's designation of Turkmen as the official language potentially puts ethnic minorities at a disadvantage in education and employment opportunities. The Turkmen language is a mandatory subject in school, although in some schools it is not the language of instruction. Russian language instruction and usage are widespread. Minorities are underrepresented in government, the bureaucracy, and parliament. The government favors ethnic Turkmen for employment and promotion opportunities in the state sector and the civil service, effectively limiting employment and educational opportunities for ethnic minorities. A 1995 agreement between Moscow and Ashgabat gave ethnic Russians the right to hold dual citizenship.

The state enforces judicial decisions to the extent that it suits its interests to do so. Judges do not rule against the interests of the state or state actors, so there are no test cases in which the state has been required to enforce judicial decisions that adversely affect its interests. Officials reportedly demand bribes to enforce many routine judicial decisions.

## Corruption

| 1999-2000 | 2001 |
|---|---|
| 6.00 | 6.25 |

Government officials at all levels reportedly demand bribes to provide most basic services. Judges and law enforcement officials are notoriously corrupt, at times using the threat of detention or imprisonment to collect bribes. In recent years, President Niyazov has announced amnesties for several thousand prisoners, but many reportedly had to pay their jailers in order to be released. Prisoners must pay bribes to receive basic necessities. The U.S. Department of Commerce reported in its June 1999 "Commercial Overview of Turkmenistan" that, "Complaints of corrupt and inept practices have marred the foreign investment environment."

President Niyazov and his close advisors are widely believed to have direct ties and interests in the agricultural, energy, and industrial sectors of the economy. Niyazov vets major contracts and frequently awards contracts for political reasons with little regard for the feasibility and economic viability of the project or the competency of the contract recipient. There are no formal boundaries between public and private sector activity either in law or in practice.

Turkmenistan does not have laws, regulations, or penalties to combat corruption effectively. Authorities have pursued few, if any, anticorruption cases. Executive and legislative bodies operate with a minimum of transparency and are not subject to audit and investigative rules.

As in previous years, the government has not carried out any major anti-corruption initiatives during the period covered by this report. President Niyazov frequently criticizes government officials and agencies for corruption and has dismissed several officials for alleged corruption. However, most officials who are dismissed for corruption are never formally charged with a crime. For example, at a cabinet of ministers meeting in September 2000, Niyazov lashed out against widespread corruption in the country, particularly noting that poor harvests in the Dashoguz region were the result of a lack of discipline among the region's leadership. President Niyazov then dismissed Yaggeldy Gun-dogdyv, the head of the Dashoguz region, and Sergar Babayev, the head of the local agricultural concern. No charges were filed against the officials. Likewise, in January 2000, Saparmurat Nuryev, the deputy premier and minister of energy and industry, was dismissed from his posts and charged with embezzling $2.5 million from the state treasury. The president gave Nuryev the option to repay the money or face prosecution. (No information is available on Nuryev's decision.)

In April 1997, President Niyazov fired the prosecutor general. He accused prosecutors of incompetence and corruption and of prosecuting innocent people rather than criminals. In 1999, he dismissed Deputy Premier Boris Shikhmuradov for allegedly being involved in the leasing of a bookstore to companies that did not sell books. That same year he dismissed three senior officials, including the chairman of the National Radio and Television Company, for embezzlement and taking bribes worth up to $1 million. There is no evidence that courts have prosecuted any of these officials.

There is no public opinion polling in Turkmenistan, so it is impossible to determine public attitudes regarding public sector corruption. Transparency International and other major corruption-ranking organizations have not rated Turkmenistan.

# ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

## Privatization

| 1997 | 1998 | 1999-2000 | 2001 |
|---|---|---|---|
| 6.75 | 6.75 | 6.75 | 6.75 |

Reliable data on Turkmenistan's economy has proved difficult or impossible to get. Unlike other nations in the region, the country regularly fails to report its economic performance to the CIS Statistics Committee. When the government does make figures public, they are almost invariably positive. The government does not utilize international accounting methods and generally withholds information on the economy. There are no data concerning Turkmenistan's informal economy.

Turkmenistan's economy remains dependent upon central planning mechanisms and state control. The government, however, has taken a number of steps that appear designed to give the impression that it is being won over to the cause of economic liberalization. It also often announces grandiose programs of reform that lead nowhere. In its *Transition Report 2000*, however, the European Bank for Reconstruction and Development (EBRD) gave Turkmenistan the lowest transition indicator scores of all countries in Central and Eastern Europe, the Baltic states, and the Commonwealth of Independent States. On a scale of 1 to 4+, in which 1 represents little or no change and a minus sign indicates that a country is on the borderline between two categories, Turkmenistan received the following scores: large-scale privatization (2-), small-scale privatization (2), governance and enterprise restructuring (1), price liberalization (2), trade and foreign exchange system (1), competition policy (1), banking reform and interest rate liberalization (1), and securities markets and non-bank financial institutions (1). Turkmenistan and Uzbekistan were the only countries whose average scores declined due to backtracking in the reform process.

In 1993, the State Property and Privatization agency was formally established. At the close of the year, the government enacted a law that resulted in the privatization of about half the country's minuscule trade and service sector (catering shops, barbershops, etc.) in 1995 and 1996. In January 1994, a program of economic reform, "Ten Years of Prosperity," was enacted with the approval of the people's council. Key elements of the plan included the privatization of state enterprises and the reform of land ownership, including the privatization of collective and state farms. In the spring and summer of 1997, the government issued a presidential order and three presidential decrees on privatizing industrial enterprises and allowing the auctioning of small- and medium-size enterprises.

According to the EBRD, the first wave of small-scale privatization ended that year, and since then the country has sold only 200 out of 2,000 small-scale assets remaining in state hands. Likewise, by mid-2000, Turkmenistan had privatized only six out of a total list of 280 medium-scale enterprises. In June 2000, according to the EBRD, the government announced a tender for 32 medium-size enterprises. However, at a meeting with members of the Turkmen intelligentsia in October 2000, President Niyazov said that Turkmenistan would not privatize its oil and gas industry for at least the next 10 or 15 years. The president expects the oil and gas industry to remain a key branch of the country's economy and to provide funds for social policy.

State and collective farms dominate Turkmen agriculture. Land has only been leased to farmers under promises of good behavior. Farmers are permitted to hold only an estimated three hectares of land, which cannot be traded. The government retains control over all inputs, access to irrigation, equipment, pricing, transportation, and international markets. Compulsory purchases are the rule in agriculture. There are only a handful of private farmers in the entire country.

Land remains under state control. A 1996 law makes Turkmen eligible to own land but does not grant them the rights to sell, exchange, or transfer it. Housing has been privatized to a modest extent and remains heavily subsidized by the government.

## Macroeconomic Policy

| 1998 | 1999-2000 | 2001 |
|---|---|---|
| 6.25 | 6.25 | 6.25 |

The government is trying to broaden the tax base in the face of a massive shortfall in gas revenues, particularly in 1997. Although international lending institutions and individual donor countries have agreed to support the government's avowed desire to do so, it is unclear if reforming the tax system is a government priority. The existing tax system has been built on an ad hoc basis without concern for the practicalities of implementation. Changes to the contradictory, and often incoherent, tax system were made in 1997, but details are unavailable. Although income and corporate taxes range from 25 percent to 35 percent, there are no tax laws detailing specific rates, liability, and collection procedures. As a result, rates often are applied arbitrarily. The government also imposes a 20 percent value added tax (10 percent for foodstuffs) and various taxes on foreign exchange earnings and capital gains. There is also a 25 percent profit tax and a 15 percent dividend tax on income from dividends, copyrights, licenses, leases, royalties, and other sources of income. Various exemptions are available, especially for foreign investors.

Tax arrears in 1997 reached 600 billion *manat*, or 21 percent of total revenues. A major shortfall in tax revenue occurred in the first half of 1999. Official tax arrears increased to 1.75 trillion manat, though, of course, the real

level is likely higher. Much of the taxes paid to the government are in the form of goods and services. In 2000, the oil and gas industry accounted for 38 percent and consumer goods for 13 percent of tax revenues.

The official budget was essentially balanced in 1996 and 1997, but the deficit increased to **2.7** percent of GDP in 1998. The EBRD estimated Turkmenistan's general government balance at 0.9 percent in 1999 and 0.2 percent for 2000. The government announced that Turkmenistan rounded out the first nine months of 2000 with a budget surplus of three billion mantas, equivalent to 0.02 percent of GDP.

According to the Economics and Finance Ministry, revenues in 2000 were expected to be 4.1 trillion mantas (98 percent of what had been targeted). Expenditures were expected to be 4.97 trillion mantas (85 percent of what had been targeted), with 3.11 trillion mantas out of the total being used for wages, pensions and various welfare allowances. However, major expenditure items are off budget and thereby distort the real versus reported deficit. Delayed payments of wages and pensions, a regular feature of post-Communist Turkmenistan, also serve to artificially improve appearances on the expenditure side. According to official statistics, the country's GDP was 17 trillion manats at the end of September 2000.

Banking reform has hardly occurred in Turkmenistan. The Central Bank of Turkmenistan is not independent but, rather, acts as the government's main lending institution. It attempts to implement monetary policy but lacks the necessary mechanisms and authority to do so. Some autonomy was granted in 1997 in an attempt to stabilize the free-falling economy. Yet the sacking in May 1999 of reformist central bank Governor Khudayberdy Orazov (who successfully battled hyperinflation) clearly showed the limits of this policy.

There are two state banks (Vneshekonombank and Sberhank), a state agricultural bank (Dayhan, or Peasant, Bank), and 13 commercial banks. The first three dominate the financial sector and control more than 83 percent of bank credits. In January 1999, 52 former state agricultural banks were converted into the Peasant Bank. As of December 1996, 90 percent of bank credits had been extended to state enterprises, which also hold most bank deposits. Private enterprises have little access to credit. In January 2000, president Niyazov set up a new bank with US $50 million in starting capital to provide cheap loans primarily to small and medium enterprises. According to the EBRD, though, the bank had made only one loan by mid-year. As of June 2000, citizens may no longer hold foreign bank accounts.

The president has the power to restructure private commercial banks into state commercial banks by decree. In December 1998, three banks were converted in this way and restricted into narrow areas of financial activities. The minimum reserve requirements were increased to 500 million manats from 100 million in July 1997, following an increase from 25 million manats to 100 million in February 1996. There is no depositor insurance in Turkmenistan. A liquidity crisis at the end of 1998 forced an emergency merger program to reduce the number of banks.

The Interbank training center was established in 1995 to train staff for commercial banks. Since then, an estimated 300 students have gone through the program. In June 1997, the government established the Interbank Council to oversee the reorganization of the banking system. The status of this endeavor and the government's commitment to such reorganization are uncertain. In September 1999, President Niyazov dismissed the chairman of Turkmenistan's Vneshekonombank (the official foreign trading bank) for failing to attracting foreign investment and reporting an allegedly false foreign debt figure to the IMF.

Turkmenistan introduced the manat in November 1993. The Central Bank and the government control the main foreign exchange market. Access to foreign exchange auctions is limited, thus allowing the central bank to set the official rate. Commercial banks also operate a smaller foreign exchange market. The commercial bank rate generally values the manat at 30 percent below the official rate. The country has attempted to unify the official and commercial bank rates three times, with the last try failing in October 1998. As of October 2000, the annual average exchange rate was 11,630 manats per $1.

Capital markets are undeveloped in Turkmenistan. The State Commodity Exchange in Ashgabat was founded in August 1994. There is no stock market in Turkmenistan, though officials claim they were working on establishing one in the near future. The government has been selling small amounts of treasury bonds to local commercial banks since August 1996.

## Microeconomic Policy

| 1998 | 1999-2000 | 2001 |
|---|---|---|
| 6.25 | 6.25 | 6.50 |

The concept of private property and its protection is not well known or widely accepted in Turkmenistan, and a genuine real estate market does not exist. Citizens may own property but cannot sell, trade, or transfer it. Although the right to own land does exist under Article 9 of the constitution, few citizens actually own any. President Niyazov signed a law protecting intellectual property rights in September 1992, but the country is not currently a member of the major international intellectual property conventions.

According to the EBRD, during the course of 1995 and 1996, Turkmenistan's formerly comprehensive system of price controls was loosened significantly. A wide range of basic goods, including meat, sugar, vegetable oil, tea, bread, slat, and flour, were subsidized until spring 1998. Small businesses in the trade and service sector are permitted. The laws that regulate them, including numerous presidential decrees, legislative acts, and administrative rules, are not

only contradictory but changes are often applied retroactively. Private citizens are poorly informed about commercial law, and there are few private lawyers available to provide them with professional advice.

Although a bankruptcy law was passed in June 1992, few companies have been forced into bankruptcy to date. The state retains extensive influence and coercive power over the private sector. For example, it has reserved the right to control employment in privatized enterprises. Licensing procedures require persons to navigate a corrupt bureaucracy.

Turkmenistan's system of commercial courts is unreformed. It lacks the resources, independence, and experience necessary to handle commercial disputes. Judges are inept and corrupt. The situation is even more hopeless with regards to disputes with the state. Disputes tend to be resolved through informal channels, not institutionalized ones.

The state dominates the most profitable, and potentially profitable, sectors of the economy such as energy, agriculture and industry. Competition is an alien concept and can be seen only to a very modest extent among the small businesses that have cropped up. Some competition has been introduced to government procurement contracts through international tenders. Previously, they were awarded for purely political reasons, and some still are.

No tariffs are charged on imports or exports, except for excise duties on specific goods. In 1997, the number of items subject to excise taxes rose from 11 to 104. Delays, paperwork, and corruption constitute informal trade barriers. There are formally few quota restrictions on imports and exports, but most foreign trade is subject to licensing. Since 1994, all export and import transactions (with the exception of cotton, oil, and natural gas) have had to be processed and endorsed at the official State Commodity and Raw Materials Exchange (CRME). Foreign trading companies must pay a 0.2 percent commission. A 6 percent tax on income from international cargo transport is also charged. Furthermore, trading companies must be licensed by the CRME. These licenses are auctioned off. Reportedly, having a close personal relationship with someone on the CRME can be quite helpful.

According to the EBRD, merchandise exports rose from $614 million in 1998 to an estimated $1.162 billion in 1999. The EBRD has projected merchandise exports for 2000 at $2.4 billion. Ukraine is Turkmenistan's largest trading partner, followed by Iran. Turkmenistan has enjoyed most favored nation status from the United States since October 1993. Turkmenistan did not join the customs union established by other CIS countries in 1996, and it is not a member of any free trade arrangements. In June 2000, President Niyazov moved to isolate the country further by barring citizens from holding foreign bank accounts.

Turkmenistan officially welcomes foreign investment in all areas. In practice, though, corruption, forced contract renegotiations, and poor infrastructure have dampened investors' interest in entering the market. The tax and legal environment is uncertain and harsh. A May 1992 law on foreign investment is the main regulatory vehicle. It requires foreign investors to report quarterly to the Ministry of Foreign Economic Relations. Foreign investments that combine export/import transactions must be approved by the State Agency for Foreign Investment. Following approval, foreign companies need to complete registration documents and apply for an export license as well. Large investments must have the personal approval of President Niyazov, who is known for being arbitrary and unpredictable. Since passage of a new law on hydrocarbon resources in March 1997, the government has been actively courting energy multinationals to participate in the development of Turkmenistan's large oil and gas reserves through production sharing agreements and as minority joint venture partners. Few have taken the country up on the offer.

Though not a formal requirement, almost every single company investing in Turkmenistan forms a joint venture with a local company. Ten free economic zones have been in operation since 1992. In these areas, foreign investors have formally unrestricted rights to accumulate and repatriate profits. They also have the freedom to set their own prices. Reinvested profits are exempt from taxation in these zones, and profit taxes are not levied for the first three years of profitable operations. However, these zones are hardly used, mainly because of infrastructure problems. Cumulative foreign direct investment for the period 1989 to 1999 was only $782 million, or $159 per capita. The EBRD has estimated total FDI for 2000 at US $100 million.

The energy sector is the most important one in Turkmenistan, but it has hardly been restructured. The country has one of the largest natural gas reserves in the world, with an estimated 2.86 trillion cubic meters (and possible 4.5 trillion more). It also has substantial on and offshore oil deposits, which the government estimates to be as high as 6 billion barrels. The Office of the President controls the sector, and there are no plans to privatize any portion of it. Traditionally, some two-thirds of Turkmenistan's budget comes directly from gas export revenues. Gas has provided anywhere from one-third to two-thirds of the country's GDP.

Turkmenistan seeks significant investment and Western participation in the exploration, exploitation, and transport of hydrocarbons in eleven major geological blocks. Legislation to encourage this was passed in 1997, after it became apparent that Turkmenistan could not, as it intended, become a new Kuwait without attracting foreign investment. In fact, although foreign companies have come in force to the other Central Asian republics, they have avoided Turkmenistan because of its unfavorable investment climate.

Aside from a small pipeline to Iran, which became operational in 1997, Turkmenistan remains dependent upon exporting its gas via the Russian pipeline system. In 1994 and 1995, Russia unilaterally thwarted Turk-

menistan's ambitions to sell its competing gas to Western countries and, instead, directed the flow solely to CIS countries in the South Caucasus and Ukraine. This was a painful blow because these customers (Ukraine being the biggest) do not pay in hard currencies and go through prolonged episodes of payment arrears. In 1995, Turkmenistan's gas output fell to less than half of its pre-1990 level. In March 1997, Russia's Gazprom restricted the flow of gas through the northern gas pipeline to Ukraine and the Transcaucasus after President Niyazov suspended a Russia-Turkmenistan gas joint venture.

In the face of this, Turkmenistan has declared its desire to export gas via Iran to Turkey, via Iran or Afghanistan to Pakistan and India, and potentially under the Caspian Sea to Azerbaijan from where it would cross Georgia into Turkey. All of these potential export routes remain problematic for both political and commercial reasons. In August 1999, the government signed a preliminary agreement with an international consortium to build the 2,000-kilometer Trans-Caspian pipeline at an estimated cost of $2.5 billion. However, the project is subject to heavy Azeri demands for concessions (not to mention disputed oil fields with Turkmenistan) and uncertain Turkish demand for the gas. The country's two oil refineries (Turkmenbashi and Chardzhou) are in need of reconstruction and operate far below capacity.

## Social Sector Indicators

The official unemployment rate, which measures only the registered unemployed, was 1 percent in 1997. Of course, there are large numbers of unregistered unemployed and underemployed workers. Although an employment guarantee exists, it is particularly problematic considering the country's high population growth and significant excess employment in the state sector. The official trade union, the Federation of Trade Unions (FTU), has used travel restrictions to prevent workers from changing jobs or moving.

According to the EBRD, the social security system is partly financed by payroll taxes set at 30 percent of wages in the enterprise sector and 20 percent in agricultural associations. Public pensions were provided to approximately 425,000 people in 1995. The demographic trend in Turkmenistan is a boom in the young population; only 4 percent of the population is over the age of 65. This huge influx of young workers may help to ameliorate the traditional problems of pay-as-you-go pension systems.

In July 1998, Turkmenistan increased the pension age by two years, to 62 years for men and 57 years for women. Pension insurance premiums were also increased from the previous 1 percent to at least four percent of earnings. The actual amount depends on a contract that individuals must sign with the social welfare ministry and an authorized bank.

The average monthly wage in mid-1999 was 400,000 manat. This amount was equivalent to $30 at the black market exchange rate and was down from $40 a year earlier. Wage arrears are a problem. The current income per capita in Turkmenistan is $2,500 to $2,800 and is expected to increase to $12,000 to $13,000, according to President Niyazov. GDP per capita was US $511.3 in 1998, an estimated US $381.7 in 1999, and a projected US $458 in 2000.

The 2000 *UN Human Development Report* indicates that the combined primary, secondary, and tertiary enrollment level is 72 percent. The report's education index for Turkmenistan is 0.89, which was quite high on even world standards and among the best of the transition countries. The proportion of GDP spent on education averaged 3.4 percent from 1994 to 1997, about half the level of developed countries. About 98 percent of the population is literate.

The infant mortality rate was 55 per 1000 births in 1998. The birth rate was estimated at 25.9 births per 1,000 in 1999. Life expectancy in 1998 was 62 years for men and 69 years for women. The divorce rate in 1996 was 18 percent of all marriages. According to the *Human Development Report*, the suicide rate in Turkmenistan for the period 1993-98 was 8.1 per 100,000 for males and 3.4 per 100,000 for females. There were 353 doctors and 1,195 nurses/midwives per 100,000 for the period 1993-95. In the period 1996-98, 3.5 percent of GDP was spent on health care. For the period 1990-97, there were 11.5 hospital beds per 1,000 persons. There is a medical insurance premium that equals 4 percent of individuals' wages.

According to the World Bank's *2000-2001 World Development Report*, in 1993, 20.9 percent of the population lived on less than $1 (at PPP) per day and 59 percent lived on less than $2 (at PPP) per day.

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