Economic Reform in Turkmenistan: Issues and Challenges

The Sasakawa Peace Foundation
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Preface

The countries in Central Asia have embarked on transforming their economy from a centrally-planned to a market-oriented system. While some achievements have been made recently, the economic transitions in these countries are still likely to be traumatic. Enormous investments are needed to rehabilitate, modernise, restructure, and increase physical capital and premature market-oriented institutions also severely impede the possibility of any substantial self-sustaining economic takeoff in the immediate future, even with high level of financial assistants and investments. However, the transformation is imperative and inevitable. Evidently, the transition process in Central Asia has been accompanied by, among other things, excessive inflation, decline in production, rising unemployment collapse of the social safety nets, increase poverty and distorted income distribution. It is in this respect, therefore, failure to achieve improvements in economic performance in a transition process may threaten the security and livelihood of millions of people.

Since its establishment in 1986, the Sasakawa Peace Foundation (SPF) has been keenly aware of Japan’s obligation to make contributions befitting its economic stature in global community. Over the last decade, the SPF has been carrying out a wide range of activities related to socio-economic development issues in developing countries. Keenly aware of the unfolding events in Central Asia, the SPF believes that it can contribute to constructive development in Central Asia by focusing on projects that target at the promotion and introduction of market-oriented economy.

Against this background, in 1994, the SPF has embarked on a project entitled “Implementing a Market Economy in Central Asia: Implications from East Asian Experiences.” The principal objective of this project is to promote the implementation of market economy in the Central Asian countries with particular emphasis on the East Asian development experiences. In collaboration with East Asian economies, the project sets to facilitate a smooth transition of economic system in Central Asia through a broad range of policy oriented research cum training program for the policy makers or economic managers/planners from the Central Asian countries. In this connection, since 1995, the project has conducted three study tour missions in China, Japan, Korea, and Taiwan for the project’s target group from Central Asia.

This Report contains the findings compiled by the Turkmenistan working group. The SPF hopes this Report will help to disseminate the observations made by that working group with regards to the economic reforms in Turkmenistan. We hope that these observations will also further enrich the discussion in deriving lessons for economic reform and development objectives in Central Asia in general and Turkmenistan in particular.

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Turkmenistan is the most southern and one of the most ancient states of Central Asia. It occupies an area of 488,000 square kilometers; in terms of territorial size, it is the second largest country of Central Asia (surpassed only by Kazakhstan). Turkmenistan has a population of 4.8 million (1998); that represents 9 percent of the total population of Central Asia.¹ Three-quarters of the land area of the country is occupied by the Karakum Desert. In the west, the state borders on the Caspian Sea. The largest river of Central Asia—the Amu-Darya—traverses the country from north to east. Turkmenistan acquired independence on 27 October 1991. Its capital is the city of Ashgabat, with 500,000 residents.

Turkmenistan possesses immense reserves of various natural resources. The country’s natural riches include virtually all the elements on the Mendeleev table (for example, iodine, bromine, sulfur, etc.) as well as a variety of metals, but the most important resources are natural gas and petroleum. According to the estimates of some foreign experts, the Amu Darya basin occupies the third place in the world in terms of its hydrocarbon deposits (surpassed only by the Arabian-Iranian and West Siberian reserves). Turkmenistan holds more than 60 percent of the total petroleum reserves of Central Asia; it also possesses one of the world’s largest reserves of natural gas. The

¹ Turkmenistan has a high rate of population growth, with an average of 2.2 percent per annum. Children and adolescents constitute a rather high proportion of the population; those of working age also constitute a major share of the population. The share of people entering the workforce is generally 3 to 3.5 times greater than those leaving it. The proportion of people in the workforce constitutes approximately 50 percent of the total population. The population also has a high general educational level and can be used in various sectors of the economy (if given the requisite training). For inhabitants over age fifteen, 93 percent have an incomplete secondary education or higher. The high educational level of the population creates a favorable precondition for the preparation of highly skilled employees in a modern market economy. Those under the age of twenty-five constitute 76 percent of the total population. The average age of the population is twenty-three. The indigenous population is not disposed toward migration. The relocation of people occurs mainly within Turkmenistan, to newly developed regions, but also from the village to the city. By contrast, Turkmen are reluctant to emigrate to areas outside Turkmenistan. That is due to the preservation of national and everyday cultural traditions, as well as the solidity of family connections. Turkmenistan is also characterized by the durability of marriages and the low rate of divorce (1.4 divorces per 10.2 marriages and 1,000 inhabitants—that is, one third of the average for the other members of the Commonwealth of Independent States [CIS]). A large proportion of the population (55.5 percent) resides in rural areas. The share of he urban population is 44.5 percent. The cities of Turkmenistan are not large. Of the twenty cities, six—Ashgabat, Chardzhev, Dashkhovuz, Mary, Nebit-Dag and Turkmenbashi—have more than 50,000 inhabitants.

² It must be conceded that, although Turkmenistan has acquired some experience in working at sea, it does not have an adequate base for the development of its Caspian reserves of oil. Therefore, its only option is to create an international consortium to tap the petroleum reserves of the Caspian shelf.

³ The figures given for oil and gas reserves represent only those that have already been explored. In the language of oilmen, however, there are also “deeper layers” at a depth of 4 to 6 kilometers; the oil people have yet to explore these additional reserves. The highly optimistic forecasts on oil and natural gas reserves in Turkmenistan are based on the analysis of 3,000 exploratory, 2,400 operating oil wells, 54,000 km. of seismic profiles, and cross sections 2,700 oil wells. Each year, the country opens up three to four new deposits of oil and natural gas, including those in areas that were not intended as targets for oil and gas exploration.
confirmed reserves of Turkmenistan include 21 trillion cubic meters of natural gas and 6.8 billion tons of petroleum. Those reserves also include holdings in the Caspian Sea: 4.8 trillion cubic meters of natural gas and 3 billion tons of petroleum. According to the most recent data, up to 80 percent of the territory of Turkmenistan has the prospect of holding oil and natural gas deposits.

We deem it best to begin this analysis of the economic complex of Turkmenistan by first examining the tendencies and special features of the social and economic development of the region prior to the time that the country acquired its political and economic independence. We shall begin this overview by first analyzing the positive and negative dimensions of the economic complex that had developed during the Soviet era.

When the Turkmen Soviet Socialist Republic (TSSR) was established in 1924 as part of the Soviet Union, agriculture played the main role in its economy and accounted for approximately three-quarters of gross output in the republic. Agriculture also provided employment for tens of thousands of peasant (dekhkan) households, which represented about 90 percent of the workforce.

During the period of Soviet rule, the structure of this economic complex underwent change, including the establishment of small industrial processing enterprises. But the greatest development was in the extraction sector, especially the fuel and energy complex, which, at the time of the breakup of the USSR in 1991, accounted for approximately 30 percent of the gross industrial output of the republic. That same year, the Turkmen SSR ranked fourth in the world in the production of natural gas; the leading branches of its industry consisted of natural gas, oil, and the petroleum-refining branches. The Turkmen SSR delivered natural gas, gasoline, kerosene, diesel fuel, and other petroleum products to other countries of the world and to the other republics of the former USSR.

It was also during the Soviet period that Turkmenistan developed the production of electricity. Thanks to the construction of the Mary State Regional Hydroelectric Plant, which uses natural gas for fuel, the Turkmenistan acquired the capacity not only to satisfy all its own needs for electricity, but also to deliver part of the surplus to the Central Asian electric power grid.

On the basis of the unique Kara-Bogaz-Gol basin (which has cooking salt, potassium sulfate, iodine, bromine, and a sulfate called mirabilite), during the Soviet period Turkmenistan also built up its chemical industry. Turkmenistan used its mirabilite deposits to produce nearly half of all the sodium sulfate produced in the former USSR. Enterprises in this branch also produced bischofite, channel black, mineral fertilizers (super-phosphates), sulfur, sulphuric acid, and so forth.

During the Soviet era, the country also established small enterprises for machine building and metalworking. These manufactured such items as ventilators for water-cooling towers, cable products, centrifugal pumps, and consumer goods.

In 1991, light industry in the republic accounted for about one-third of the gross industrial production. This sector included a textile industry, plants to process local raw materials, enterprises to provide primary processing for the raw cotton produced in the republic, a cotton and silk industry, plants to manufacture footwear and garments,
machine- and hand-made carpets, and so forth.4

Taking advantage of the huge reserves of raw materials suitable for the manufacture of building materials, the republic also developed its own construction industry. In 1991, it had small enterprises that produced cement, asbestos-cement and reinforced concrete goods, window glass, thermal insulation materials, ceramic tiles, gravel, building brick, crushed stone, wall materials from a natural stone, etc.

It was also in the Soviet era that the Turkmen republic developed its own food-processing industry. Indeed, this was the leading branch in the agro-industrial complex of Turkmenistan; it was engaged primarily in the processing of local agricultural raw materials. The canned goods (fish, fruit, and fish), wine and alcoholic products, honey, and other goods enjoyed a heavy demand in the former USSR and abroad. Small enterprises in this branch also produced various kinds of meat and milk products, confectionary products, and animal and vegetable oils. Nevertheless, in 1991 the food-processing industry supplied less than one-third of the demand for food products in the republic.

The Soviet era also brought immense changes in the agriculture of Turkmenistan. Compared with 1924, the area under cultivation increased 110 times; the output of the main agricultural crop-cotton-increased 40 times. Of 39 million hectares of arable land, only 3 percent (1.2 million hectares) is used for cultivation; it is fully irrigated. The remaining 37 million hectares are used for pasturing. The 3 percent of irrigated arable land accounts for four-fifths of the entire agricultural output of Turkmenistan. In 1991, in terms of the per capita production of cotton (400 kg.), Turkmenistan ranks as one of the leading growers in the world. This expansion became possible because of the construction of the Karakum canal.5

Animal husbandry in the republic has historically borne a range and pasture character. Its main focus has been the growing of sheep, hogs, horses, and camels. The leading branch of sheep-raising is the karakul sheep.

During the Soviet era, the republic developed such types of transport as air, railway, sea, river, pipeline, and motor transport. The latter accounts for four-fifths of all cargo turnover.

This brief survey of the economic complex of the Turkmen SSR during the Soviet era demonstrates that the republic played a significant role in the unified economic complex of the former Soviet Union. However, the preceding account does not fully describe the pattern of development in the republic, for it fails to include the many

4 The famous handmade carpets of Turkmenistan are in demand in scores of countries around the world.

5 The canal zone contains more than half of the cultivated land of the republic; some 60 percent of the population lives here. The influx of Karakum water changed the profile of towns and villages. Until the canal’s construction, water was transported to the western areas of Turkmenistan from Baku and Makhachala; this problem not only was a major impediment to the development of agriculture in the western area, but also retarded the development of industry. Today, the canal zone accounts for over half of the cotton produced in Turkmenistan, including all of the thin-fiber cotton, as well as cereals, fruits, and other crops.
negative aspects of this process.

Economically, all the regions of what were once a vast state-the USSR-developed as integral parts of a single economic complex. They were bound together not by price factors, but by natural material and technological links. Once this system was overtaken by crisis, however, this very integration became a highly negative factor. To a significant degree, this single economic complex developed in isolation from the world economy; that isolation, in turn, generated an irrational division of labor and skewed the economic structure in ways that were simply contrary to the broader exigencies of social progress. Specifically, many enterprises were not built in the places where they were actually needed. Rather, localism, or personal connections among the upper élites, dominated the decision-making in economic matters.

It should be noted that these connections were in kind. To be sure, the aggregate social product and the national income of individual soviet republics had a ruble valuation; however, that value was based on domestic prices and differed sharply from the prices prevailing on world markets. Although the Soviet economy did of course have some foreign trade, the state had a monopoly over such transactions, as central ("all-union") organs made an arbitrary determination of the volume, assortment, and flows of international trade. And none of this trade was subject to a competitive check. As a result, the artificially high exchange rate for the ruble and the total isolation of arbitrary domestic prices from those prevailing in foreign trade-these two factors precluded an objective assessment of the real state of affairs in the national economy. That was true for the USSR as a whole and for the individual republics.

In the early 1990s, the raw-material orientation of the structure of production in Turkmenistan amounted to a very simplified system. Specifically, the country extracted and produced a few dozen categories of raw materials, which were then delivered in an unprocessed state-and at extremely low prices-to the all-union Soviet market.\(^6\) In exchange, the Turkmen SSR purchased goods that had been produced in the more developed republics of the Baltics, the RSFSR, and Ukraine. In addition, Turkmenistan also received hundreds of millions of rubles from the central all-union budget, first in the form of subsidies and then as subventions. By 1991, these subventions had come to represent 20 percent of the republic budget. This system thus created the illusion of a mutually beneficial division of labor; it also appeared to function rather effectively.

In reality, however, this system amounted to a colonial division of labor.\(^7\) For example, the dominant sectors in the industry of Turkmenistan were the raw-material

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\(^6\) For example, for 1,000 cubic meters of natural gas, Turkmenistan received 6 kopecks; the Soviet Union, in turn, sold this same quantity of natural gas on world markets for 80 dollars. Given the unwarranted low prices set for raw materials and fuel (compared to the prevailing world prices), the differentiation in the level of economic development of the former union republics was not objectively justified.

\(^7\) To be sure, this formulation must be used with reservations, since a colony presupposes the presents of a mother country. But the latter was essentially nonexistent in the Soviet Union; even Russia itself was a raw-material appendage to the Soviet Union. That peculiarity has been noted in the scientific and political literature, not to mention the popular press.
branches-the extraction of natural gas, oil, sulfur, and so forth. But these branches of the extractive sector—which produced natural gas, oil, sulfur, iodine, bromide, mirabilite, and the like—were all under the total control of the all-union ministries in Moscow. Moreover, given that most processing of these raw materials was performed outside the republic, the prices on raw materials remained very low. As a result, the extractive branch substantially reduced the role of industry in the national income and in the accumulation of capital in Turkmenistan.\footnote{Moreover, the republic did not satisfy its own demand for fuel.}

The consequence was a low level of both savings and consumption in the national income of the Turkmen SSR. This in turn caused the failure to provide the population with housing, a social safety net, public health, and the like.

The most reliable picture of the developmental level in the republic's national economy comes from the structure of employment by sectors. Thus, the share of industrial employment in Turkmenistan 1990 was just one-third that in the Russian Federation. Of those working in the public sector in the Turkmen SSR in 1990, the breakdown was as follows: 9 percent in industry, 12 percent in construction, 42 percent in agriculture and forestry, 6 percent in transportation and communications, 6 percent in trade and public dining services, and 25 percent in the non-producer sphere.

The indicator for those employed in the trade, service, and non-producer branches provides a rather clear indicator of the social and economic situation in the republic. The lower percent of those working in these branches, compared to the general Soviet and the Russian Federation averages, was characteristic not only for the Turkmen SSR, but for all the republics of Central Asia. These data confirm once again the low level of social and economic development in the region. At the same time, in 1991 this indicator—both for the USSR and for the Russian Federation—was 1.5 to 2.0 times lower than that found in the developed capitalist countries.

The social problems in the Turkmen SSR reflected not only the general patterns prevailing in the former Soviet Union, but also the special circumstances in the republic itself.

The acuteness of many social problems in the Turkmen SSR was exacerbated by the fact that, for an extended period (several decades), the distribution of capital investment to service social needs was based on the principle of using what was "left over" after needs of other priorities had been satisfied. The reduced volume of investment diminished what was already a weak material and technological base for the

\footnote{Suffice it to say that in 1993, just through a change in prices and their upward adjustment to world levels, the share of industry in the national economy of the country more than doubled.}

\footnote{In 1991, the social-economic condition of the republic reflected a multitude of problems that had accumulated over several decades. Thus, the availability of preschool childcare facilities was 58 percent of the level of the rest of the former USSR; the lag in other areas included general education schools (90 percent of the Soviet average), hospitals (85 percent), and clinics (61 percent). In 1990, only 60 percent of the population of Turkmen SSR had running water; sewage systems operated in only ten of the eighteen cities of the republic. Matters were particularly severe in rural areas. Thus, only 17 of 278 rural population centers had running water; only 1 of these had a sewage system.}
institutions of science, culture, and public education. Specifically, the expenditures on the social and cultural sphere in the Turkmen SSR were 22 percent lower than the average for the USSR as a whole.10

Revealingly, Turkmenistan had one of the highest indicators of infant mortality in the USSR, and one of the lowest levels of life expectancy.11

The backwardness in several sectors (trade, services, and public catering), the small proportional share of these branches in the GDP and in the productive national income—these factors help to account for a deterioration in the living standards of the population of Turkmenistan. The total volume of retail trade turnover (in rubles per capita) was 1.5 times higher in the USSR than in Turkmenistan; it was 1.7 times higher in the RSFSR. This pattern, moreover, was typical of all the Central Asian republics.

It bears noting that the enormous money supply then prevailing in the republic did not have adequate outlets in available goods and services.

The monopoly of cotton in agricultural production, moreover, diverted the republic from the cultivation of the basic foodstuffs. Indeed, those agricultural products grown locally were sent outside the republic as part of the redistribution system for the various Soviet republics.12

The average per capita consumption of almost all the basic food products (with the exception of gourds, bread, and baked goods) in 1990 was two to 3 times lower than in the other republics of the USSR. By contrast, the level of annual per capita consumption of the main food item—meat—was 2 to 3 times lower than the medical minimum. Moreover, domestic suppliers provided only half of the meat consumed in the republic. In a word, the specialization in cotton growing made it impossible to ensure that the country was self-sufficient in its basic food supply.

At the same time, in considering how these comparative features reflect the low standard of living for the people of Turkmenistan, one must not overlook the special features in the life of its people. That way of life is closely bound to the centuries-old traditions of the Turkmen people.13

The distinctive feature in the sex and age structure of the population of Turkmenistan was the dominance of youth, with approximately one-half of the inhabitants of Turkmenistan being under the age of twenty-five. It is also a well-fixed tradition to have a family with many children; the average family size has five to six persons. In rural areas, where the bulk of the population lives, it is traditional to have eight to ten children.

11 Thus, the Turkmen SSR had the highest rate of infant mortality in the Soviet Union (45.2 per 1,000 births); that was roughly double the average for the USSR as a whole and 2.6 times higher than the average in the RSFSR. The Turkmen republic also had the lowest life expectancy: 63 for males (compared to 69 in the USSR) and 70 for females (compared to 74 for the whole USSR).

12 For example, of the 60 kg. of fruits and berries produced per capita, the inhabitants of Turkmen SSR received only 21 kg. By contrast, the average for the USSR as a whole was 36 kg. per capita.

13 Above all, this pertains to the high rate of population growth. Thus, between 1924 and 1990, the population here increased 3.7 times, primarily through natural demographic growth.
Although the general educational level of the population is rather high, the educational level of village youth is low. The village schoolboys spend about half of their school time working in the cotton fields. Upon leaving school, these young people frequently remained unemployed; there were simply not enough unskilled jobs for them. Turkmenistan is a region with a surfeit of labor resources: every sixth person among the adult able-bodied population in 1990 did not have gainful employment in production. Approximately 90 percent of those without jobs in the productive sectors were mothers with large numbers of children. The average share of women in the labor force amounted to 42 percent in 1990. About 17 percent of the labor force worked at home or engaged in the cultivation of family plots.

As the foregoing suggests, the special characteristics and spectrum of social problems in Turkmenistan were quite diverse. Such a situation imposed special demands on the government as it drafted its strategy for social and economic policies.

The diversity of economic conditions (not to mention national, geographic, political, cultural, religious, and others) in the republics of the USSR was so great that it precluded the adoption of a single, monolithic approach to addressing particular problems. Unfortunately, however, this fact did not impel the government to adopt an individualized model in dealing with each of the Soviet republics. As a result, the government failed to make efficient use of local resources. Under conditions marked by internationalization and globalization in all spheres, the form of organization of the economy and society, the exclusion of foreign capital, and the ban on any kind of investment activity abroad—all these factors led to the discrediting of the Soviet economic model.

To conclude this analysis of the social-economic position of Turkmenistan in 1991, one may draw the following conclusions.

1. During the Soviet era, Turkmenistan (like the other Central Asian republics, notwithstanding some differences) was characterized by a substantial social-economic lag behind the other republics of the former Soviet Union. That lag, in turn, retarded the development of productive forces in these republics. The primarily extensive methods of running the economy, the harsh command-administrative system of administration, the bureaucratism, the low standard of living of the population, the small size of the working class, the rather high level of unemployment—all this comprise only a partial list of the "peculiarities" that Turkmenistan, by the beginning of 1992, had inherited from the former Soviet economic order. At the same time, the "peculiarities" also included extraordinarily rich natural resources, an advantageous geographic position, and an inexpensive but rather highly skilled labor force.

2. Turkmenistan delivered natural gas and other raw materials to the other Soviet republics in an unprocessed form and at extremely low prices. In turn, it had to import most of the goods from light and food-processing industries, as well as the

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14 The proportion of specialists with a higher or secondary education in the economy amounted to 33 percent in 1990 (which was almost three times the average for the RSFSR). However, the qualitative level in the early 1990s was low; during the Soviet era, those who completed rural schools spent a significant part of their school time working in the cotton fields.
products of the machine-building industry, construction materials, forestry products, and consumer goods. In effect, this was a colonial division of labor, since the bulk of the raw material produced (approximately 90 percent) was shipped beyond the borders of the republic.

The most developed extractive branches of industry—those that produce natural gas, oil, sulphur, iodine, bromine—were totally under the control of the central all-union ministries in Moscow. For all practical purposes, Turkmenistan lacked large manufacturing enterprises; it was only after 1991 that the construction of such factories commenced. Moreover, even though the lion's share of investments was funneled into the fuel and energy complex, the republic was nonetheless unable to satisfy its own needs for these resources. Hence the contribution of the raw-material branches in the national income and savings of Turkmenistan was small.

3. The raw-material orientation of the structure of production in Turkmenistan had the following consequence: by the beginning of the 1990s (at the point when the Soviet Union dissolved), Turkmenistan had still not entered into that phase of industrialization where national manufacturing industry could play the main role in stimulating economic development in the republic.

4. At the same, one could observe several other characteristic features: the backwardness of market relations; the extremely unsatisfactory condition of technological innovations; the profound structural and price disproportions, which complicate the adoption of adequate economic decisions; the particular form of backwardness and stagnation in social structures. In 1991, the state controlled 84 percent of the property; the republic had only a few dozen cooperatives; a mere 4 percent of the population was employed in the private sector.

5. Matters were further complicated by the conservative structure of employment that had taken shape during the prior period of industrialization. Namely, it was oriented in such a way as to give top priority to the creation of large, self-sufficient enterprises, the production of which bore no relation to real demand. In essence, in 1992 Turkmenistan found itself in the first stage of industrialization.

The Strategy and Tactics of Economic Reform

In the early years of independence, the first task facing Turkmenistan was to create, as quickly as possible, the material base for an independent state, to establish its own model for market development, and to construct a progressive economic structure.

The government of Turkmenistan understood that its authority can consolidate the norms of morality instilled during the thousands of years that a state existed in the Asian region.15

The rigid structure of power, endemic to communist systems, essentially

15 It bears noting that the official ideology of the administrative-command system of the USSR (a socialism imbued with Marxist-Leninist phraseology; state ownership of property; equality, even if being purely nominal) was, for the unsophisticated and simple citizen, close to the traditional moral norms of the East.
corresponded to the traditional clannish, kinship system of relations. Communist ideology was only a veil that overlay the other, more deeply-rooted world-view. Hence when Turkmenistan chose the character and forms to transform the structure that existed earlier, it elected to choose its own path. In so doing, it drew upon advanced world experience, based its development on the country's own material, social, and cultural resources, and took into account the religious-moral foundations of society. As the president of Turkmenistan, Saparmurat Niyazov, emphasized in his public statements: "We do not need revolution; we are for evolution." This statement became the basic principle in setting the framework to devise a model of economic development for contemporary Turkmenistan. In designating the new course, the political leadership of Turkmenistan endeavored to ensure its legitimacy-i.e., to take into account not only the existing class relations, but also the national, religious, familial, and other traditions of society.

During this complicated transitional period, the state authority of Turkmenistan has set the following goal for itself: as the political activity of the population unfolded, the state was to provide the means for overcoming social contradictions. It has achieved this by coordinating the interests of different groups in the population, by implementing decisions that would elicit the support of various social strata, and by ensuring that the interests of minorities are protected and human rights are respected (irrespective of nationality). Under these conditions, the economic role of the state has changed.

The government of Turkmenistan operates on the principle that a mixed economy can only "grow" out of the existing economic complex if it optimizes the combination of two principles: the "plan" and the "market." In speaking of the plan, the government meant a system of targeted, goal-driven planning and state regulation of the economy. That approach formed the basis of the presidential program, "Ten Years of Stability," which declared that the proposed transition to a market system (i.e., the transition to regulated market relations) would require more than a decade to be realized in Turkmenistan.

During the first stage of this program, which was completed in 1996, the government achieved the following:

- it created the legal basis for the transformation of the economy;
- it initiated the restructuring of the economy;
- it began the implementation of institutional changes;
- it introduced a new national currency and established a banking system;
- it launched the process of privatization.

During the first stage of reform, Turkmenistan adopted a constitution and issued new laws to guarantee each citizen the freedom to choose the means to satisfy their needs (with the state providing each citizen with the opportunities to achieve these goals). The government also adopted a series of laws important for the formation of a market mechanism: "On Enterprises," "On Property," "On Entrepreneurial Activity," "On the Central Bank of Turkmenistan," "On Auditing," and a host of other economic laws.

These laws laid the foundation for the introduction of private property, for the
development of entrepreneurship, for the establishment of joint-venture enterprises, and for the attraction of foreign capital.

The presidential program also contained provisions for the following:

- **Discovery of new sources of investment.** This was to be facilitated through the gradual incorporation of medium and large industrial enterprises; the process was begun in 1998. The transfer of a number of unprofitable state enterprises to private hands will enable the latter to attract additional investment funds from non-inflationary sources (through the issue of stock and credit resources).

- **Increased involvement of banks in the market for treasury securities.** The government issued the treasury bills to help finance the expenditures of the state budget. Today, ten banks in the country have already emerged as leaders in the market for state treasury bills; three of these banks (viz., "Turkmenvneshekonombank" [the state foreign trade bank], the joint-stock commercial bank "Turkmenistan," and "Sberbank" [the state savings bank])—hold more than 80 percent of the total volume issued. The appearance of a new form of capital market has made it possible to reduce the direct issue of credits by the Central Bank (to finance the state budget deficit without resorting to the inflationary emission of monetary means). This circumstance, accordingly, will help create a more favorable investment climate.

- **Further diversification of the economy.** It is essential to achieve this diversification if the country is to reduce its vulnerability to events beyond its borders—i.e., to make itself less dependent on factors that are beyond the control of the country’s leadership. The main export products of Turkmenistan are energy resources, the prices of which are subject to change on world markets. The fall in prices on energy resources could create serious difficulties of a long-term character. The same could happen if the shipping costs on these exports were to increase; at present, Turkmenistan has almost no influence on the regional tariffs assessed for the delivery of natural gas. Some of these difficulties could also arise as a result of the so-called "Dutch disease"—that is, an active growth of export earnings in one sector of the economy can significantly reduce the competitiveness of other sectors (because of the higher exchange rate of the currency). The transition to the path of limited modernization in the extractive branches, with primary development in the resource-conserving technologies, is the most desirable option. The successful realization of an energy-conserving investment policy will make it possible to solve one of the most serious problems facing the economy of Turkmenistan—namely, the preponderance of raw material production in the overall structure (with the traditional dominance of the raw-material and energy sectors). To be sure, by the end of the present century, this problem will not be resolved completely, especially since Turkmenistan will continue the active export of energy resources. However, the basis of the structural transformation in favor of manufacturing and finished goods, to be laid during the second stage of reform, will stimulate the effective
development of the economy in the coming years, above all, through the
dlare-scale application of labor-saving technologies.

- **Attention to global tendencies in the transformation process.** This consideration, together with the emerging technological diversity of Turkmenistan (with the dominance of the extractive sector), has impelled the country’s leadership to conclude that the preferred variant for economic development in the economy of Turkmenistan is one oriented toward exports.

According to this concept of export orientation, economic development should be oriented toward foreign markets. Turkmenistan has already begun to take measures to reduce the dependency of industry on the import of raw materials, to diversify the industrial structure, and to create export branches of the manufacturing industries. The growth and diversification of commodity exports should become the source of hard-currency earnings and lead to a higher rate of economic development. The restructuring of the national economy so as to specialize the country’s production on a set of export goods will make it possible for Turkmenistan to enjoy the advantages of the international division of labor for its own benefit. This presupposes the preparation of a program to ensure the rational use of export earnings from the sale of energy resources and to achieve the maximum economic effectiveness from the processing of these resources. These earnings can be included in the state budget or channeled into the banking sector; whatever the case, it is important to ensure that these resources are used for the general benefit of the entire national economy. At the same time, despite the growth in investment resources expected in the midterm perspective, the primary role in the short term will continue to be the traditional sources, above all, the funds of the enterprises themselves and loans.

**The Basic Results of Economic Reform in Turkmenistan, 1992-1998**

The market reforms undertaken in Turkmenistan had the following distinctive features: (1) an incremental, stage-by-stage approach to economic reform; (2) the leading role of the state in the management of economic processes; and (3) the providing of quite strong state support for the social needs of the population.

The main objective in this structural transformation of the economy was to enhance the country’s role in the international division of labor—that is, to transform Turkmenistan from a supplier of raw materials into a producer of finished goods for world markets.

The raw-material orientation of the national economic complex of Turkmenistan was to play an important role in this process of economic growth. The development of Turkmenistan in the early 1990s depended, to a large degree, on the production and export of raw materials and energy resources (along with other factors). At the same time, the government of Turkmenistan recognized that raw materials represented an irreplaceable resource; during the transition period, they therefore placed the main emphasis on creating enterprises that could process the natural wealth of the country. In 1992-1998, the government of Turkmenistan thus directed a significant part of its resources toward building up the economic infrastructure and toward an expansion
the productive fixed capital. It did so with the understanding that, in the future, these changes would enable the country to increase its national income and the share allocated to consumption. As a result, in 1992-1998 the country constructed eighty-eight industrial enterprises.

To reinforce the country’s economic sovereignty and to ensure its capacity to conduct an independent monetary and credit policy, in 1993 Turkmenistan introduced its own national currency. This enabled the government to establish control over the economic situation in the country. The government also began an incremental, stage-by-stage deregulation of prices, thereby allowing them gradually to rise toward world levels. However, the government retained control over retail prices and the rates for some of the most important goods and services. Since becoming independent, Turkmenistan has also carried out a fundamental transformation of its budgetary and banking systems; it restructured monetary circulation and finances; it created a treasury administration; and it opened a state commodities exchange.

The government has also established a new tax system, which is quite simple and in many respects corresponds to the requirements for a tax system in countries with a market economy. The government also expanded the tax base for earlier levies and introduced new categories of direct and indirect taxes. The changes in the tax system of Turkmenistan were driven by the constantly rising financial needs of the state budget as it has broadened its functions.

The key feature of the state budget policy lies in the fact that government expenditures in Turkmenistan have a pronounced social orientation. Specifically, approximately 60 percent of all expenditures are used to finance social programs and to support the living standard of the population. The budget covers the gap between the costs and retail prices on a number of food products and medicines. Moreover, the government provides funds to maintain low rates on public transportation and public utilities, and also to supply the population with natural gas, water, and electricity gratis.

The government has also created a treasury department to ensure an effective administration of state expenditures under market conditions. This department also exercises control over the budget and the amount of the state budgetary deficit.

The government of Turkmenistan has implemented these structural transformations at the same time that it launched the process of privatization. The country’s leadership government has given its support to private entrepreneurship and to the development of a non-governmental sector of the economy.

In 1998, Turkmenistan had more than 30,000 enterprises in the non-governmental sector. This figure includes 22,000 private enterprises, which represent more than 82 percent of all enterprises registered in Turkmenistan. The sphere of material production dominates the structure of goods and services. In 1998, these enterprises produced 50.4 percent of the GDP (including 35 percent in the private sector). That same year the non-governmental sector employed more than 44 percent of the workforce. The government of Turkmenistan has worked actively to support private entrepreneurship. The creation of a commensurate legal framework and the opening of credit lines (including foreign) has made it possible to expand the private sphere. During these years, the country has
also witnessed an increase in the number of entrepreneurs who have registered (without acquiring the status of a juridical entity). For the most part, these consist of individual enterprises. In short, today every second person in the workforce is employed in the non-governmental sector of the economy.

To create a favorable environment for entrepreneurs, the government of Turkmenistan has established preferential state credits within the framework of proposals by private commodity producers. In addition, foreign credits have also been made available for this purpose. The government has also simplified the procedure for the creation of private enterprises and for people who wish to work on their own.

The reform of collective and state farms, along with other agricultural enterprises, has been conducted on the basis of allocating land for use by productive organizations (without any time restriction). Property has also been leased, with the right of subsequent purchase.

As a result of this legislative and organizational work, by 1998 approximately 80 percent of the land (1,456,800 hectares) had been shifted from state control to peasant associations for terms of ten or more years. Of this total, 2.12 percent was transferred to private property. To ensure that the country is self-sufficient in its food supply, in 1992-1998 the government devoted significant attention to increasing the production of cotton and grain and also to the development of truck gardening, vineyards, apiaries, and silk production. The production of cereals (all categories) also grew at a rapid pace; by 1999 total output amounted to 1.5 million tons, or 7.5 times more than in 1991. In so doing, the country laid the basis for achieving self-sufficiency in food production-in part, through the development of individual farming in the private sector of the economy. The livestock herds have also increased substantially; by the end of 1998, the head of cattle had increased by two-thirds from the number on hand in 1991. The herds of sheep and goats also increased by 22 percent. The main share of growth is to be found in the private sector; by 1998, private producers accounted for approximately 90 percent of the cattle, sheep, and goats.

It bears noting that in recent years the supply of the commodity market came mainly through a growth in non-governmental trade. In contrast to enterprises in the state retail trade, the markets of the non-governmental sector provided the population with a broader choice in terms of the assortment and quality of goods. The share of the private markets in the total retail trade turnover in recent years amounted to approximately 65 percent. In the course of 1992-1998, consumer goods that had been produced domestically became a steadily increasing share of retail trade turnover, rising from 33.4 percent in 1990 to 47.6 percent in 1996.

There also appeared new forms of paid services, such as cellular telephones, audit services, medical care, and the like.

The government also expanded the social infrastructure through the construction of new hotel complexes (including first-class hotels). The total increase amounted to 5,000 hotel rooms; most of the construction was performed by foreign firms.

Implementation of the "Program to Improve the Water and Gas Supply of the Population" made it possible for the government to achieve, in the span of seven yeas,
what had earlier taken decades to accomplish. Specifically, the country laid more than 10,000 km. of water pipelines, 23,000 km of gas lines, and 14,400 km of electric power lines.

The government also significantly expanded the construction of housing. The main source of financing included the funds of enterprises as well as credits; the share of enterprise funding rose from 24 percent in 1991 to 75 percent in 1998. The government also increased the supply of construction materials available to the general population. As a result, these targeted measures in the country’s social programs brought about a significant increase in the housing stock of Turkmenistan in 1992-1998. By 1998, approximately 69 percent of the housing stock was privately owned.

The advantageous geographic position of Turkmenistan also brought about a dynamic growth in the transportation sector. For example, the government designed and built a new airport complex at Ashgabat; it also completed the construction of a railway branch from Tedzhen to Serakhs, thereby enabling direct access to the Persian Gulf.

With the acquisition of independence in 1991, Turkmenistan-as the exclusive master of its natural resources-began to work more actively in soliciting a large-scale infusion of foreign investment in order to accelerate its own economic development.

During the period 1992-1998, Turkmenistan created ten free economic zones. New laws gave these zones a regimen highly favorable for foreign investors and the private sector.

During the first years of independence, Turkmenistan also expanded significantly the geography of its foreign economic ties. Between 1992 and 1998, it established commercial and economic relations with more than seventy countries.

The economic activity of foreign firms on the territory of Turkmenistan involved more than 800 enterprises with the participation of foreign capital (coming from more than sixty countries). During the period 1992-1998, the number of enterprises with foreign capital increased eight-fold. Between 1992 and 1999, the foreign trade turnover of Turkmenistan amounted to approximately 17.1 billion dollars; this included exports worth 9.7 billion dollars (56.6 percent of total turnover); the share of imports amounted to 7.4 billion dollars (43.4 percent of total trade). Turkmenistan had a favorable balance of trade. Its primary export goods included natural gas, petroleum and petroleum products, cotton, and products of the chemical industry. These goods constituted 80 percent of all exports in 1998. The primary imports consisted of goods with a productive and technical purpose; in 1998, these accounted for 75 percent of all imports.

16 About one-fifth of the workforce is employed in the spheres of health, education, science, social support, culture, and forth. As has already pointed out, the government spends over 60 percent of its budget for the social sphere.

17 At the present time, motor transport provides regular freight deliveries to Iran, Pakistan, Turkey, the countries of Europe, as well as Russia and other countries in the former Soviet Union. With the opening of a new international airport, Turkmenistan established new direct flights from Ashgabat to London, Abu-Dabi, Karachi, New Deli, and Frankfurt; the volume of such flights is steadily increasing.
Beginning in 1992, foreign investments in the form of loans and direct investment began to increase, and by 1998 these resources represented almost 12 percent of all investments.

Since becoming independent, construction companies from a dozen foreign countries have built 233 projects with a productive, social-cultural, and public purpose. Such construction has an aggregate value of 2 billion dollars.

In general, one can say that since 1991 the country has made fundamental changes in its economy and laid the basis for a new stage of reform.

**Structural Policy**

The structural policy of Turkmenistan has been directed mainly toward achieving an accelerated development in the processing branches. The government has therefore encouraged the modernization of production, the creation of new branches, the channeling of capital into priority sectors of the economy, and the development of small and medium-sized entrepreneurship. The government has laid its principal emphasis on the development of manufacturing; its goal here is to raise the country’s export potential. At the same time, the state program for raising capital has concentrated primarily on the extraction branches.

The problems of structural reform in the industry of Turkmenistan must be seen within the context of the macroeconomic transformation of the country’s economy. The energy and fuel complex of Turkmenistan in 1991-1998 represented the main source of revenues for the state budget; this sector thus provided the funds needed to realize a series of government programs. The colossal reserves of hydrocarbon resources and the opportunity to sell these through the construction of gas and oil pipelines inspired some foreign specialists to call Turkmenistan a "natural gas Kuwait." Hence reform in the fuel and energy sector, especially in the production of oil and natural gas, remains the crucial factor in facilitating Turkmenistan’s transition to a market economy. In short, the government program assigns the fuel and energy sector an enormous role in the general process of industrial reform.

The leading branches of the fuel and energy sector in Turkmenistan consist of natural gas, oil, and oil refining. The role of the oil and natural gas complex in the Turkmen economy increased sharply in the early 1990s as the price on these commodities rose to world levels. Nevertheless, the general industrial decline also affected this branch. By the onset of the 1990s, domestic demand for natural gas represented no more than 2 percent of annual production (more than 80 billion cubic meters). During the Soviet era, the Turkmen republic received a certain allocation for the natural gas delivered to the general Soviet market as well as a share of the hard-currency earnings for the export of raw materials to countries outside the USSR. The creation of independent republic budgets in the new states that emerged after the breakup of the Soviet Union...

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18 In 1998, the country produced 6.6 million tons of oil—which represented a 1.5 times increase over the previous year. The extraction of natural gas in 1998 was nearly 50 percent below the level of 1991 (85 billion cubic meters).
effectively demolished this system. Instead, Turkmen, Uzbek, Kazakh, and Russian gas producers now had to compete for natural gas consumers. Because of geographic and technological reasons, the territories of Russia, Kazakhstan, and Uzbekistan cut Turkmenistan off from natural gas markets.\textsuperscript{19}

Turkmenistan’s neighbors, who are in some fashion linked to the production or transportation of fuel and energy, naturally seek to extract the maximum benefit from exports.\textsuperscript{20} Obviously, until Turkmenistan has an alternative route to export its raw materials, it will not be able to realize the average world price level on its natural gas.

In 1993, Turkmenistan developed a “Conception for the Development of Oil and Natural Gas by the Year 2020.” This program envisioned the construction of a number of gas and oil pipelines, as well as enterprises to process oil and natural gas. As the “Conception” noted, this corresponds to the policy of “open doors” and the program of “Ten Years of Stability” being implemented by contemporary Turkmenistan. Given that the government seeks to achieve real economic independence in natural resources and given that its hydrocarbon reserves make it among the top five countries in the world, the “Conception” thus assigns top priority to the task of securing the exports of these energy resources.

The “Conception” therefore envisions a significant increase in the production of natural gas, oil, and petroleum products by the year 2020.\textsuperscript{21} Although the market for Turkmen natural gas has been limited in recent years to states in the CIS (during 1992-1998, the country produced 235 billion cubic meters of natural gas and 23 million tons of oil), an active foreign economic policy and pricing strategy enabled Turkmenistan to achieve a favorable balance of trade.

The transfer of this branch to a price-based system has mandated changes in the dominant ideas about energy resources as a resource available for cheap public use.\textsuperscript{22}

As noted earlier, during the Soviet era Turkmenistan extracted and produced several dozen types of raw materials that, in their unprocessed form, were delivered at extremely low prices to the all-union Soviet market. In fact, Turkmenistan was a raw-

\textsuperscript{19} Those states of the former Soviet that border on Turkmenistan have no need for its natural gas. To deliver gas to countries where there is a market, it is necessary to reach an agreement on transit tariffs through the territories of competitors. For example, Uzbekistan (one of the large suppliers of the “blue fuel,” producing about 50 billion cubic meters per year) completely satisfies domestic demand; in accordance with the structural system that had already developed during the Soviet era, it supplies natural gas to Tajikistan, Kyrgyzstan, and the southern regions of Kazakhstan. Turkmenistan can ship its gas to these neighbors only by traversing the territory of Uzbekistan, which, naturally, has no interest in losing its own clientele. The Russian enterprise “Gasprom” dominates the natural gas markets in Belarus, the Baltics, and Moldova.

\textsuperscript{20} The cost of production natural gas in Turkmenistan is very low, a maximum of 1 to 2 dollars per thousand cubic meters.

\textsuperscript{21} A large part of the raw materials are processed in Turkmenistan by the refining industry of the republic. The resulting products—gasoline, kerosine, diesel fuel, and other petroleum products—are shipped to various countries around the world. Thus, in 1997 the production of oil and condensate amounted to 4,784,000 tons, of which 4,220,000 tons were processed by domestic enterprises.
material supplier for the USSR. Even after obtaining independence, and right up to 1998, approximately two-thirds of all hard-currency earnings came from the sale of natural gas—circumstances that left the country's economy highly vulnerable.  

From the moment that Turkmenistan acquired independence, it began to implement a structural policy that would contribute to the formation of a progressive economic structure and to eliminate its this strong dependence on a single export commodity, natural gas. In other words, it sought to diversify exports and to limit the one-sided import of consumer goods and food products.

Beginning in 1992, Turkmenistan undertook a targeted program to reorient the exports from raw materials to finished goods. The government believes that the production of goods for export, which will ensure stable rates of growth for the country's economy, will create the preconditions to raise domestic purchasing power and also improve the quality of production (since the bulk of export goods are marketed with a higher per capita earnings). The experience of the first years demonstrates that the export complex has come to include enterprises from allied and auxiliary branches, as well as enterprises in the service sector, transportation, communications, and so forth. Hence the country has gradually begun to build a rational structure of gas-chemical, petrochemical, and cotton-spinning production; it has also been acquiring enterprises to process the karakul wool and silk. As proved to be the case earlier, the appearance of these new branches meant that the share of manufacturing in total exports rose, while that of raw materials decreased. There has also been a growing diversification in the export markets. Furthermore, the growing competition of foreign producers has raised the culture of production and productivity in these branches closer to world levels. The expenditures on equipment and the re-training of the workforce in the export-oriented branches have undergone a substantial increase; these changes have contributed to further progress in the scientific-technological revolution.

The decision to diversify exports raised the question as to which goods, beside raw materials, can most profitably be exported. It also raised the question of how to stimulate local enterprises to produce these goods for foreign markets. It is, however, extremely difficult to justify the selection of top-priority branches in the manufacturing sector during a period of transformation. The choice of high-priority branches can, in

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22 The role of mineral resources in supplying the main revenues for the state is not a new phenomenon and does not differ substantially from other countries. However, the mechanism for obtaining and distributing these revenues is different. In the case of the oil and natural gas resources, this revenue results from the low costs of production or transportation. The majority of governments that own the land and mineral resources try to obtain the maximum income, if not the entire profit from its extraction, by resorting to various devices (most often, taxation). For Turkmenistan, it is important to study the experience of other countries in regulating and distributing the income from natural resources; of particular interest are the oil-exporting countries.

23 First, the transportation of gas flowed through a single natural gas pipeline (without any alternatives) that traversed the territory of Russia. Second, the price of natural gas and the tariffs on transshipments were largely driven not by the market principle, but rather by the policies of the Russian government. Third, the union republics, upon achieving independence, continued to use Turkmenistan's natural gas but failed to pay for deliveries. As a result, Turkmenistan was forced to reduce its trade with Russia and the other states of the CIS.
fact, be motivated by a variety of factors. An intensification of investments in the manufacturing branches led to a greater output in “secondary” branches. The initial impulse for a growth in investment came in branches in the consumer sector.

An increase in investment demand in one of the commodity markets, which was driven by technological ties to other branches, brought an influx of investments to auxiliary branches. This has thereby affected a whole group of new branches.

Amidst all the possible options for intensifying investment activity in Turkmen industry in the midrange perspective, it is important to take into account the experience of Asian countries in the development of their economies. In particular, Turkmenistan must not allow this investment activity to be confined to the extractive, raw-materials branches of industry and ignore the manufacturing branches. The proportions in the development of these branches, to a large degree, will depend on the thrust of investment policy in promoting innovation. For this purpose, Turkmenistan has begun working on a program to develop export-oriented production. The goal of this program is to determine the top-priority branches and goods that are already being exported, albeit in a small volume, and to evaluate their export potential and their capacity to become competitive on foreign markets. The next task is to stimulate production in these branches through such methods as preferential treatment in taxation, tariffs, and the like. These branches will include the chemical industry, the food-processing branch, textiles, tourism, pharmaceuticals, and so forth.

Trade Policy

The commercial-industrial policy of neutral Turkmenistan with respect to its fuel and energy resources is based on two fundamental principles:

1. The participation of Turkmenistan in world economic relations should create conditions most favorable for the development of domestic production.

2. The national economy should, to the least degree possible, be exposed to unfavorable developments in the external world—either in the economic or in the political sphere. To be sure, given the conditions of an "open economy," it is impossible to avoid this vulnerability completely.

The economic and geographic position of Turkmenistan, in certain respects, is highly favorable. Turkmenistan has historically been positioned at the juncture of Europe and Asia, and it also possesses a large territory. At the same time, one cannot ignore the fact that it is located at a significant distance from the industrially developed countries in today's world. Access to foreign markets is impeded by the lack of direct access to those foreign outlets where the raw-material resources of Turkmenistan could potentially be of great interest.

In 1991, at the time of the breakup of the USSR, Turkmenistan was to a lesser degree participating in the world economic system. Specifically, the Turkmen SSR conducted only 10.5 percent of its trade turnover with countries outside the USSR (compared to an average indicator of 45 percent for the Soviet Union as a whole). Moreover, 90 percent of the republic’s exports consisted of raw materials. The trade structure of exports thus retained a raw-material orientation, with energy and fuels
dominant.

The inability of countries in the CIS to pay for the energy resources exported by Turkmenistan compelled the country to suspend its delivery of natural gas to Ukraine and other countries of the CIS in 1997. As a result, 1997 brought a negative balance in foreign trade. The main reason for the deficit in the trade balance in 1997 and 1998 with CIS members-Ukraine, Kazakhstan, Uzbekistan, and Armenia-was the delay in payments for the energy resources exported from Turkmenistan. Thus, Ukraine's debt to Turkmenistan for 1996-1997 alone amounted to 302.5 million dollars, while the outstanding part of the restructured debt for 1993-1995 amounted to 780.6 million dollars.

An important goal in Turkmenistan's import policy today is the acquisition of the advanced technologies, machinery, and equipment needed to modernize the national economy and to raise it to a high technical level. This is particularly true for the light and food-processing industries, branches in which the fixed capital is extremely obsolescent. In terms of productive capacities and technological level, these branches cannot satisfy the contemporary demands of the country and are in need of modernization. The importation of machinery and equipment should help to ensure the capacity of major branches of the economy to function; these branches include the energy and agro-industrial complexes, transportation, the medical industry, and the production of consumer goods. In terms of the geographic structure of imports, Russia's role has declined, and the dominant countries now include Turkey, Iran, Great Britain, and Sweden.

At the present time, the country cannot avoid importing an insignificant amount of food products, medicines, and certain other consumer goods. The purchase of agricultural goods constitutes an additional burden on the balance of payments for the country. In the future, Turkmenistan plans to avoid the importation of cereals and a number of other agricultural goods and to establish self-sufficiency in its food supply.

The policy in the sphere of foreign investments is the most important part of the structural investment strategy of Turkmenistan. The solicitation of foreign investment is directed toward the goal of eliminating the current disproportions in the economy and overcoming scientific-technological backwardness.

The attraction of foreign investment is being realized through several means:

1. The creation of joint-venture enterprises. Of the joint-venture enterprises registered in 1999, these were distributed among the trade sphere (344), production (251), service sector (181), construction (51), and various other branches (181). These joint enterprises included foreign participants from over fifty countries around the world.

2. Cooperation on contractual construction (with the aim of attracting foreign investment.) During 1992-1998, approximately two hundred construction projects (with a value of 1.5 billion dollars) were completed and put into operation.

3. Creation of economic zones for free entrepreneurship. The government has established ten such zones, which offer particularly favorable conditions for the activity of foreign capital.
Special Features of Privatization in the Formation of a Mixed Economic System

The current social-economic situation in Turkmenistan is characterized by the relative well-being of the country (compared with the other states in the CIS), the political stability in society, and the orientation toward a gradual, consistent transformation of the economy. All this has shaped the evolutionary character of privatization. Thus, the principal goal has been not to juxtapose different forms of economic organization, but to achieve their organic integration into a homogenous mixed system.

Taking into account the negative experience of other countries in the CIS, Turkmenistan decided first to create the requisite legal framework for the implementation of privatization reform. The first stage of privatization is now complete, but the major changes still lie ahead. The leadership of Turkmenistan began with the assumption that privatization is a complex, long-term, and rather painful process, one that involves a transformation of productive forces and production relations. It is therefore essential that the government consider carefully its policies for regulating this process.

The main goals and objectives of privatization in Turkmenistan are analogous to those of other countries that have undertaken to carry out market reforms. These goals include the following:

- an increase in the economic efficiency of the entire economic system through the development of competition and through the application of anti-monopolistic measures;
- a decrease in budget expenditures and an increase in non-governmental sources of financing (the goals being to a reduction the budget deficit, de-bureaucratization, and the dismantling of state monopolies);
- development of economic initiatives and entrepreneurship of producers by implementing various state programs (the goal being to form a true market environment);
- stimulate initiatives of private entrepreneurs by attracting foreign competition;
- support, in the first instance, for those enterprises that are increasingly producing goods for export (with priority being given to the private sector).
- an increase in preferential treatment for those enterprises that can create joint-venture companies together with foreign investors, that extensively apply modern technology and machinery, and that use modern forms of management.

Turkmenistan has rejected both the path of a rapid, massive privatization and the method of "shock therapy." Time has shown that this decision to have indeed been the correct one. Thus, in contrast to a number of other republics in the former Soviet Union, this process has proceeded in a virtually painless manner. In Turkmenistan, privatization advanced simultaneously with state construction, thereby ensuring the formation of a market environment where private capital could effectively function. The mechanism for
privatization, which includes several different dimensions, is of interest in its own right.

In 1993, the government adopted a law "On the Denationalization and the Privatization of Property," which established the basic methods of privatization in Turkmenistan:

1. Privatization through the lease of state property (with a right for subsequent purchase by the employees of the enterprise, or by several different lessees).
2. The transformation of state property into collective property through the sale to the enterprise employees (either through a one-time purchase, or through a protracted buy-out with payments stretched out over time).
3. The transformation of a state enterprise into a joint-stock company or association.
4. The sale of state property to citizens, to private juridical entities, and to foreign buyers (either through competitive bidding or public auctions).

In accordance with the law "On the Denationalization and the Privatization of Property," the majority of employees in an enterprise determine the form of denationalization. As a rule, the majority of collectives chose the fourth method of privatization.

The results of the first stage made it possible to introduce substantive corrections in laws and statutes, especially those pertaining to privatization. The next step for the Cabinet of Ministers of Turkmenistan was to conduct a full-scale analysis of the social and economic conditions in the country and to determine the disproportions and weaknesses in the national economy. The forms for the sale of state property have also been modified. In April 1997, the Economic Council adopted the government program to accelerate privatization and to advance to the second stage in this process. In accordance with that program, the government is continuing the process of improving the normative legal basis of privatization. It has adopted a law "On Denationalization and Privatization (Revised)" and is now working on the draft version of a law "On joint-stock Companies."

At the present time, the government is giving preference to the competitive method of privatization and has removed all restrictions on the participation of foreign capital in this process.

Enterprises involved in trade and food services are being privatized exclusively through sales at public auctions.

Industrial enterprises are privatized by selling their assets at auctions and in investment trading, and also by conversion into joint-stock companies (with the stipulation that the government's bloc of shares will later be sold to private investors).

To stimulate the process of privatization, President Saparmurat Turkmenbashi has issued decrees and resolutions, including:

- "On Several Measures for the Denationalization and Privatization of State Property"
- "On the Privatization of State Property through Auctions"
- "On Measures for the Conversion of the State Enterprises of Turkmenistan"
into Joint-stock Companies"
• "On the Privatization of State Property where Construction Is Still Incomplete"
• "On the Transformation of State Enterprises and the Sale of Entities Liable to Privatization"

The choice of the privatization mechanism depends on the specific conditions currently prevailing in the market. When the government endeavors to raise the efficiency of strategic branches (but not lose its control over them), it sells only part of the stock in state enterprises to private investors.

In some cases, in order to give private firms access to a particular branch, the government liquidates a state enterprise.

If private capital does not see a guarantee of its success and fears to assume the risk, the government creates an enterprise for this purpose. In this case it retains ownership, but gives the private sector the right to manage its operation.

There are also other options: indirect privatization through preferential credits and taxation on private enterprises, and the leasing of part of the equipment (with a subsequent right of purchase).

The government has made a significant effort to develop highly-mechanized, small-scale production by providing commercial and credit assistance.

During the period 1992-1998, Turkmenistan privatized approximately two thousand state enterprises. It has virtually completed privatization in the sphere of public services and trade. By 1998, the share of the non-governmental sector in the total volume of budgetary revenues had already risen to approximately 10 percent. Today, over four thousand non-governmental organizations are involved in foreign economic relations. In general, the share of the non-governmental sector accounts for approximately 4 percent of exports and 18 percent of imports. At the present time, the government is undertaking to implement its program to transform state enterprises into joint-stock companies.

In the second stage of reform, the government continued to restructure collective farms, state farms, and other agricultural enterprises. It also continued both to transfer land on the basis of long-term leases and to convert it into private property (through the newly created productive organizations and farmer households). By 1998, approximately 70 percent of the entire sown land of Turkmenistan, the livestock, and fowl had been transferred from state control—either to long-term leases or through conversion into private property.

The government of Turkmenistan understands that the new economic system cannot appear in one fell swoop. Rather, the new order will emerge and develop out of the old economic system; it will do so as the government creates favorable conditions for the operation of markets (for investment, commodities, and labor services) and for the formation of a class of property-owners who possess the requisite knowledge and financial means to act.
Analysis of the Main Macroeconomic Indicators for 1992-1998 and the Anticipated Changes

An analysis of the main macroeconomic indicators for Turkmenistan in 1992-1998 shows the following.

1. **The structural transformation, to a certain degree, has corresponded to the strategic goals of forming a market economy.**

   In macroeconomic terms, there has been a distinct tendency for the structure of the country’s GDP to more closely approximate the so-called "structural standard." In particular, the share of the service sphere in the GDP has risen from 9.9 percent in 1992 to 31.8 percent in 1998—that is, to a level characteristic of a market economy. Meanwhile, the share of the productive sector in the GDP has declined by 20 percent; this includes a decrease of 45 percent for industry (notwithstanding an increase in the volume of industrial output), 16.4 percent for agriculture, and 7.2 percent for construction. The increase in the volume and share of services was due mainly to the growth in trade, banking, financial activities, insurance, and transactions involving real estate. The private sector has shown a high rate of growth, rising from 4 percent of the GDP in 1991 to 50 percent in 1998.

   These developments notwithstanding, the branch structure of the GDP in Turkmenistan nevertheless remains substantially different from the "structural standard" found in developed countries.

2. **Turkmenistan has completed the task of creating enterprises in different branches of the processing industries.**

   This has enabled it to reduce the dependence of the domestic consumer market on the import of consumer goods, especially food products. In 1998, domestic production accounted for 70 percent of the services and goods consumed internally; that represented a threefold increase from the level in 1991. During the period from 1992 to 1998, the share of imports in the domestic consumption products decreased from 36 percent to 3 percent for meat and meat products, from 44 percent to 1 percent for milk and dairy products, from 75 percent to 1 percent for potatoes, from 56 percent to 4 percent for wheat, and from 79 percent to 4 percent for cotton textiles. That reflected a corresponding increase in domestic production: the growth was nearly 2.0 times for meat and meat products, 1.3 times for milk and dairy products, 1.5 times for potatoes, and more than 3 times for wheat. At the same time, there was also an increase in a whole series of goods that had earlier been imported, but are now being produced domestically. For example, the export of cotton yarn rose 30-fold, rugs 3-fold, and cotton cloth 3 fold. Turkmenistan also began to export knitted and cotton garments as well as petroleum products. At the same time, the proportion of imports in the form of production goods and machinery (which

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24 The term "structural standard" is understood here to mean the branch structure of the GDP, formed on the basis of the arithmetic mean from the branch structures of the GDP of developed countries within the confines of a single year. The proportion of the service sector in such countries is high.
are intended to develop the country's productive base and to upgrade technology) has increased from year to year. Thus, if before 1991 just 5 percent of the import deliveries consisted of machinery and equipment, by 1998 this quotient had risen to more than 40 percent of all imports. There have been changes not only in the goods structure but also in the geographic distribution of these export-import transactions. Thus, since 1992 the export flows have been reoriented from countries in the CIS to countries outside the former Soviet Union. Specifically, the share of CIS countries in exports has decreased from 93 percent in 1991 to 26 percent in 1998; during the same period, the proportion of imports from these countries also decreased, falling from 97 percent to 47 percent. These shifts were also due to the changes in the structure of industrial and agricultural production in Turkmenistan and to the growth of production in the processing branches. The structural policy pursued by Turkmenistan in 1992-1998 averted the kind of massive decline in industrial and agricultural production that transpired in the other countries of the CIS. However, one must also note that the institutional changes in Turkmenistan between 1992 and 1998 were not sufficient to enable the country to achieve financial stabilization.

3. The actual condition of the economy is more complex than the main economic indicators might at first suggest.

Although the volume of the GDP in current prices amounted to 10.6 billion manat in 1997 and has increased each year, and although there has also been a growth in all the macroeconomic indicators (measured in terms of prices), an analysis of price indicators does not create an objective picture of the real state of affairs.

From 1991 (the last year that the USSR still existed) to 1993 (the last year that the Russian ruble zone was still in effect), the rates of inflation per annum were measured by double and triple digits, and even by thousands of percent. From the end of 1993, when Turkmenistan established its own national currency, the price dynamics began to reflect the individual characteristics of the domestic monetary policy. When, in 1993-1995, Turkmenistan increased the money supply by 20 to 28 percent each month, the prices reacted with an average monthly increase of 25 to 43 percent, and the increase of cash in circulation amounted to 47.8 percent.

This inflation was, in general, due to the fact that the monetary authorities channeled a substantial share of the increase in pure domestic assets into credits for the construction of production projects in industry and agriculture. These took the form of "centralized" and other special types of "targeted" credits. The economic situation during the first years of independence made it possible to achieve large-scale investments; the volume of these investments was several times what had previously been available. Thus, in 1992-1995, Turkmenistan invested five billion dollars in the economy; in 1996-1999 it raised this figure to seven billion dollars. During the period between 1992 and 1998, in industry alone the country completed 88 construction projects. A real return from these construction projects cannot be expected until the years 2000-2002. At the

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25 In Turkmenistan, the inconsequential budget deficits (or, indeed, the lack of such deficits in 1993-1997) did not prevent inflation.
same time, soon after the liberalization of prices (whereby government reduced to a minimum the list of goods and services subject to price controls), the market fully satisfied demand. Despite the adoption of new normative laws, in fact the earlier methods of price-setting still prevailed at the micro-level. The liberalization of prices demonstrated the inelasticity in changing the structure of structure and adapting it to the new structure of solvent demand and prices.

Nor was there any precedent, in terms of sheer scale, either for the process of attracting domestic investment resources into the sphere of hard-currency monetary circulation or for the accumulation of freely convertible currency. The tendency for this process to intensify and its overall significance requires a specialized study. In 1998, more than half of the income of the population was used to purchase hard currency; that, in turn, led to a concentration of most savings in the form of hard currency. From mid-1996, the authorities in Turkmenistan directed their efforts at the systematic implementation of an austere monetary policy and a decisive reduction in the state’s budgetary deficit. This led not only to financial and monetary stabilization, but to a renewal of growth in production and an increase in real wages.

This is evident from an analysis of the main productive indicators. In 1995-1996, the rates of development in these indicators were stable, but in 1997 they began to increase. The year 1998 marked an end to the main tendencies of the previous years-viz., an increase in the monetary value of the GDP (because of the higher prices), even though the physical volume of production actually decreased.

Gradually, by 1998 the country reduced the velocity of monetary circulation. That became one of the surest signs of a growing demand for the national currency and the onset of financial stabilization.

4. The main cause of economic problems in Turkmenistan was the failure of countries in the CIS to pay for energy and fuel deliveries.

The fluctuations in international prices for a limited menu of export goods, the high rates of demographic growth in the population, the remoteness of international markets, the inefficiency of many economic institutions inherited from the Soviet system—all these factors had a negative impact on the country’s economy. The leadership of Turkmenistan endeavored to diminish the effect of such factors by achieving greater

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26 World experience shows that, during a transition period, state budget policy suffers from the burden of seeking to achieve two diametrically opposed objectives. The reconstruction of the economy and the reinforcement of the social net to protect the populace plainly require a sharp increase state budgetary expenditures. At the same time, however, it is precisely during this period that the government should seek to avoid a budget deficit, which threatens to unleash runaway inflation and to undermine the whole reform process. In most industrialized states, the transition period unfolded against the background of a budget deficit and a corresponding shortage of means to finance economic growth. This same world experience shows that, to achieve stabilization measures, there is no need to balance the budget completely; it is only necessary to reduce the budget deficit to an acceptable level, avoid a surge in monetary emissions, and cover the deficit through loans from the populace, enterprises, and financial organizations. In the opinion of scholars and specialists, there is nothing particularly out of the ordinary for the state to run a deficit; capitalist powers also resort to deficit financing.
The Macroeconomic Policy of Turkmenistan

diversity in the national economy. However, the failure to obtain full payment for the energy deliveries to CIS countries remained one of the principal causes of the budget deficit in 1996 and 1997. That budget deficit forced the government to reduce state investment in the economy and to seek other sources of financing (i.e., by soliciting an influx of funds from abroad). Under conditions marked by an enormous demand for investment, it is extremely important to adopt measures that will increase the norm of savings and develop the market of funds available for borrowing; it is also imperative to take decisive measures to stimulate the rational use of material, monetary, and human resources and to channel these into the key branches of the national economy. The government has made abundant use of the tax mechanism to exert indirect pressure on the choice of investment decisions by entrepreneurs.

5. Economic transformation is not to be achieved by mere fiat.

The main obstacle to the liberalization of a centrally planned economy is the fact that, in order to dismantle the institutions of centralized control, it is not enough simply to liquidate these organs of rule and to abolish the corresponding normative laws. Fundamental reform involves more than a simple change in the system of administration or the adoption of new methods to regulate the economy. Rather, in essence, such reform entails a change in the dominant (and often deeply embedded) values. It is impossible to change these values by fiat. The institutional transformation proposed by the government of Turkmenistan for the next stage of reform can exert a significant influence (so as to accelerate the rates of economic stabilization) and can substantially limit the scale of consequences inherent in the risks from foreign economic ties.

Conclusion

The foregoing analysis shows that the priorities in the macroeconomic policy for the middle- and long-term perspective of economic development in Turkmenistan include the following.

1. The question of changing the vectors of integration of the national economy with the world market is acquiring fundamental significance. If, during 1992-1995, this process proceeded rather actively (through a redistribution of resources and incomes by promoting export-oriented production and by reducing the dependence of the domestic market on the import of consumer goods, in 1997-2000 (amidst a rise in domestic production and, therefore, an increase in demand by domestic producers for primary and intermediate resources), the share of natural resources being exported-with the exception of natural gas and petroleum-has not decreased at all. Accordingly, it is necessary to consider measures in the sphere of customs policy that can restrict an increase in the export of intermediate resources; the goal here is to increase the export potential of finished goods production in the long-term perspective.

2. A most important priority in the current and long-term economic development of Turkmenistan is an increase in the country’s scientific-technological potential. For this purpose, it is necessary to have an active innovation and industrial policy, one aimed at promoting the application of resource-saving (and later post-industrial) technologies in
the branches of mass production.

The successful implementation of a resource-conserving investment policy will make it possible to resolve one of the most serious problems facing the economy of Turkmenistan--viz., that of reducing the predominance of the raw-material structures, with the traditional dominance of raw-material and energy branches.  

3. The foundations of structural transformation in favor of the manufacturing and finished-goods branches, which were laid in 1997-2000, will contribute to an efficient development of the economy in the coming years and, above all, to the large-scale application of advanced and labor-saving technologies. These conditions will create the objective preconditions for reducing a protectionist policy in foreign trade and also for making the transition to a qualitatively new level of development (which can help to integrate Turkmenistan's economy into world economic community on the basis of parity). This presupposes:

- an acceleration in Turkmenistan's inclusion in the existing system of the international division of labor by stimulating those branches and enterprises that produce goods which are potentially competitive in world markets;
- the stimulation of branches and enterprises that create fundamentally new goods and services, as well as products with improved consumer qualities (thereby enabling Turkmenistan to enhance substantially its position on the domestic and foreign markets and to acquire new outlets for its goods);
- a further development of extractive industries, which occupy a dominant position both in the real sector of the economy as well as in the sphere of interests of financial and banking capital. Even if there is a relatively decrease in their share of the gross volume of industrial production, the rates of growth in the output from the extractive branches will remain high.

27 Of course, by the end of the period of economic reform foreseen hee (2000), Turkmenistan will not be able to resolve completely this question. That is all the more the case since Turkmenistan will continue to be an active exporter of oil and natural gas.
# The Macroeconomic Policy of Turkmenistan

## Appendix

### Main Indices of Economic Development in Turkmenistan

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<td>38.2</td>
<td>19.0</td>
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Reforming in the Agricultural Sector of the Economy of Turkmenistan

M.A. Ataev (Ph.D. in Economics)
Deputy Director,
National Institute of Statistic and Forecasting
1. The Place and Role of the Agro-industrial Complex in the Economy of Turkmenistan

The agro-industrial complex is integrally tied to the agricultural branches of the economy that produce foodstuffs and consumer goods. As such, it naturally plays an extremely important role in the economy of Turkmenistan. The significance of this complex has particularly increased in the wake of a policy announcement by the president of Turkmenistan, proclaiming the goal of achieving self-sufficiency in the country’s food supply. Its importance is further increased because of its potential role in resolving a number of other critical social-economic and other developmental problems that now face the country.

First, the agro-industrial complex represents a very substantial production-economic system for any state. Its significance in terms of the gross domestic product (GDP) is high in countries (such as Turkmenistan) that have an agro-industrial orientation. Agricultural production constitutes the material base of development for the entire economy, for this sector determines the rate of economic growth in a number of service and processing branches. Second, during the period of transition to a market economy, the agro-industrial complex can function as a stabilizing factor with respect to a host of social problems.

Second, 55 percent of the population currently resides in rural areas. Hence the standard of living for the bulk of the population is closely tied to the development of agriculture and allied branches of the economy. The agricultural sector employs 46 percent of the labor force in the country. At the same time, the possibilities for increasing employment in the agro-industrial complex must be deemed to be very high. In particular, the agro-industrial complex is a convenient sphere for conducting market reforms in the initial phase, since it does not require major capital outlays and complex technologies to create new economic entities in the marketplace. The successful resolution of land and water relations, together with a rational privatization and the denationalization of other means of production, can ensure a real improvement of performance in the agro-industrial complex. Simultaneously, these gains will also help to resolve the problem of unemployment for those who live in rural areas as well as the smaller and middle-sized towns of the country. Moreover, the market will begin to regulate the proportions in the employment structure and will contribute to an increase in the sector associated with sales and services of various kinds.

Third, the agro-industrial complex can play an important role in shaping the ecological situation in Turkmenistan. Agricultural production of course comes into direct contact with the natural environment; for ecological purposes, it is essential to minimize the use of resources expended in agricultural production. At the present time, the per capita utilization of land in Turkmenistan amounts to 6.6 hectares of arable land (including 0.38 hectares of irrigated land and 3,800 cubic meters of irrigation water). It is therefore essential to achieve an intensification in agricultural production—that is, to raise the yield from crops and to increase the productivity of animal husbandry. Those improvements, in turn, can provide the technological base for an increase in the economic efficiency of the agro-industrial complex.
2. Strategic Goals

Every state resolves the question of providing foodstuffs for its people in its own way. The government of Turkmenistan has formulated and implemented its agrarian policy so as to develop this sector in conjunction with other spheres of the economy, and also to resolve the social problems confronting the rural populace.

In the sphere of production and consumption of products from the agro-industrial complex, the government of Turkmenistan has several goals at the basis of its policy: (1) ensure the provisioning security of the country; (2) create the necessary stockpiles of food products and agricultural raw materials; (3) increase the consumption demand of all strata of the population; (4) improve the quality of comestible and non-comestible agricultural products; and (5) guarantee their competitiveness on domestic and foreign markets.

For purposes of ensuring a reliable food supply to meet domestic demand in Turkmenistan (in compliance with the program "Ten Years of Stability"), by the year 2002 the government aims to complete a radical structural transformation in agriculture. The production of cereal crops is supposed to increase to 2.5 million tons (including 1.4 million tons of edible grain, 2 million tons of raw cotton, 0.6 million tons of vegetables, and 0.35 million tons of gourds). The country will also produce 0.55 million tons of sugar beets, which in turn can produce enough sugar to satisfy the domestic demand. A substantial growth is also planned for animal husbandry. Specifically, production is to be increased for meat (to 0.5 million tons), milk (to 1.4 million tons), and eggs (to 900 million). All this will make it possible, in essence, to resolve the problem of the country’s security in foodstuffs, but also to ensure a large-scale volume in hard currency earnings.

The improvement in the food supply is to be accomplished by implementing a complex of programs pertaining to the production, preservation, processing, and sale of agricultural goods under market conditions. For this purpose (and simultaneous with the structural transformation of agricultural production), the government seeks to recruit large-scale investments to create processing enterprises and the productive infrastructure of the agro-industrial complex.

The agrarian reform in Turkmenistan is conducted in conjunction with two major processes. One is the process of transforming the economy of Turkmenistan from its initial status as a subsystem (within the larger Soviet economy) into an independently operating system of the open type. On the other hand, the government has adopted a policy to replace the administrative-command methods of managing a branch with one based primarily on economic methods and the development of market relations.

It bears noting that measures taken in the late 1980s to reform agriculture constitute the basis for further changes in this sector. The earlier reforms included the adoption of more progressive forms for the organization and compensation of labor (in particular, leasing contracts) and an improvement in the method of internal accounting. These changes brought about an increase in the volume of agricultural output as well as a rise in the indicators of efficiency in production. However, the framework of the administrative-command model of the economy did not make it possible to realize completely the full potential of free economic management. In addition, a number of the
measures to reform agriculture were one-sided; that is, they amounted to an improvement in the organization of economic relations, but lacked the requisite material support.

In essence, agrarian reform at the current stage has three principal dimensions: (1) land reform; (2) an improvement in production relations; and (3) the creation of an economic mechanism based on the market. Insofar as these three dimensions are closely interrelated, the government is working on all three spheres simultaneously. To ensure consistency in policy and its implementation, the government has devised a multi-stage approach to the realization of reform.

3. The Stages of Agrarian Reform

In summarizing the path traversed thus far, one can divide the agrarian reform of Turkmenistan into three main stages.

Stage 1: 1993-1994

These years marked an improvement in land relations. It was precisely at this stage that the foundations were laid for the formation of a "mixed" agrarian system, i.e., one based on different forms of landholding. Land is an important factor of production; the organizational and legal structure of agriculture depends upon the forms of land ownership. With the onset of economic transformation in Turkmenistan, the government also embarked on land reform. Thus, in May 1991 the government introduced substantial changes and addenda to the country's land code. But real changes in land relations did not come until after 2 February 1993, when the president issued a decree "On the Right to Own and Use Land in Turkmenistan." That edict permitted the allocation of irrigated land for private use and on the basis of long-term leases. A "State Commission on Land Reform" was also established.

The government subsequently adopted two additional laws: "On the Lease of Land to Foreign States" (October 1995) and "On the Allocation of Land for Ownership by Citizens for Purposes of Commodity Agricultural Production" (December 1996). These two laws significantly reinforced the basic principles of land relations in the country.

Both social-economic and national-historical factors form the basis of land relations in Turkmenistan. Thus, it is impossible to ignore historic forms of land utilization in the country, for these had been formed under the influence of regional factors. Most basic of all, the country widely practiced the principle of sanashik—that is, the right of annual repartition of the land and water for agricultural use. This principle took into account such conditions as the shortage of water and the demographic peculiarities of the population. Along with some negative aspects (for example, frequent repartition of land, clan monopolies on land use, etc.), the sanashik system also had some clear advantages. Thus, for purposes of watering the sown areas, sanashik encouraged people to unite in groups and thereby ensure more rational utilization of the water supply. This system also prevented the dispersion of land into separate privately owned plots.

With respect to land reform, one cannot overestimate the orientation of the head
of state toward a direct fusion of peasant labor with land as the means of production. The task of the leadership, economic managers, and scholars-agronomists is now clear: to design and implement systems of agriculture and agricultural organization that can achieve two ends. First, these must ensure the increased participation of peasants in holding the means of production and controlling the fruits of their labor (in a word, strengthening their personal incentive in raising productivity). Second, these systems should neither restrict the opportunities to apply more advanced technologies of production, nor should they substantially undermine the established organizational-economic relations within and among enterprises. All this makes it essential to improve the system of accounting and the economic assessment of land resources. It is also important to establish ongoing control over the efficient utilization of irrigated land.

The conduct of land reform and the increase in the number of independent land users (with a reduction in the area available for each) makes it vital that the government design a mechanism to monitor their mutual relations with respect to organizing crop rotation and water usage. Therefore, to reform the land relations, the government is preparing a differentiated approach—that is, one which takes into account the specialization of production, the condition of productive resources, the degree of cooperation of labor, and a host of other factors.

**Stage 2: 1995-1996**

The objective during this phase was to restructure the forms of economic operation. An improvement in the relations for ownership of the means of production, together with the transformation of agricultural enterprises (so as to take into account the conditions of a market economy), constituted the principal thrust of agrarian reform in this phase. Moreover, the development of property relations was to be realized without undermining the existing technological and cooperative ties, the system of cultivation, the machinery, and so forth. In accordance with a presidential resolution of 28 March 1994 (“On the Reform of Kolkhozes, Sovkhozes, and Other Agricultural Enterprises in Turkmenistan”), the government conducted work on the transformation of 54 agricultural enterprises. On the basis of generalizations drawn from one year’s experience, the government refined its approaches to the transformation of agricultural enterprises. In June 1995, all the existing kolkhozes, sovkhozes, and mixed enterprises were transformed into "peasant associations" (krest’ianskie ob"edinienia).

In accordance with the "Law on Peasant Associations," the legal status of this new form of enterprises conferred broader opportunities to use market methods of economic operation. At the same time, the character of the transitional period determined a certain unification of various dimensions of their activity (in particular, the management and organization of mutual relations with the state). Peasant associations are seen as becoming an effective form of including peasants into market relations, but without demolishing the current system of productive relations. At the same time, the government is also promoting the development of single-family farms, with their activities being regulated by the "Law on Peasant Farms."

To a large degree, the success of the reform depends on creating favorable external conditions for productive activities. This law guarantees the creation of identical
economic conditions for all economic entities—regardless of their form of property relations and ownership. The newly-constituted economic mechanism relies upon a combination of economic methods for governance and state regulation. On the one hand, the government has embarked on the gradual transfer of agriculture to accommodate the general system of economic activity; in other words, with respect to such matters as price-setting, taxation, and credits, this branch should not enjoy any special privileges. On the other hand, the government does deem it essential to take into account the special conditions needed for the development of agriculture and the special difficulties that this sector faces during the transition period. As a result, the government has been adhering to a protectionist policy. But government support for agriculture is targeted toward specific areas that bear top priority. State procurement still exists for cotton and edible cereals.

**Stage 3: 1997-1998**

The years 1997-1998 marked an improvement in economic relations and a bolstering of ties to integrate the agro-industrial complex.

The transition to market relations caused the specific organizational-economic structure of the agro-industrial complex of Turkmenistan. The country has created an integrated system of organizational structures for management to service the agricultural sector and to develop crops for foodstuffs and industrial purposes. To address these tasks, a large number of ministries and agencies participate, either directly or indirectly. In terms of their functional role, these organizations can be divided into three categories:

1. Organizations that service production
2. Agriculture and fishery industries
3. Agencies that handle the procurement, storage, processing, and sale of products form the agro-industrial complex

The first category—i.e., organizations that service production—includes several different structures. Namely, these include the association of joint-stock companies for the productive-technical service of agriculture ("Turkmenobakhyzmat"), the Seed Inspectorate, and the Inspection for Plant Quarantine. This category also includes the Association of Joint-Stock Companies to Utilize Watering Systems and to Service Water Users ("Turkmenobasyvkhyzmat"), which consists of subunits in the Ministry of Agriculture and Water Management in the country. This category also includes the State Fund for the Development of Agriculture (which participates in providing investments in this sector) as well as the Association of Daikhan Banks ("Daikhantsentrbank"), the local offices of which handle the mutual accounts of credits with lessees and private commodity producers. In addition to the above, many other ministries also play a role in production in the agricultural sector: the Ministry of Energy and Industry, the Ministry of Trade and Resources, The Ministry of Automotive Transportation, the Ministry for the Use of Natural Resources and Protection of the Environment (Forestry), the State Commodity and Raw-Material Market, the State Trading Concern "Turkmenneftegaz," and a number of others.

There is also a second bloc of organizations that directly participate in the
production of agricultural goods: the Ministry of Agriculture and Water Management, the Association of Joint-Stock Companies for Animal Husbandry ("Turkmenmallary"), and the State Committee for Fishery. In recent years, the relative share of the private sector has grown at an accelerated pace. In accordance with a directive issued by the President of Turkmenistan, many ministries and agencies that serve the agricultural sector have been expanding their volume of output.

A third complex of organizations is also involved in the agricultural sector: the Association for Cereal Products ("Turkmengallaonumleri"), the state concern "Turkmenpagta," the Association for the Trade of Fruits and Vegetables ("Turkmenive"), the Association of the Food-Processing Industry, the Union of Consumer Societies ("Turkmenpotrebsoiuz"), the State Association "Turkmenkhaly," and the Ministry of the Textile Industry. The principal function of these organizations is to handle the procurement, storage and preservation, processing, and sale of goods from the agro-industrial complex. At the same time, these organizations themselves engage in the production of goods from this sector.

At the present time, Turkmenistan has achieved major successes in the transformation of the agricultural sphere. Perhaps, however, one can say that the most salient gain has been the creation of conditions that assist peasants to acquire the skills needed to run a commodity-based agriculture on their own. A lessee or private producer is now able to operate effectively in his mutual relations with banks, procurement agencies, and other organizations that provide various types of services.

4. Analysis of the Structural Improvements in the Agricultural Sector

In the years that have elapsed since Turkmenistan gained its independence on 27 October 1991, the country has made substantial progress in improving the structures for agricultural production (see Table 1).

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Entire sown area</td>
<td>895</td>
<td>1027</td>
<td>1231</td>
<td>1494</td>
<td>1266</td>
</tr>
<tr>
<td>Cereals</td>
<td>132</td>
<td>143</td>
<td>187</td>
<td>657</td>
<td>573</td>
</tr>
<tr>
<td>Wheat only</td>
<td>55</td>
<td>53</td>
<td>60</td>
<td>552</td>
<td>511</td>
</tr>
<tr>
<td>Industrial crops</td>
<td>508</td>
<td>562</td>
<td>625</td>
<td>564</td>
<td>482</td>
</tr>
<tr>
<td>Cotton only</td>
<td>508</td>
<td>560</td>
<td>623</td>
<td>563</td>
<td>482</td>
</tr>
<tr>
<td>Potatoes, Vegetables, Gourds</td>
<td>42</td>
<td>51</td>
<td>81</td>
<td>53</td>
<td>42</td>
</tr>
<tr>
<td>Fodder crops</td>
<td>213</td>
<td>271</td>
<td>338</td>
<td>220</td>
<td>169</td>
</tr>
</tbody>
</table>

As Table 1 demonstrates, Turkmenistan has significantly expanded the land area sown to cereals, especially wheat. Thus, whereas the total area of crop land increased by 4.3 times, the area used to cultivate wheat rose by 9.3 times. The arable land allocated for the cultivation of cotton, potatoes, vegetables, and gourds has remained stable (although, to be sure, some years have shown slight increases or decreases). Beginning in 1990, the area used to raise fodder crops has been declining.

The changes in the structure of sown areas have led to corresponding changes in the output for the different types of agricultural crops (see Table 2).

Table 2

<table>
<thead>
<tr>
<th>Crop</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grain</td>
<td>276</td>
</tr>
<tr>
<td>Raw cotton</td>
<td>1258</td>
</tr>
<tr>
<td>Vegetables</td>
<td>267</td>
</tr>
<tr>
<td>Gourds</td>
<td>201</td>
</tr>
<tr>
<td>Potatoes</td>
<td>12</td>
</tr>
<tr>
<td>Fodder root crops</td>
<td>18</td>
</tr>
<tr>
<td>Corn for silage and green fodder</td>
<td>1057</td>
</tr>
<tr>
<td>Hay from annual grasses</td>
<td>25</td>
</tr>
<tr>
<td>Hay from perennial grasses</td>
<td>873</td>
</tr>
</tbody>
</table>

* Data for 1998 (the sources do not provide data for 1997)

While the harvest in Turkmenistan for 1997 was low, the following year the volume of cereal production amounted to 1,264,000 tons (504,000 tons more than the previous year). The gross output of winter wheat amounted to 1,245,000 tons, which represented an increase of 76 percent. The significant increase was due to the improvement in relations between the agricultural producers and the banking system as well as to an improvement in the organization of work (which helped raise cereal yields to 20 centners per hectare).

The rather high yield of cereals in 1998 enabled the country to reduce substantially its imports of flour (by nine-fold) and wheat (by six-fold).

Compared with 1997, the country has developed its production of cotton at a higher rate. In 1998, the volume of procurement of raw cotton amounted to approximately 700,000 tons; that represented an increase of 10 percent over the previous year. This expanded output enabled an increase in the exports of cotton and products made from it.

The reduction in areas sown to potatoes, vegetables, gourds, and animal fodder led to a fall in the volume of production.

The country is also developing the animal husbandry at a high pace. For
example, the head of livestock rose by 1.8 times, cows by 2.3 times, sheep and goats by 33 percent, horses by 2 times, and camels by 24 percent. The swineherds were substantially decreased (by 5.2 times). The latter contraction was partly due to the high costs of maintaining the hogs, but it also reflected the special characteristics of the national diet in Turkmenistan. Hence the future development of hog raising will be mainly linked to the production of sausage products. In 1997, the higher rate of contraction in livestock in the state sector led to a decrease in the total head of livestock in all categories.

### Table 3

**Dynamics of Livestock in Turkmenistan**

(For all categories of producers; thousands of head)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>All Large Horned Livestock</td>
<td>626</td>
<td>738</td>
<td>829</td>
<td>1199</td>
<td>1128.5</td>
</tr>
<tr>
<td>Cattle only</td>
<td>233</td>
<td>273</td>
<td>331</td>
<td>566</td>
<td>546</td>
</tr>
<tr>
<td>Sheep and goats</td>
<td>4483</td>
<td>4740</td>
<td>5481</td>
<td>6574</td>
<td>5957</td>
</tr>
<tr>
<td>Hogs</td>
<td>168</td>
<td>217</td>
<td>267</td>
<td>82</td>
<td>32</td>
</tr>
<tr>
<td>Horses</td>
<td>13</td>
<td>14</td>
<td>19</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Camels</td>
<td>83</td>
<td>88</td>
<td>87</td>
<td>108</td>
<td>103</td>
</tr>
</tbody>
</table>

**Sources:**


The data in Table 4 reflect the dynamics in the volume of output from the main categories of animal husbandry in recent years. As the table makes clear, the production of milk and wool expanded at particularly high rates. With respect to the production of meat, the volume of output for this product has increased by 37 percent. An analysis of the production of various categories of meat shows a structure specific to Turkmenistan: the bulk of meat consists of beef (49 percent) and mutton (46 percent); only an insignificant amount comes from camels (2 percent) and poultry (1.5 percent). The amount of pork and horsemeat is inconsequential.
Table 4
Output of Animal Husbandry Products
(For all categories of producers; in thousands of tons)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Meat (deadweight)</td>
<td>81</td>
<td>89</td>
<td>104</td>
<td>110</td>
<td>111</td>
</tr>
<tr>
<td>Milk</td>
<td>306</td>
<td>338</td>
<td>435</td>
<td>727</td>
<td>755</td>
</tr>
<tr>
<td>Eggs (millions)</td>
<td>248</td>
<td>275</td>
<td>328</td>
<td>270</td>
<td>274</td>
</tr>
<tr>
<td>Wool</td>
<td>13</td>
<td>15</td>
<td>16</td>
<td>19</td>
<td>18</td>
</tr>
</tbody>
</table>


An analysis of the productivity of crop cultivation and animal husbandry is of great importance. Table 5 shows that, in recent years, there has been a tendency for productivity to decline. It is particularly important to note the contraction in the yields for cereal crops and cotton.

Table 5
Yields of Agricultural Crops
(centners per hectare)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereals</td>
<td>21.5</td>
<td>21.7</td>
<td>22.0</td>
<td>18.3</td>
<td>16.8</td>
<td>8.8</td>
<td>13.3</td>
</tr>
<tr>
<td>Cotton</td>
<td>23.8</td>
<td>22.9</td>
<td>23.2</td>
<td>23.0</td>
<td>23.0</td>
<td>8.2</td>
<td>13.2</td>
</tr>
<tr>
<td>Vegetables</td>
<td>137.0</td>
<td>115.0</td>
<td>135.0</td>
<td>147.5</td>
<td>158.7</td>
<td>140.3</td>
<td>127.6</td>
</tr>
<tr>
<td>Gourds</td>
<td>83.0</td>
<td>73.0</td>
<td>93.0</td>
<td>88.0</td>
<td>84.0</td>
<td>88.0</td>
<td>71.0</td>
</tr>
<tr>
<td>Fruits and berries</td>
<td>38.9</td>
<td>31.1</td>
<td>29.2</td>
<td>25.0</td>
<td>25.2</td>
<td>22.3</td>
<td>19.6</td>
</tr>
<tr>
<td>Grapes</td>
<td>83.1</td>
<td>59.7</td>
<td>55.7</td>
<td>65.5</td>
<td>76.5</td>
<td>48.1</td>
<td>61.9</td>
</tr>
</tbody>
</table>


Data on productivity in animal husbandry at the present time are available only for agricultural enterprises in the state sector. However, their share of total output in animal husbandry has been steadily decreasing.

Under conditions dominated by inflationary processes, it is methodologically difficult to follow the dynamics of capital investments in the agricultural sector. In this case, it is necessary to operate with relative figures.

Until 1993, agriculture received 27 to 29 percent of all capital investment. Thereafter, the center of gravity in capital investments shifted to the processing branches of the agro-industrial complex (in particular, for more extended processing of cotton). In 1997, the volume of capital allocated for the development of agriculture amounted to 142
billion manat. Most of these resources (97.5 percent) came from the funds of state enterprises and organizations; more than 60 percent was used in the construction for irrigation projects.

The fixed capital of the agricultural sector in 1997 amounted to 700 billion manat. On 1 January 1997, agricultural enterprises of the country had 39,000 tractors, 15,000 trucks, 3,000 grain harvesters, and 8,000 cotton harvesters. The amount of cultivated land per tractor in 1997 amounted to 51 hectares. The energy capacity of this branch is on the order of 6 million horsepower. Measured in terms of one worker per year, the energy capacity is equivalent to 13.8 horsepower; in terms of sown acreage, the energy capacity is 465 horsepower per 100 hectares. In 1997, the agricultural sector used 129 kg of mineral fertilizer and 765 kg of organic fertilizer per hectare of sown area.

In general, Turkmenistan has at its disposal a rather large resource potential for the development of agricultural production. The development of private property in the branches of the agro-industrial complex has been chosen as a powerful stimulus to achieve the goal of supplying the country with a sufficient food supply.

5. Development of Private Commodity Production

The broad measures adopted for agrarian reform could not fail to have an impact on the organizational and economic structure of agricultural commodity producers. At the present time, agricultural producers include 600 peasant associations along with another 700 ancillary farming units of various enterprises, organizations, and agencies. In addition, 4,600 private commodity producers utilize 93,000 hectares of land; 2,300 citizens have obtained 20,600 hectares of land on long-term leases. The country has 6,300 cooperatives and small enterprises, as well as 1,800 individual farms (daikhan).

An important place in the agrarian sector of the economy of Turkmenistan belongs to the activities of the general population, which includes both the buildings and land of rural inhabitants as well as the garden plots of citizens. On 1 September 1998, there were 585,400 families with household plots, with an average allotment of 0.22 hectares. As a result, there has been a substantial growth in the proportion of the non-state sector in the total volume of production of agricultural goods as well as in the number of independent farmers. Thus, the share of these households in 1997 (compared to 1996) grew by 12 percentage points and reached a level of 54 percent. The development of private farms has been diversified and includes multiple branches. Thus, they are active in the cultivation of crops as well as in animal husbandry. The share of the private sector is expanding at a particularly rapid pace in raising sheep, gourds, and fruits. As a result, the private producers now account for 52 percent of the sheep, 57 percent of the gourds, and 56 percent of the fruits. A significant proportion (93 percent) of the cereals and cotton comes from peasant associations and the farms of enterprises and agencies.

The general population has also increased the head of livestock and the number of poultry in their possession. On 1 August 1998, private citizens possessed 89 percent of the cattle, 61.5 percent of the goats and sheep, and 82.6 percent of the poultry. The private producers accounted for 80.0 percent of the meat, 93.6 percent of the milk, 93
percent of the eggs, 31 percent of the karakul lambskin, and 66 percent of the wool.

An analysis of the situation in the agro-industrial complex of Turkmenistan shows that, to all appearances, the private production of the general population will continue, for a long time, to be an important producer for a number of agricultural products and, especially, foodstuffs. At present, the principal task is to strengthen their material and technological base, to increase the productivity of land and livestock, and to raise the level of commodity production and the sale of products. The majority of the individual family producers should be transformed into independent farm units. But this requires the creation of a specialized network for agricultural services, including outlets for agricultural machinery, shops for repair and maintenance, procurement centers, processing plants, and so forth.

The private farmers are just now in the process of emerging. In the future, it is necessary to provide them with a secure basis in law. The statute "On Daikhan Farms" needs to be amended and amplified. It is essential to work out-on a scientific basis-the optimal size of landholding by these private farms (i.e., taking into account the particular type of product specialization).

A no less important problem concerns the need to provide the daikhan farms with the requisite machinery and equipment. In accordance with the presidential decree "On the Sale of Agricultural Machinery by State Enterprises, Organizations, and Agencies," Turkmenistan now permits state enterprises to sell agricultural equipment to the general population.

6. State Regulation of Agriculture

Under the conditions now prevailing in Turkmenistan, the state plays a central coordinating role in the development of the agro-industrial complex. The state regulates the agro-industrial complex in the following ways.

First, the state has retained its role with respect to strategically important products of this sector. At the present time, these products consist of cereals and cotton. Concretely, the state procures these products in unlimited amounts and at stable prices from lessees and private commodity producers. The private producers can, at their own discretion, sell a certain part of their products as they see fit.

Second, the state continues to regulate agricultural prices. At this point, the state has retained procurement prices only for the two strategic commodities cited above; this is based on the fact that the state has retained its system of procurement orders for these two commodities. However, a number of indirect measures allow the state to promote price stability on other types of agricultural products as well. In particular, these measures include the preservation of parity between the prices of industrial and agricultural goods. Specifically, prices have remained stable for electricity, fuel, and gasoline and lubricants. Moreover, the government sells various industrial goods to agricultural commodity producers at special, discounted prices (viz., at 50 percent of the market price).

Third, the state provides special rates for agro-services to lessees who operate under the terms of an internal leasing contract. These privileges are also extended to the
producers of cotton and grain for state procurement.

Fourth, the state has created a financial-credit mechanism that adequately reflects the special characteristics of the agrarian sector of the economy of Turkmenistan. Thus, producers of cotton and wheat who work on the terms of a state order receive preferential credits at a 2 percent annual rate; enterprises that process agricultural commodities are eligible for credits at 8 to 10 percent per annum. Agricultural commodities produced by peasant associations and other enterprises (regardless of property form), but also private commodity producers, are exempt from the added value tax. An analogous privilege is enjoyed by processing enterprises that belong to peasant associations. Agricultural enterprises of all property forms are also exempt from the tax on profits that are obtained from the production and sale of agricultural commodities. The government has also directed that those working for peasant associations, if they engage in crop cultivation on the terms of an individual, family, or collective contract, must consign 20 percent of the value of the commodities produced to their association. Of these resources, 8 percent are transferred to the central state budget. Private and other commodity producers who do not belong to peasant associations must pay the deductions to the state budget on their own. Payments to the state budget are obligatory and constitute a form of taxation; the government collects these assessments as an aggregate payment for social insurance, pensions, and income tax. The population of Turkmenistan does not pay taxes on their household plots, on the buildings located there, and on the raising of livestock and poultry.

Fifth, the state provides a form of protectionism and supports the parity of commodity exchange between agriculture and the suppliers of material and technical resources for the village. At the same time, the government has declared that its support should not become a means to cover the losses that commodity producers have incurred because of their own mismanagement. State resources are used for specific purposes; recipients must account for these funds and bear material accountability in the event that they are expended inefficiently. State support for the agro-industrial complex is being realized, in the first instance, in such branches as the material-technical supply of mineral fertilizers, modern machinery, energy resources, and the like.

Sixth, the state also provides investment support. The central state budget covers the expenditures on water projects. In 1996, the government created the State Fund for the Development of Agriculture, which acts to assemble investment resources for this branch. The creation of the fund and the introduction of three-percent deductions from the profits of state enterprises have laid the foundation for a conscious regulation of inter-branch allocation of financial resources. This practice has no precise analogues anywhere else in the world.

The next step in the development of this Fund’s activities can consist in establishing an order to make deductions from the profits of all enterprises in the non-agricultural sectors of the national economy (regardless of the form of property ownership). Rates would be differential, taking into account the real magnitude of the machinery-technology fees that have been monopolistically imposed by industry. The mobilization of these resources to finance agriculture can help ensure that this sector will operate normally and will not require any additional assistance. Agricultural science in
Turkmenistan has conducted studies to determine the inter-branch costs of machinery technology and to devise the methodological principles for calculating the magnitude of fees assessed by individual industrial enterprises.

In expending the resources of the State Fund for the Development of Agriculture, the government has sought to focus the character and targets of such allotments. For this purpose, it is essential to do the following:

- release funds only to satisfy the needs of producers of agricultural commodities (i.e., not the processing branches of the agro-industrial complex);
- allocate resources from this Fund for products sold to the state on the basis of contracts (with the resources being provided as a supplement to the procurement prices, thereby providing an incentive to increase the delivery of goods and fill the state order);
- as the development of agriculture stabilizes, gradually shift to a distribution of financial resources so as to take into account the land area under cultivation. This procedure for the allocation of subventions is practiced by the European Union.

At the present time, the government is taking a number of basic measures to improve the methods of state regulation in this branch of the economy. By reorganizing and merging two independent ministries, the government created a single "Ministry of Agriculture and Water Management."

The government has adopted a statute for the new ministry and for the structure of its central apparatus. It also issued a decree "On the Formation of Associations of Joint-Stock Companies for the Exploitation of Water Management Systems and the Servicing of Water Users" ("Turkmenobasuvkhyzmat"). This Association was formed on the basis of the former Ministry of Melioration and Water Management. The Association, while constituted as a joint-stock company, remains subordinated to the newly founded Ministry of Agriculture and Water Management.

From 1 July 1998, peasant associations that engage in the processing of raw agricultural commodities (with the exception of those that process raw cotton and butter) are exempt from paying the value-added tax (VAT) on the volume of the sale of goods obtained from these raw materials.

In July 1998, the government organized a conference to consider questions of a secure food supply. It also advanced concrete proposals to improve the activity of the Association. In particular, for example, the Association for Grain Products must bear responsibility for the entire process of work, from the sowing of the crop to the sale of the finished product.

A joint conference of the eighth Council of Elders and the Popular Council, which convened in the city of Tashauz, proposed measures to reform property ownership and to make the transition to a market economy in the agricultural sector. Joint-stock companies (specializing in the cultivation of fruits and vegetables, cereals, and animal husbandry) are to work with independent farmers on the basis of contracts. The majority (51 percent) of the stock in these companies is to belong to the state (with the Ministry of
Agriculture and Water Management holding the shares of stock); the remaining 49 percent will belong to peasant associations and property owners. A decision was made to have the state provide support for the commodity producers for a period of two to three years.

7. Transformation in the Form of Economic Management in Agriculture

The existing peasant associations need further reforms. In our opinion, the time has come to create the following services in the existing peasant associations.

1. Coordinating Councils. Such councils should be empowered (with the general consent of the members of the peasant association) to resolve questions pertaining to the rational utilization of land and water, the system of economic management, and the like. It would make sense to include in this council the leaders of the enterprises, the main specialists working on contractual terms, but also representatives of the private farmers who belong to the association.

2. Financial-calculating Centers. These centers should function to provide an internal accounting for the expenditures, the production of goods, and mutual accounts, but also the collection and analysis of information about market conditions. The financial-calculating centers should, in our judgment, also prepare proposals for the coordinating council on the structure of areas to be sown, on the volume of production, and so forth. It is necessary for each private farmer who belongs to the association to open a personal account, to use a checking system for paying accounts, and also to conduct economic and analytical work.

3. Self-financing specialist groups for technology. Working on a self-financing cost-accounting basis, such groups are to provide agronomist, water-melioration, and veterinary services. The payment for these services should be closely tied to the results of activities conducted on concrete areas. For example, the labor of the agronomist is paid from an increase in the yields, the livestock specialist from a higher output in animal husbandry, and so forth. Initially, it is not necessary to establish such contractual relations with all the peasants. The most important thing, at this stage of reform, is to demonstrate the role of qualified services of specialists in raising the efficiency of production. Without question, the development of contractual forms of expert technical services (with a maximum specificity in the focus of their activities) will increase the demand of peasant associations for highly qualified specialists.

4. Self-financing subunits for production and technical services. Based on self-financing or cost-accounting principles, such mechanized groups can operate independently and along with other forms of production-technical services (such as subdivisions of joint-stock companies "Obakhyzmat," and provide machinery and equipment for private use and leasing).

It is our recommendation that the participation of individual members of peasant associations in the activity of the first two services be obligatory, but voluntary in the last two. Once peasant associations have achieved the status of an organizer of productive cooperation under conditions of free economic activity, it is entirely possible that they will develop the productive and social infrastructure at their own expense. It is also
possible that they may take steps to organize alternative vertical cooperative ties, since the statute "On Peasant Associations" provides broad opportunities for initiative on the part of such enterprises. Insofar as the law itself regulates the legal, organizational, and economic foundations for the operation of peasant association (in broad terms), the measures to improve their structure offered here should find a place in the model statute on peasant associations.

For purposes of accelerating the reforms in agriculture, it is also necessary to take the following steps:

- create cooperatives to ensure the sale (through barter deals) of agricultural products, and provide various services to the commodity producers (regardless of the form of property);
- construct mini-factories to process agricultural products (in particular, canning factors to process vegetables, meat, milk, and other products);
- extend the system for allocating preferential state credits to include seasonal expenditures, permitting private farmers to use the future harvest as a security for the credits;
- in western Turkmenistan, make a targeted use of water resources from the Garakum Canal to support agricultural production.

8. Reform of Water Usage

A large-scale land reform is underway in Turkmenistan. Of considerable significance too is the implementation of reform in the use of irrigation water.

The main water resources of Turkmenistan are formed outside the borders of the country. The magnitude of domestic water resources, that is, those formed within the country's borders, is insignificant.

In the longer perspective, one of the main reserves for expanding agricultural production is the rational utilization of resources in the irrigation system. At the present time, many agricultural producers are experiencing a shortage of this important factor of production. Moreover, the bulk of capital investments to develop virgin land consists of expenditures to deliver the water from its source to the fields. In the process of agricultural production, significant resources are used to keep the irrigation system in working condition and to maintain the drainage system for removing water from the fields.

All this attests to the fact that irrigation water must be given a new status in assessing yields and the efficiency of agricultural enterprises. It is necessary to place this factor alongside land (and its fertility), since these factors simultaneously, each in its own way, affect the basic indicators of productivity.

As is well known, the implementation of land and water reform (together with the liberalization of prices on agricultural products) will gradually raise the question of regulating rental relations in agriculture and the imposition of a land tax. In this regard, it will become necessary to improve the procedures employed for the fee-based utilization of irrigation water. At the same time, however, it is also essential to correlate
the land tax and water-usage fees on the basis of an integrated concept for the monetization of land and water resources in agriculture.

Since the resources of irrigated water are limited, it is essential to assign them top priority in the analysis of agricultural production. Using indicators of aggregate agricultural output, as well as gross and net income (per unit of irrigated water consumed), it is possible to encourage the rational utilization of the irrigation water in ways to ensure that its use to cultivate various crops remains within the limits of the natural needs of plants and garden plots.

Conclusions

The agrarian reform in Turkmenistan is being conducted in a gradual and stage-by-stage fashion, thereby taking into account the historical and national peculiarities of the country. The main goal of agrarian reform in the country is to guarantee the security of its food supply. For this purpose, the government has sought to restructure and to specialize production (in agriculture and in the agro-industrial complex as a whole). In so doing, it has laid the main emphasis on the development of branches that meet the domestic demand for foodstuffs. Turkmenistan is also increasing the share of the processing industry in its agro-industrial complex. This is done so as to intensify the processing of cotton and other agricultural resources.

As a result of these reforms, the peasants are adapting to market relations. They are now working in direct contact with the banking system, the services of the automotive branches, and the manufacturing enterprises.

In recent years, the country-at a confident tempo-has moved toward the realization of its program to denationalize land. That denationalization will become the basis for the development of peasant farms. The share of agricultural goods produced by private farmers will steadily increase. All this creates the real preconditions for resolving the food-supply problems of Turkmenistan.
The Foreign Economic Relations of Turkmenistan

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and

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1. Introduction

At the present time, Turkmenistan is making the transition to the next phase of radical economic reforms. This period entails a structural transformation of the economy and the reinforcement of stabilization processes.

Today, under conditions of national sovereignty and the formation of a new foreign economic policy, a neutral Turkmenistan is independently constructing a new system of foreign economic activities. This presupposes that the autonomy of enterprises and other economic organizations to engage in foreign economic activities will be significantly augmented; in turn, this increase in enterprise autonomy entails a change in the functions of the state and requires the formation of new organs to oversee this sphere of activity.

The foreign economic policy of Turkmenistan is governed by principles that are generally recognized throughout the world. These include the development of economic relations with all countries on the basis of mutual advantage and equality, the noninterference in the internal affairs of partners, and the honoring of international obligations that the country has agreed to assume.

Turkmenistan is taking an active participation in international financial and trade organizations as well as in agreements and conventions that serve its own interests and needs. It is also carrying out a transformation of its hard-currency and foreign-trade systems in a way that accords with international norms and rules.

Turkmenistan’s neutrality in foreign affairs creates the condition to assert its equality with other states—not only in the political sphere, but also in their economic relations. Turkmenistan, which has declared itself permanently neutral, has both the right and duty to develop economic, trade, cultural, and other relations with the other countries.

It is no accident that, in this regard, the Constitution of Turkmenistan specifically provides for permanent neutrality. It also envisions that the country will develop international economic cooperation on the basis of equality, mutual advantage, and respect for reciprocal interests. The Constitution conceives this cooperation as the most important instrument for building trust between countries and regions and for supporting peace and stability around the world.

It is beyond question that economic openness, social stability, and a permanent neutral status create broad opportunities for the development of international economic cooperation.

That neutrality is, above all, an important guarantee for the influx of foreign investments and international banking capital into the economy of Turkmenistan. This status of neutrality also plays an important role in strengthening confidence in Turkmenistan on the part of the world’s financial and industrial lites.

To bolster such confidence, Turkmenistan is also using all the necessary economic and legal mechanisms to guarantee that every form of property has an equal right to exist and to develop. These mechanisms also encourage entrepreneurial activity, serve to attract and effectively distribute foreign investments, and create a favorable environment
for the activities of investors. Turkmenistan also regards openness of its financial and economic space as a highly important precondition for the country’s successful integration into the system of world economic relations and for realizing the potential advantages of its neutral status. This policy of openness, moreover, corresponds to world standards for the financial and banking system. Turkmenistan also assigns a high priority to the development of its transportation and communications infrastructure.

All this means that, in order to be truly neutral, Turkmenistan must use all available opportunities and make every possible effort to become economically independent. Under contemporary conditions, the foreign economic policy of Turkmenistan demands the following:

- that the country’s participation in international economic relations create the most favorable conditions for the development of its own domestic production;
- that the national economy, to the least possible degree, be subject to unfavorable events in the external world (whether in the political or the economic sphere). Under conditions of economic openness, it is of course impossible to avoid entirely such untoward influence.

2. The Legal Basis of Foreign Economic Activity

The Constitution of Turkmenistan secures and safeguards the basic individual rights of its citizens. These rights include the inviolability of their person, the protection of their health, education, material support in old age, freedom of conscience, and the other fundamental human rights. The laws and statutes of Turkmenistan govern the realization of these individual rights and liberties. Thus, the civil law (as embodied in the Civil Code) regulates both property relations (i.e., its ownership and use) as well the distribution of products, goods, and material objects (through agreements and contracts dealing with sale and purchase, exchange, gifts, and inheritance). It also regulates personal non-property relations, including defense of personal honor and dignity. The pension laws ensure the right of citizens to receive a state pension: to support them in their old age; to provide for them in the event of disability or the loss of the family breadwinner; and to provide support and social assistance in a variety of other instances.

Article nine of the Constitution guarantees the inviolability of property and specifically affirms the right to private ownership of the means of production, land, natural resources, and other material and intellectual valuables. These may also belong to associations of citizens and to the state. The state provides equal opportunities for its citizens to engage in economic and other activities; it guarantees equal protection and equal conditions for the development of all forms and types of property. State law also protects the right of property ownership and inheritance.

Turkmenistan has also drafted and promulgated a series of normative documents and resolutions to regulate foreign economic activity. These include the following:

- the "Law on Foreign Economic Activity in Turkmenistan" (first adopted on 20 May 1992, then revised and approved by the Turkmen parliament on 12 April 1993);
• the "Law on Foreign Investments in Turkmenistan" (first adopted on 19 May 1992, then revised and approved by the Turkmen parliament on 8 October 1993);
• the "Law on Investment Activity in Turkmenistan" (adopted 19 May 1992, then revised and approved by the Turkmen parliament on 12 April 1993);
• the "Law on the Regulation of Hard Currency" (adopted 8 October 1993);
• the "Law on the Economic Zone of Free Entrepreneurship" (adopted 8 October 1993, then revised and approved by the Turkmen parliament on 23 September 1994);
• the "Law on Foreign Concessions" (adopted 1 October 1993, then revised and approved by the Turkmen parliament on 23 September 1994)
• the "Decree of the President on Measures to Regulate Foreign Economic Activity."

The Law on Foreign Economic Activity in Turkmenistan defines the basic principles and legal norms of foreign economic activity in Turkmenistan, the structure of state regulation in this sphere, and also the authority of state organs of Turkmenistan in this area. Foreign economic activity in Turkmenistan is also subject to the international agreements of Turkmenistan as well as the other laws and statutes of Turkmenistan that do not contract international rules.

Regardless of the forms of property, participants in foreign economic activity may be either individual persons or juridical entities. They may also be foreign or international organizations (operating either within the territory of Turkmenistan or beyond its borders) that have been officially registered in Turkmenistan to participate in foreign economic relations.

According to Article 4 of the Law on Foreign Economic Activities in Turkmenistan, the system of state regulation of foreign economic activities includes the following:

• the registration of juridical entities and individual persons (regardless of the form of property ownership);
• the declaration of goods and other property sent across the state borders;
• the procedures for the export and import of goods and services;
• the measures to provide for the operational regulation of foreign economic activity.

The present system extends to all forms of foreign economic activity, including direct production, scientific-technical and cultural relations, border trade, and barter transactions performed by those active in foreign economic activity.

Each participant in foreign economic activity can independently (within the framework of existing legislation) determine the form, types, and dimensions of participation in foreign economic relations. Each participant can also, at its discretion, solicit the participation of essential juridical entities or individuals (under a procedure stipulated by a contract or other formal arrangement, which may or may not be based on
compensation). Each participant also has the right to open accounts in the banks of Turkmenistan.

In accordance with the will of the participants in foreign economic activity, their rights to possess, use, and dispose of the results of their foreign economic activity may be transferred or entrusted to other juridical entities or persons. Such transactions must comply with the formal procedures prescribed by law. The mutual relations of the parties in such a transfer of rights are, in turn, subject to the terms of a formal agreement.

The Law on Foreign Investments in Turkmenistan defines the legal, economic, and organizational structures for making foreign investments in the country. It is aimed at attracting and ensuring the effective use of advanced foreign technologies, managerial experience, and material and financial resources. The overarching goal here is to create an open economy.

Article one in the Law on Foreign Investments in Turkmenistan makes the following statement: "Foreign investments are understood to include all forms of property (including intellectual property) that foreign investors contribute to entrepreneurial projects or other projects located within the territory of Turkmenistan." Specifically, these can take the following forms:

- hard currency and other valuables that are recognized within the territory of Turkmenistan;
- personal property assets, real estate (buildings, machinery, and other material assets), and the property assets associated with them;
- stocks, bonds, and other securities or forms of participation in an enterprise;
- monetary demands and the right to demand compliance with contractual obligations;
- any form of intellectual property, including copyrights, patents, trademarks, company names, know-how, and the like;
- the right to engage in economic activity, including such spheres as prospecting, developing, mining, and use of natural resources (as conferred by the law or contracts);
- other types of investments that are not specifically prohibited by the laws of Turkmenistan.

Foreign investors have the right to make investments either by becoming private participants in existing enterprises or by creating entirely new enterprises (which may belong wholly to the foreign investor). They also have the right to acquire existing enterprises and to purchase personal property and real estate (including apartments, houses, buildings, transportation equipment) so long as the law does not specifically exclude a particular object from foreign ownership. Foreign investors may also acquire property in the form of stock, bonds, and other securities. Such purchases may be done either independently or in cooperation with juridical entities or individual citizens of Turkmenistan. Foreign investors also have the right to use land and to hold concessions for purposes of exploiting the natural resources located on the territory of Turkmenistan. The law also allows foreigners to acquire a variety of other ownership rights.
According to the Law on Foreign Investments, during the initial period of economic activity (i.e., when the foreign investor recovers the initial investments), the dividends are exempt from taxation if the original investments were in hard currency and if they exceed 30 percent of the charter capital of an enterprise. In addition, after the initial investment has been recouped, enterprises with foreign participants that reinvest their profits are given a tax exemption on profits equal the amount reinvested. Furthermore, the law provides for an exemption from tariffs and import duties for property imported by a foreign investor to Turkmenistan as part of the founding capital of juridical entities with foreign participation. The same exemption applies for property imported for productive purposes.

The Law on Foreign Investments also provides the following guarantees:

- protection from repetitive changes in the governing laws for a three-year period;
- the right to convert the currency of Turkmenistan into hard currency;
- the right to net profits and to reinvest this profit in Turkmenistan;
- protection of intellectual property rights;
- safeguards against nationalization;

In addition to the Law on Foreign Investments, another important document is a statute on the "Guarantee of the Protection of Foreign Investments and Capital." This law, adopted in 1993, serves to ensure the total freedom of decision-making by foreign private property and capital.

Trade activities are regulated by the Law on Foreign Economic Activity, by the Law on the Commodity and Raw-Material Exchange of Turkmenistan (1993), and by the Decree of the President on the Activity of the State Commodity and Raw-Materials Exchange (1994).

Joint-stock companies are subject to the Law on Joint-Stock Companies, as well as the laws on enterprises and the Law on Entrepreneurial Activity, all of which were adopted in 1994.

The preparation and implementation of Turkmenistan's policy to attract and utilize foreign investments, to coordinate investment activities, to assist foreign investors in their operations within the territory of Turkmenistan—all these are tasks of the Cabinet of Ministers of Turkmenistan or its duly authorized agencies.

Relations with foreign investments in Turkmenistan are regulated by the Law on Investment Activity in Turkmenistan, by the Law on Foreign Investments, by other statutes of Turkmenistan, also by the international agreements into which Turkmenistan has entered.

In the event that an international agreement or treaty conflicts with rules prescribed by the laws of Turkmenistan, then the rules of international agreements and treaties take precedence.

According to the new Constitution of Turkmenistan, the highest organ in the executive branch of the government is the Cabinet of Ministers, the head of which is the
President. In the sphere of international economic relations, the Cabinet of Ministers is charged with conducting the country’s foreign economic policy, determining its chief priorities, and designing a mechanism to realize its goals at various levels of the national economy. The Cabinet of Ministers must also determine those spheres of activity that, at a certain stage or under certain circumstances, are deemed undesirable. Under these conditions, the government does not prohibit such activity, but takes steps to make certain that they are not being encouraged.

In relying upon mutually advantageous international programs and projects with other countries, on bilateral flows of goods, investments, and human resources, it is necessary to take into account predictions about the growth and structure of these flows. It is also essential to develop basic knowledge about domestic and foreign laws in the sphere of foreign economic activity, to organize the dissemination and study of existing laws, and to expand research and train specialists in these questions.

In addition to legislation of a general character that prescribes the basic conditions for foreign economic activities (viz., the Constitution of Turkmenistan and the laws listed above), it is necessary to have a set of laws to regulate the sphere for designing and implementing foreign economic activity. These include:

- **laws of a strategic character** (which serve to articulate the substance of foreign economic policy and the stages for its realization—including laws "On the Basic Directions of Foreign Economic Policy in the Long-term Perspective," "On the Program for Social-economic Development in the midterm Perspective," and the forecasts and budget for the next year, and so forth);
- **laws of a regulatory character** (which prescribe the order of activity in the area of forecasting and the strategic management of foreign-economic activity);
- **laws on the basic forms of foreign economic activity** (which serve to realize the government's economic policy and program in science and R&D; to manage its scientific exchanges, to regulate the sale of inventions and patents; to promote innovative and investment activities with foreign partners by setting and controlling prices as well as the creation of innovation, investment, and venture funds; to train, and refrain, people to work in the sphere of forecasting, programming, and the strategic management of foreign economic activity);
- **laws that ensure favorable economic conditions for the realization of foreign economic policy** (by granting tax and other advantages and privileges for participants in the realization of programs; by providing support for private investments, and so forth).

Because entrepreneurship is experiencing certain difficulties with respect to operating capital, it may be expedient to create credit unions or guaranteed funds (as an alternative to reliance upon banking institutions). These new credit organizations would have the function of providing credit to entrepreneurs on more attractive terms.

Finally, it is desirable that banks serving the economic zones of free entrepreneurship provide top priority and preferential credits to enterprises involved in the production and processing of agricultural commodities.
3. Institutional and Organizational Foundations

In embarking on the path of independent, autonomous development, in the first instance Turkmenistan needed political reforms. The new Constitution of Turkmenistan was adopted on 18 May 1992. It determines the new structure of state power in the country and creates the legal basis for the realization of economic reforms. The most important prerequisite for the preparation and implementation of an effective economic policy was the creation of a legal structure that was sufficiently complete and stable. This legal framework determines the basic priorities in policy and also articulates the "rules of the game" that pertain to the market economy-an extremely important sphere-and its regulation by the state.

The basic dimensions of foreign economic activity can be divided into three levels: legislative, executive, and institutional.

Turkmenistan is a state with a presidential form of rule. The president of Turkmenistan is the head of the government and the executive branch; he occupies the highest post in Turkmenistan and serves as the guarantor of state independence, the territorial integrity of the country, and observance of the constitution and international agreements.

The executive authority (the Cabinet of Ministers and corresponding ministries) is charged with the duty to ensure that the laws are applied and with the responsibility for constructing mechanisms to realize laws at the institutional level. The president of Turkmenistan is the head of the executive branch.

The Khalk Maslakhaty (national council) is the supreme organ of state power in Turkmenistan. It examines and resolves such questions as: the expediency of making corrections and amendments to the Constitution; the holding of national referendums; and the drafting of recommendations for the main lines of economic, social, and political development of the country; and a number of other questions as well.

The Medzhlis (parliament) is the law-making body of Turkmenistan. It bears responsibility for the adoption and amendments to the Constitution and laws, for their interpretation, for the approval of programs proposed by the Cabinet of Ministers, and for confirmation of the state budget and reports about its implementation.

In terms of the current state of affairs, it is characteristic that Turkmenistan has already laid the legislative foundations for foreign economic activity (through the adoption of a series of laws).

Many Western experts explain the present stability in both the politics and economics of Turkmenistan by the fact that the state leadership, taking into account the mentalité of the Turkmen people, has chosen a path that seeks not to demolish, but to transform the existing authority structures and social relations. The essence of the current system of state regulation of the economy is the art of combining and optimizing administrative-regulatory and market methods.

In devising the mechanisms to realize the country's foreign economic activity, it is essential that state organs (the ministries and other agencies) accord greater freedom to commodity producers as they seek access to world markets, but it is also important that
the government impose some restrictions. In the first instance, it is necessary to restrict those forms and spheres of activity that, overtly or covertly, bring harm to people, the air, the land, the water, and so forth. At the same time, it is expedient to fashion a new system of administration that can follow two complementary lines:

- to the maximum possible degree, strengthen the system of state territorial administration over foreign economic activity in order to ensure administrative (state) control over the process of foreign economic activity in the region;
- actively create parallel market structures of foreign economic activity in those economic spheres where the application of state regional control is either inexpedient or impossible.

The economy of Turkmenistan is intimately tied to that of its neighbors, the countries of Europe, the Pacific-Asian rim, and also the countries of the CIS (for whom the transformation process has not been easy). Old links are breaking down; new ones are being formed. As Turkmenistan seeks to establish mutually advantageous international programs and projects with other countries, and as it seeks to ensure reciprocal flows (of goods, investments, and human resources), it must also bear in mind the forecasts for growth and the structures of these flows.

One of the key institutions for foreign investors is the State Agency for Foreign Investment (established in 1996). Directly subordinate to the President of Turkmenistan, this body reviews all proposals for foreign investment and monitors the work of joint-venture enterprises. All ministries and agencies in Turkmenistan must submit to this agency its proposals before these can be formally adopted. The State Agency for Foreign Investment gives preference to projects in the main sectors-transportation, telecommunications, industry, irrigation, agriculture, textiles, and public health and medicine.

The State Commodity and Raw-Materials Exchange regulates foreign trade activity. State enterprises, institutes, organizations, and firms must have their mutual agreements confirmed by the branch ministries. Non-governmental organizations must also register their contracts with the State Commodity and Raw-Materials Exchange.

In a short period of time after Turkmenistan gained independence, it organized a two-tiered banking system: two state banks (the State Bank for Foreign Economic Activity and the Savings Bank) and fifteen commercial banks. Currently, more than sixty-five commercial and state banks are active in the commercial sector; fifty-two of these are small, local banks to service the needs of farmers’ associations. The main instrument in controlling financial transactions between Turkmenistan and the outside world is the State Bank for Foreign Economic Activity. This bank also acts as the government’s agent for financing large-scale projects. In December 1997, the international agency Moody’s gave Turkmenistan a credit rating of B2.

In the sphere of insurance, Turkmenistan has one state company and six small companies.

A private capital market has not yet developed in Turkmenistan. Over the long term, the privatization of large state companies (along with their conversion into private
joint-stock companies) and the investment needs that result from restructuring will lead to the development of a securities market.

Foreign investors must pay a 25 percent tax on earnings and a 15 percent tax on the profit from dividends, interest, copyrights, licenses, rents, royalties, and the like. The foreign investor who has contributed more than 30 percent of the charter capital (in hard currency) is exempt from the tax on dividends. The property of enterprises used in the production and preservation of agricultural commodities is exempt from the tax on property. After the introduction of new rates, the structure of the tax on personal incomes has been simplified to 8 percent.

Turkmenistan has made significant efforts to maintain the standard of living of the populace during the transition period. Turkmenistan has an official, broad-based system of social protection, consisting of subsidies for the basic consumer goods and public utilities, pensions, and family expenses. It also guarantees employment.

Revenues earned in the local currency can be exchanged for dollars through auctions at the established rate of the Central Bank of Turkmenistan. Applications to convert hard currency must be submitted through commercial banks to the National Bank. The offers of commercial banks come on behalf of companies that do not have the right to participate directly in the exchange of currency. Special preference is given to payments for medicines, for the repayment of loans, and for the repatriation of profits.

As an integral part of the Civil Code, the government also prepared a new statute on copyright. Turkmenistan, moreover, became a signatory to the Paris Convention for the defense of the rights to industrial property, the International Agreement on Patent Cooperation, and the World Organization for Intellectual Property.

A law adopted in 1996 on the distribution of land for private ownership permits foreign citizens to lease (but not own) land.

The Law on the Legal Status of Foreign Citizens in Turkmenistan, along with other legal acts and statutes, defines the rights and juridical position of foreigners in a manner that is consistent with the Constitution.

Foreigners may also obtain the status of permanent residents in Turkmenistan and permission to reside in the country in accordance with a procedure prescribed by the Ministry of Foreign Affairs. Foreigners who reside in Turkmenistan for any other legal purpose can remain in the country only on a temporary basis. They must register their passports and leave the country upon the expiration of the prescribed term.

Foreign citizens can be hired to work in enterprises, institutions, organizations, and firms on a long-term basis and on the same basis as citizens of Turkmenistan. Labor relations of foreign citizens are subject to the same rules and obligations as those obtaining for the citizens of Turkmenistan.

4. Foreign Trade Activities

The basic element of the foreign trade activities of the country is its export-import operations. The foreign trade turnover of Turkmenistan in 1997 amounted to 1.7084 billion dollars, which represented a decrease of 881.6 million dollars (34 percent) from the
previous year. During this same period, the volume of industrial production fell for
electric power (11.3 percent), but output levels rose for the food-processing industry (2.3
percent), oil production (24.0 percent), oil processing (10.9 percent), chemicals and
petrochemicals (14.8 percent), machine-building and metalworking (by 26.0 percent),
construction materials (21.3 percent), and light industry excluding cotton-processing (by
25.5 percent). In 1994, by contrast, the foreign-trade turnover of Turkmenistan amounted
to 3.696 billion dollars (including 2.159 billion in exports and 1.538 billion in imports),
which in turn ensured the stable solvency of the government. The delivery of natural gas
accounted for 67.3 percent (1.454 billion dollars) of the country’s exports. The other
principal exports included cotton fiber and petroleum products, which accounted for 16.8
percent (363.1 million dollars) of total exports.

As the volume of industrial production rose in 1997 by 15.7 percent (excluding the
output for electric power, natural gas, cotton processing, and animal fats), exports
contracted by 52.4 percent and imports by 12 percent.

Among the main reasons for the contraction in exports, one can discern both
objective and subjective factors. One was the insolvency of countries in the former Soviet
Union; their inability to pay for energy resources led to the decision by Turkmenistan to
suspend the shipment of natural gas to Ukraine and other countries in the
Commonwealth of Independent States (CIS).

The decrease in the value of the natural gas deliveries amounted to 533.8 million
dollars (for 7.6 billion cubic meters), which represented a decline of 66.1 percent. The
contraction in the export of electric power amounted to 38.8 million dollars (a decrease of
61.1 percent). The drop in the volume of cotton fiber exports constituted amounted to
233.2 million dollars (a drop of 79.3 percent); this contraction was due both to the poor
harvest of raw cotton in 1996 and to the drop in the world prices on cotton fiber.

As a result, in 1997 Turkmenistan experienced a continuing decline in the total
volume of foreign trade as well as in the share of economic activity claimed by foreign
trade turnover. This was due to the increased output of the domestic economy, the
satisfaction of the relatively smaller purchasing power of the domestic market for
consumer goods, and stabilization in the level of demand.

### Table 1

<table>
<thead>
<tr>
<th>Indicator</th>
<th>1996</th>
<th>1997</th>
<th>Change (percent)</th>
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<tr>
<td></td>
<td>Millions of Dollars</td>
<td>Millions of Dollars</td>
<td></td>
</tr>
<tr>
<td>Foreign Trade Turnover</td>
<td>2590.0</td>
<td>1708.4</td>
<td>-34.0</td>
</tr>
<tr>
<td>Export</td>
<td>1410.1</td>
<td>670.7</td>
<td>-52.4</td>
</tr>
<tr>
<td>Import</td>
<td>1179.9</td>
<td>1037.6</td>
<td>-12.0</td>
</tr>
<tr>
<td>Balance</td>
<td>+230.2</td>
<td>-366.9</td>
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</table>
For the CIS bloc and other regions of the world, Table 2 shows the pattern of decline in exports.

### Table 2
Export as a Proportion of Foreign Trade Turnover for Regions in the World

<table>
<thead>
<tr>
<th>Region</th>
<th>Exports in 1997</th>
<th>Millions of Dollars</th>
<th>Percent of Total Trade Turnover</th>
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</thead>
<tbody>
<tr>
<td>CIS</td>
<td>527.94</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>EAST</td>
<td>36.42</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>12.78</td>
<td>89</td>
<td></td>
</tr>
<tr>
<td>Baltic States</td>
<td>1.93</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Asian-Pacific Region</td>
<td>92.25</td>
<td>68</td>
<td></td>
</tr>
</tbody>
</table>

Similarly, the countries of North and South America reduced their exports by 75 percent (to 860,000 dollars).

As demand on the domestic market increases, there has been a corresponding decrease in the export of non-comestible consumer goods (by 232.8 million dollars), of products from the chemical industry (by 4.13 million dollars), and construction materials (by 3.41 million dollars).

At the same time, there has been an increase in the export of oil and petroleum products (by 50.5 million dollars). This has resulted from the expansion in the physical volume of exports of oil (by 166,800 tons) and petroleum products (by 415,400 tons). This rise in the export of oil and petroleum products is explained by the expanded production of oil in 1997 at the Kokdumalak oil fields; per an agreement that divided these deposits between Uzbekistan and Turkmenistan, part of the oil belongs to Turkmenistan. According to preliminary forecasts by oilmen, production in 1998 was expected to reach 574,000 tons.

In addition, Turkmenistan has increased the export of cotton cloth and yarn. The value of these exports amounted to 30.1 million dollars (4.5 percent of total exports). This increase was due to the growth in production, which in part is attributable to the establishment of new textile plants. The increase in output was 90.7 percent, with a value of 14.3 million dollars.

The export of foodstuffs increased by 2.8 million dollars, primarily because of a rise in the export of fruits and vegetables (by 1.9 million dollars), along with wines, related products, and mineral water (by 1.5 million dollars). Most of the fruits and vegetables were exported to countries in the former Soviet Union-viz., Kazakhstan, Russia, Belarus, Ukraine, Azerbaijan, Georgia, Moldova, and Lithuania. The mineral water, wines, and alcoholic drinks were exported primarily to Kazakhstan, Armenia, Russia, Kyrgyzstan, and Tajikistan. For the first time, the geography of exports came to include Denmark, Malta, Mongolia, Thailand, and Vietnam; there was no discernible development in exports to Hungary, Latvia, and Syria.
In the structure of exported goods, the raw-material orientation (with a predominance of energy resources) continued to predominate. In 1997, energy resources accounted for 79 percent of the total volume of exports from Turkmenistan. However, whereas the share held by oil and its products represented 13.1 percent of total exports in 1996, the following year these rose to 35.2 percent the following year. This was accompanied by a corresponding decline in the share of exports claimed by electricity (dropping from 4.2 to 3.0 percent), natural gas (from 57.3 to 40.8 percent), and cotton fibers (from 20.9 to 9.1 percent).

Turkmenistan is conducting a systematic effort to restructure its exports from a raw-material orientation to the production and export of finished goods. As evidence of this, one can cite the twofold increase in the export of cotton, yarn, and textiles. This change is the result of the deliberate, targeted policy of the president of Turkmenistan to reorient the national economy toward the production of finished goods.

A radical change in the structure of exports will require considerable time and significant expenditures. Therefore, raw materials are still the principal export items. To increase the effectiveness of such exports, it is necessary to raise the level of processing for such commodities. Hence the top priority in this regard is to establish new (and expand existing) oil refineries, facilities for oil processing, the natural gas industry, and the chemical industry complex. During the transition period, the government has decided to preserve the quantitative limitations on the export of a number of raw materials that are essential for supplying domestic needs.

The volume of imports to Turkmenistan in 1997 amounted to 1.038 billion dollars. That represented a 12 percent decrease (142.27 million dollars) from 1996.

The structure of imports in 1997 (as in 1996) was dominated by foodstuffs (26 percent), followed by construction machinery (17 percent), transportation goods (10 percent), and communications equipment (8 percent).

In the geographic structure of imports, the dominant positions are held by Russia, Turkey, Iran, Great Britain, Sweden, Hong Kong, and the United States.

The statistical data show an imbalance in the trade between Turkmenistan and foreign countries. Thus, in 1997, imports exceeded exports by 40 percent (466.88 million dollars). The largest trade deficit was with the republics of the former Soviet Union (Ukraine, Kazakhstan, Uzbekistan, and Armenia). The main reason for the trade deficit with these countries was the failure of the latter to pay on time for the energy resources imported from Turkmenistan. For example, Ukraine’s debt amounted to 302.5 million dollars in 1996-1997; its remaining debt for 1993-1995 (after restructuring) was 780.6 million dollars.

In the sphere of import policy, the main task is to acquire advanced technologies, machinery, and equipment to modernize the economy and to achieve a higher technological level. This is particularly true for the light and food-processing industries, where most of the fixed capital is extremely obsolescent. In terms of their productive capacities and technical condition, these branches cannot satisfy the current demands of the country and are in acute need of modernization. The import of machinery and equipment must help ensure that the important branches of the economy (energy and
fuels; the agro-industrial complex; transportation; medical industry; consumer industry) are capable of functioning efficiently.

At the present time, the country is unable to avoid importing a significant quantity of food products, medicines, and certain other consumer goods. In the future, however, the country has the opportunity to reduce gradually the import of grain and a number of other agricultural goods; the purchase of these agricultural products constitutes an additional burden on the country’s balance of payments. However, Turkmenistan has the objective conditions to produce these goods itself.

Under the conditions of a market economy, an import tariff represents the main instrument for regulating foreign trade. It can be used to protect certain branches of the economy from foreign competition and to offset the advantages enjoyed by foreign firms because of the special forms of taxation and price-setting currently found in Turkmenistan.

Turkmenistan has therefore introduced a new import tariff. It does not assess a customs duty on food products, medicines or raw materials used to produce pharmaceuticals, and a number of other goods that are purchased from centralized funds. On nonessential goods (luxury food items, alcoholic beverages, video equipment, automobiles, and the like), the government has established a higher customs (excise) duty. For other goods, it has set the customs rate at 0.2-0.25 percent. In establishing these import duties, the government nonetheless seeks to preserve a single tariff rate; it also plans to make a gradual reduction in these rates. A permanent import tariff should, in our judgment, be as uniform and moderate as possible.

It is of fundamental significance that the country establish customs and hard-currency controls that correspond to contemporary conditions. Without this, it is impossible to ensure observance of the laws on foreign trade activities. For that reason, in the near future Turkmenistan plans to do the following:

- complete the construction of a system of customs border guards along the entire perimeter of the administrative boundaries of Turkmenistan;
- create a unified system of control over the export of licensed goods and the repatriation of hard-currency earnings. At the present time, the government relies upon paper documentation for the administration of its quotas, for the issue of licenses, for the preparation of customs documents for goods, and for the transfer of payments for exported goods. It is essential, as soon as possible, to computerize this entire system; that will make it possible to create an on-line databank and check on the distribution of quotas.
Table 3
A Sample List of Customs Duties on Imports

<table>
<thead>
<tr>
<th>Goods</th>
<th>Customs Duty (Percent of the Contract Price in US Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>50 percent (no less than $0.12 per kg.)</td>
</tr>
<tr>
<td>Wheat flour</td>
<td>50 percent (no less than $0.17 per kg.)</td>
</tr>
<tr>
<td>Strong alcoholic drinks</td>
<td>$2.50 per liter</td>
</tr>
<tr>
<td>Beer</td>
<td>$0.50 per liter</td>
</tr>
<tr>
<td>Wine</td>
<td>$1.00 per liter</td>
</tr>
<tr>
<td>Non-alcoholic drinks</td>
<td>50 percent</td>
</tr>
<tr>
<td>Cement (M-300 and M-400)</td>
<td>$10.00 per ton</td>
</tr>
<tr>
<td>Cotton goods</td>
<td>50 percent</td>
</tr>
<tr>
<td>Jeans and other goods from cotton</td>
<td>100 percent</td>
</tr>
<tr>
<td>Cable</td>
<td>30 percent</td>
</tr>
<tr>
<td>Power cables</td>
<td>30 percent</td>
</tr>
<tr>
<td>Salt</td>
<td>30 percent</td>
</tr>
<tr>
<td>Mineral water</td>
<td>100 percent</td>
</tr>
<tr>
<td>Tomato paste and juice</td>
<td>50 percent</td>
</tr>
<tr>
<td>Fruit drinks and jam</td>
<td>30 percent</td>
</tr>
<tr>
<td>Watermelons and vegetables</td>
<td>100 percent</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>20 percent</td>
</tr>
<tr>
<td>Jewelry</td>
<td>10 percent</td>
</tr>
<tr>
<td>Wool and wool rugs</td>
<td>50 percent</td>
</tr>
<tr>
<td>Silk and silk cocoons</td>
<td>50 percent</td>
</tr>
<tr>
<td>Chemical products</td>
<td>20 percent</td>
</tr>
<tr>
<td>Petrochemical products</td>
<td>30 percent</td>
</tr>
</tbody>
</table>

5. Direct Foreign Investment

One of the primary goals of Turkmenistan is to solicit foreign capital. The main ways of attracting foreign capital include the following forms that allow for foreign capital to participate in the economic life of the country:

- traditional joint-venture enterprises, the potential for which has by no means been exhausted;
- 100-percent foreign-owned firms;
- joint-stock companies;
- concessions;
- companies with limited liability

Some forms of joint-venture enterprise (such as contractual enterprises) are being used in all areas. In such joint-venture enterprises, the sides preserve their independent juridical status and sign an investment agreement to regulate the main questions of their mutual activities. The management of the contract can be handled by the two parties
themselves, or by involving a third party. An important proportion of the contractual joint-venture enterprises are concentrated in capital-intensive projects for the non-productive sphere (e.g., tourist complexes, housing, administrative buildings, etc.) Contractual enterprises are also used for specific forms of cooperation to develop the natural resources of Turkmenistan. Here the essence is that foreign companies collaborate with the appropriate state ministries (or agencies) to conduct prospecting work and then to develop and exploit deposits. In return, each side receives a stipulated share of the resulting output.

A second type is a company that is fully owned by a foreign investor and that is permitted under current law. Such firms could become much more widespread once that foreign firms become sufficiently familiar with the special characteristics of economic life in Turkmenistan.

The third type consists of portfolio investments in the securities and stocks of enterprises in Turkmenistan.

The fourth type is a concession. This form will play an important role in the future development of the natural resources of Turkmenistan. The government has already adopted a “Law on Foreign Concessions.”

The fifth type consists of free economic zones. However, despite the decisions taken and the work at the local level, the process of developing this form of foreign participation has clearly been moving at a slow pace.

Turkmenistan’s “open door” policy has created a favorable environment for the active influx of foreign investments. The government has determined the top-priority spheres of investment policy: energy and fuel, the agro-industrial branch, social complexes, transportation, and communications. Throughout the country, the government is making the transition from centralized financing (without any obligation to repay credits) to a system that requires creditors to pay off credits.

World experience has shown that the greatest success in attracting foreign investment is found in countries that assign to this goal a high priority in their economic policy and that use a broad spectrum of measures to achieve this end. Decisive factors here include the following:

- government policy toward foreign investment and toward the nationalization of foreign property;
- the effectiveness of the state apparatus;
- the general condition of the national economy;
- the hard-currency, financial, and credit systems;
- preferential tax policies;
- the customs system;
- the labor force.

The policy with respect to foreign capital is an important part of the structural investment policy of Turkmenistan. The solicitation of foreign capital is aimed at eliminating the disproportions currently found in the national economy and at
overcoming the country’s scientific and technological backwardness.

During the period of 1992-1997, Turkmenistan concluded 332 contracts for construction projects, which had a total value of 4.76 billion dollars. Of these projects, 194 (with a value of 1.37 billion dollars) have been completed; the share of foreign capital in these projects amounted to 110.2 million dollars. At the present time, another 84 projects are currently under construction; these have a total value of 2.22 billion dollars (including 118.9 million dollars in foreign capital).

In 1997 alone, the country completed forty such projects with a value of 531.0 million dollars.

Between 1992 and 1997, various ministries and agencies of Turkmenistan completed 26 construction projects that are not posted on the list compiled by the Ministry of Foreign Economic Activity. These included projects that were to serve various social needs purposes or that involved the renovation of office facilities. Participating in these projects were specialists from foreign firms in such countries as Turkey, Romania, Armenia, France, Israel, Russia, Switzerland, and Ireland. Altogether, the foreign firms were paid 65.3 million dollars for their services.

According to estimates by some foreign experts, direct foreign investment for the entire period of 1992 to 1998 amounted to approximately 650 million dollars.

An intensification of tendencies for interstate cooperation in the sphere of production has shaped the emergence of new forms of collaboration. Such cooperation promotes more extensive use of the advantages inherent in an international division of labor. In the economy of Turkmenistan, joint-venture enterprises represent one form of such cooperation, and their activities promote greater cooperation between the international and domestic economy. The objective development of these enterprises requires the large-scale involvement of foreign investment. It is extremely risky for foreign investors, who have little familiarity with the economic situation in Turkmenistan, to engage in business activities on their own—that is, without relying upon a domestic partner.

As of 1 January 1998, Turkmenistan had registered 727 enterprises with the participation of a foreign investor. These were distributed among a broad range of spheres-trade (246), production (178), services (178), and various other branches (125). These enterprises include participants from 57 different foreign countries.

At the present time, the tendency to establish joint-venture and daughter firms has become widespread.

Our economy currently is in need of many things: a strategy for radical restructuring as well as ideas on how to embody this strategy in qualified personnel—that is, people who can realize this strategy under new economic conditions. However, enthusiasm is weak. Moreover, an effective style of management, a modern system of accounting, the methods of financial analysis used in Western countries—these and many other “secrets” (large and small) of the market economy must become shared not merely by a coterie of specialists, but by thousands of managers, entrepreneurs, and organizers of production in the country.
A recent decree by the president of Turkmenistan has given an added impulse for the country to seek an international credit rating. The calculation and posting of this rating will make a significant contribution to bolstering Turkmenistan's position in the world economic community; it will also promote the development of the financial infrastructure and help to improve the investment policy of the country.

6. Free Economic Zones

The attraction of foreign investment is one of the most important thrusts of Turkmenistan's foreign economic policy. A legislative basis has already been created for this sphere. Turkmenistan favors the accelerated development of foreign economic ties of all categories, the recruitment of foreign investment, and the creation of joint-venture enterprises to function in all the branches of the national economy.

A special place in world practice is held by the so-called "export economic zones," which have become widespread in a number of countries.

The scholarly literature employs a broad range of terms to designate these zones: special economic (industrial) zones, free enterprise zones, zones for the development of exports, customs-free territories, free trade zones, industrial trade zones, and so forth. With certain qualifications and despite the huge diversity, these free enterprise zones can be divided into two main categories:

- zones that are exclusively (or principally) involved with the movement of goods on the international market;
- zones that combine international entrepreneurial activity with international trade.

Common to both types is the fact that a special customs regime is established on the territory of this free enterprise zone. Most widely recognized in world practice is the formation of a free enterprise zone, as established by the Kyoto convention of 1973. According to this agreement, free enterprise zones are understood to mean that part of a country's territory where goods are regarded as being outside the country's customs border and therefore exempt from the usual customs controls and taxation. As for all other conditions (the full or partial abolition of customs duties; the movement of capital, goods, and labor resources; the specific terms of pertinent legislation), all this determines the specific type of zone that is to be established. According to Turkmenistan's Law on the Economic Zone of Free Enterprise (8 October 1993), this zone is understood to mean a "specially separate territory with clearly defined administrative borders and a particular legal regime.... On the territory of an economic zone of free entrepreneurship, it is permissible to engage in any form of economic, financial, or other activities by business entities in the non-governmental sector of the economy of Turkmenistan as well by foreign investors (the sole exception being activities prohibited by the laws of Turkmenistan)."

The goal of creating zones of free enterprise depends on the economic, social, and sometimes the political conditions in a particular country. In general terms, these goals can be described as follows:
• to attract more advanced technology (compared to domestic technology);
• to stimulate the economy by attracting foreign capital;
• to obtain hard currency and thereby increase the hard-currency reserves;
• to supply fully the demands of the domestic consumer market;
• to raise the level of employment and the qualitative level of the labor force;
• to acquire the world’s experience in the spheres of economic management, international entrepreneurship, and the modern market economy;
• to create a modern market infrastructure;
• to accelerate development in "depression areas" of the country.

The state guarantee for the protection of foreign investments is incorporated in section 3 of the Law on Foreign Investments in Turkmenistan.

The legislation of Turkmenistan includes the following measures to help recruit foreign capital:

• complete or partial exemption from customs duties for the import of equipment, raw materials, and other components of production;
• preferential tax rates on profits;
• complete or partial exemption from the income tax;
• the establishment of export privileges and special incentives for all equipment, raw materials, and components that are shipped to the zones of free entrepreneurship from other areas of Turkmenistan (in other words, such goods are treated as exports);
• preferential terms for export;
• exemption from local taxes or preferential tax treatment;
• special privileges for export and import licenses;
• unrestricted repatriation of profits (a very important condition for the normal functioning of foreign capital);
• establishment of a special hard currency system in the zones of free entrepreneurship (so as to enable full or partial conversion of the national currency);
• establishment of higher interest rates on hard-currency deposits;
• a reduction in the rates assessed for public utilities and transportation services;
• accelerated amortization;
• creation of a modern market infrastructure and service network;
• grant of state loans and credits (sometimes interest free) to foreign and joint-venture enterprises.

This complex of measures to stimulate economic growth is wide-ranging and
diversified. In designing these measures, the government has had three principal goals:

- increase exports and hence the influx of hard currency into the country;
- saturate the domestic market with high-quality goods;
- experiment in new forms of economic organization that, in the long run, can become the backbone of sustained growth.

On 14 December 1992, the Khalk Maslakhaty (national parliament) adopted the Law on the Creation of Zones of Free Entrepreneurship in Turkmenistan. That law provided initially for the creation of a single zone, but foresaw the establishment of more zones at a later time.

The economic zones of free entrepreneurship in Turkmenistan currently consist of nine local areas, all of which permit foreign capital to operate under special preferential regimes. In accordance with the law adopted by parliament, activities in these zones enjoy a 50-percent tax reduction during the first three years and then a 30-percent cut over the next ten years. Earnings that are reinvested export-oriented production and for modern high-tech equipment are fully exempt from taxation. Taxes on property are also reduced by 50 percent during the first five years of operation. Products imported to the zones of free entrepreneurship are exempt from customs duties. There are also special reductions on export duties, on the lease of land, and on the rates assessed for public utilities. Zones of free entrepreneurship in Turkmenistan encompass quite large territories, can tap extensive labor and raw material resources, and have links to the general transportation system.

Enterprises with foreign participation must register with the State Agency for Foreign Investment, a department subordinate to the Cabinet of Ministers of Turkmenistan.

There are, as pointed above, currently nine zones of free entrepreneurship.

1. **Ashgabat-Biuzmein**

   This industrial export zone occupies a stretch of the highway from Ashgabat to Biuzmein; this strip is 5 km wide and lies to the north of the rail line. It grants top priority to the following economic branches: agro-industrial processing, construction, R&D and energy-intensive production, and also the production of consumer goods.

2. **Mary-Bairamali**

   This zone straddles a stretch of the railway line, 5 km in breadth, from Mary to Bairamali. It assigns top-priority to the developing of the following branches: agro-industrial processing, the production of agricultural machinery, the energy-intensive branches, and the production of consumer goods.

3. **Cheleken-Okarem**

   This zone occupies the Cheleken Peninsula and the Caspian coast up to Okarem. The top-priority branches of development here include petrochemicals, fishing, and
tourism and recreation.

4. Dashoguz-Airport

This zone, about 5 km in width, occupies a stretch of the highway between Dashoguz and the airport. It assigns top priority to the development of these branches: the production and processing of agricultural products, labor-intensive industrial production, traditional handicrafts, tourism, and consumer goods.

5. Chardzhou-Seidi

This zone occupies a strip of the roadway between Chadzhou and Seidi; it is 1 km. wide. The top-priority branches for development in this zone include light industry, food processing, and the production of appliances and machinery.

6. Bakherden-Gyzylarbat

This zone is located on the transportation line between Bakherden and Gyzylarbat; 3 km in width, it lies to the north of the rail line. Its top-priority branches of development consist of the processing of agro-industrial commodities, construction, traditional handicrafts, and consumer goods.

7. Ashgabat-Anev

This industrial zone, a strip 5 km in width, runs along the north of the transportation line between Ashgabat and Anev and lies to its north. The top-priority branches of development include the processing of agro-industrial products, R&D and energy-intensive branches, and the production of consumer goods.

8. Saragyt

The objective precondition for the creation of the Saragyt zone was the completion of the railway line Tedzhen-Saragyt-Meshkhet (an extension of the rail line Bafg-Bender-Abbas). The zone has primarily a trade-transit character.

Today, freight is already moving from the United Arab Emirates (through Iran) to this free economic zone. At the present time, the necessary legal and normative documents have been adopted to regulate the activity of the free economic zone, "Tuneshli Turkmenistan." To judge from the intentions of the organizers, the main thrust of development includes trade, the transit and handling of freight, and also a wide variety of short-term production activities.

9. Ashgabat-International Airport

The free economic zone, "International Airport," holds a special position in the government's plans for long-term development. This zone has a modern airport, which makes it possible to develop the transit shipping of freight, trade, and services.
At the present time, the government has created the legal framework for zones of free entrepreneurship, but it is not yet able to address many questions. For example, huge financial expenditures are required for the development of their infrastructure (e.g., communication lines, electric power, water and gas, and sewage) as well as for the construction of transportation links between the different zones. Moreover, the land offered in many zones of free enterprise consists of sand dunes; the development of such land requires substantial financial and labor outlays.

The existing legislation offers certain tax, customs, and other privileges to enable efficient economic activity in the zones. However, when goods pass through the commodity and raw materials exchange, participants in the zones must pay (like everyone else) all the attendant expenses.

Insofar as the economic zones of free entrepreneurship are becoming an inalienable part of the national economy, their development is bound to have an impact on the national economy.

7. Top Priorities in the Development of Foreign Economic Activity

With the acquisition of independence, Turkmenistan-as an autonomous figure in the world economy-has its own economic, historical, political, geographic, national, and other peculiarities. These special characteristics all contribute to shaping the country's active integration into world economic relations.

The foreign economic activity of Turkmenistan encompasses cooperation with many countries around the world-in North and South America, Europe, Africa, republics of the former Soviet Union, and states in the Middle East and Australia.

In reaching its current economic condition, Turkmenistan bypassed the stage of the so-called "capitalist production" in its development. At the very least, this has determined the contemporary level of economic development in the country; it has also posed problems from the very moment the country became independent.

A principal, and highly significant, factor favoring the full-fledged inclusion of Turkmenistan (indeed, any country) into the system of international division of labor is the presence of natural resources and raw materials. These resources, in turn, determine the basic specialization for Turkmenistan in the world economy.

The land of Turkmenistan has rich deposits of numerous, useful minerals: oil and natural gas, nonferrous and rare metals, fresh and mineral (industrial and medicinal) waters, and construction materials.

The economic and geographic position of our state, in some aspects, is relatively favorable. Historically, Turkmenistan lies at the intersection of Europe and Asia, occupies a large territory, possesses significant and diverse raw material resources, and has already developed its industrial and intellectual potential. At the same time, one cannot ignore the fact that Turkmenistan is located at a significant distance from the industrially developed countries. Access to foreign markets is impeded by the lack of direct links to potentially rich foreign markets, where the resources of Turkmenistan could be of great interest.
Therefore, to ensure a high-quality foreign policy and to facilitate the access to world markets for our participants, the government has been opening embassies, consulates, and trade offices in many foreign countries. However, one must also take into account the expediency of such activities, since these inevitably entail considerable expenditures (indeed, of hard currency).

Today, it is fair to describe the economic and geographic position of Uzbekistan as "peripheral." Our neighbors-Kazakhstan, Uzbekistan, Iran, and Afghanistan-have essentially the same problems, which are characteristic of industrially backward states. The world’s financial and industrial centers are located at a great remove from Turkmenistan; establishing economic ties with these countries is impeded both by the underdeveloped infrastructure and by the lack of the requisite experience.

In contrast to the other republics of the former Soviet Union, where industrial development was concentrated primarily in heavy industry, Turkmenistan began initially with the development of light industry and food processing. Hence it was only later that the country began to build up its mining-extraction sector. Insofar as industry was virtually nonexistent and the natural resources poorly explored, production here developed on the basis of the specialization and division of labor that then prevailed in the Soviet Union. Specifically, in the case of Turkmenistan, this meant the development of cotton processing, leather, textile, silk, and other branches of light industry and the food-processing branches.

By the time that the USSR dissolved in the early 1990s, the productive potential of industry in Turkmenistan had undergone an extensive line of development (with a constant expansion of the economic exploitation minerals and raw materials). As a result, its economy was ill-prepared to launch into a rapid transition to an intensive line of development in the utilization of these resources. On the contrary, the rate of growth in exploiting these natural resources either stagnated or even declined. Hence, in terms of the general development of the economy (and industry in particular), the raw-material branches continued to dominate, and that in turn generated distortions in the branch structure of production. In the last decade, the disproportions in the development and distribution of the processing and extractive branches have increased, the ecological situation has deteriorated, and the integrity of the branch structures in the national economy has been further weakened.

Based on a governmental program called "Ten Years of Stability," Turkmenistan opted to direct the first stage of industrial development toward achieving higher rates of growth in the productive potential and toward a substantial increase in the share of output produced by certain branches in the national economy. Specifically, the program proposes to orient growth primarily toward the development of the extractive branches, but also toward those branches that engage in the primary processing of these raw materials. These branches therefore hold top priority in the foreign economic relations of Turkmenistan during the first stage of the economic reforms.

On the basis of the agricultural raw materials (cotton, industrial crops, and the products of animal husbandry), the government aims to expand foreign economic activity by creating enterprises to handle their complex processing and to manufacture finished goods: cloth, products made from these textiles, leather goods, fruit and
vegetable products (juices and canned products), the various products of viticulture, diversified processing of the liquorice root (for pharmaceutical applications), the processing of grain, and the production of children's food products.

Agriculture holds a significant place in the country's economy, accounting for approximately 40 percent of the national income. More than one third of the labor force is employed directly in agricultural production. This branch is the key link in the agro-industrial complex.

In connection with the goals set by the new agrarian policy of Turkmenistan, the government assigns particular importance to achieving an increase in the production of cotton and comestibles. In 1993, the country announced the program "Cereals," which called for increasing grain production to 2.5 million tons by the year 2002. On 17 January 1994, the Congress on National Renewal gave agriculture the task of increasing output by 2002 not only for cereals, but also for other goods as well-vegetables (1.9-fold), meat and milk (2.1 times), and so forth. Foreign economic activity was also seen as one of the salient factors in promoting the development of agriculture. Supplying all the population's needs for food products is one of the most important goals of the government.

In 1998, the country began to produce sugar beets and to organize the processing of this new crop. This is an important part of the program to achieve the country's self-sufficiency in food supplies; its practical realization is foreseen in the presidential decree "On the Organization of the Production of Sugar Beets and the Production of Sugar in Turkmenistan."

This decree provides that the main part of land assigned to grow this crop-8,000 hectares-will be in Mariisk velaiat (district). Contracts will be signed with land lessees in this zone, which is expected to produce 150,000 tons of beet root. The land allocated to sugar beet cultivation will be doubled by 2000 and thereby enable total output to rise to 300,000 tons. The entire crop produced will be processed at the Mariisk Sugar Plant, with a capacity of 30,000 [sic] tons per annum. The plant is to commence operation in the middle of the current year. This enterprise will sell the sugar at an unregulated price, based on the per unit production cost and the need to ensure the profitability.

The presidential decree requires Daikhantsentrbank [The Farmers' Central Bank] to grant credits at a preferential rate to those rural inhabitants who sign contracts to produce sugar beets. The crops that they grow will be sold to the sugar-beet plant at a mutually agreed price; this will make it possible for the peasants to receive a good income.

The new agrarian policy being pursued in Turkmenistan has the goal of eliminating the alienation of peasants from the land and other means of production. It also seeks to unleash the initiative of those working in this sector, thereby enabling them to make economic decisions (based on qualitatively new relations) to use all their productive reserves and to increase the return on the inputs being used.

Agrarian reform became the decisive factor in accelerating the processes of transformation in the agricultural sector, and its main principles were embodied in a presidential "Decree on the Right of Owning and Using Land in Turkmenistan."
decree permits the allocation of 50 hectares of land for private use and up to 500 hectares for long-term leases. The special thrust of this reform is to create conditions favorable for more productive agricultural labor. Furthermore, the government is developing intra-enterprise subcontracting. It has also been allocating and expanding the land for individual garden plots.

A special characteristic of the agro-industrial complex in Turkmenistan consists in the fact that the linkages between agriculture and industry were based not on free economic relations, but primarily on administrative controls. The task now is to adapt the large enterprises of the processing branch to the new conditions prevailing in agriculture. In this regard, the government is restructuring the property of the plants that process agricultural commodities into joint-stock companies. These new entities are open to foreign investors, a policy that, in turn, will lead to an expansion of foreign economic ties. Hence private commodity producers in Turkmenistan can become direct participants in foreign economic activities.

At the present time, the government provides financial support for agriculture primarily through the procurement prices. In the first place, this policy serves to stimulate the development of contractual relations (on the basis of state orders). Second, this ensures that the greatest advantage goes to those who have the largest output. In the process of price formation, the government is also taking into account the introduction of a land tax and fees for the use of irrigated water, which, in the final analysis, also affects the per unit cost of production.

To stimulate the interest of commodity producers in expanding output, the president of Turkmenistan issued a "Decree on Raising the Economic Incentives of Commodity Producers in Expanding the Production of Agricultural Production" (14 January 1997). This document established a standard fee of 20 percent from the output of land allotted to individuals, families, and collectives on a leasing contract; 8 percent of this assessment goes to the state budget of Turkmenistan. The balance of the output (80 percent) remains at the disposal of the lessee.

The key elements in the mechanism to create favorable foreign economic conditions consist of the price, tax, and credit policies of the government.

The most effective measure for financial assistance to the development of state-regulated market relations in agriculture consist of the following:

- direct bank credits;
- state measures to stimulate the grant of long-term bank loans from foreign credit institutions (European Bank of Reconstruction and Development [EBBR]; the World Bank) for purposes of investment in agriculture;
- the creation of decentralized funds, based on share holdings, to mobilize the financial resources (of individuals, the state, and enterprises with a special interest in agricultural production) and channel these resources toward special targeted goals;

Along with direct actions by the World Bank and EBRR, the development of the productive and social infrastructures is promoted by the grant of credits for such projects.
as the construction of roads as well as public facilities in population centers (especially in the zones of new development).

The conceptions incorporated in the presidential plan for "The Development of Oil and Natural Gas Industry to the Year 2020" lay the foundations for a dynamic, complex development of the national economy. This program is the main factor in the accelerated development of all branches of the national economy and the expansion of foreign economic activity. As of 1 January 1997, for purposes of financing oil and natural projects, Turkmenistan had attracted foreign credits with a value of 506 million dollars. By 1 January 1998, the foreign credits had grown to 765 million dollars. As a result, the amount of the credit agreements for the oil and natural gas complex concluded in 1997 alone amounted to 259 million dollars.

On 5 August 1997, a further presidential decree confirmed the short-term "Program for the Development of the Oil and Natural Gas Complex to the Year 2000." This program addresses the most important questions in the development of the raw-material base of hydrocarbons; it encompasses the exploration, extraction, processing, and transportation of oil and natural gas reserves located in the various regions of Turkmenistan.

The strategy for the development of the oil and natural gas complex of Turkmenistan during the period of 1997-1999, as formulated in the program, is based on the potential of hydrocarbon resources in the country.

With respect to the exploration and increased extraction of hydrocarbons (with the participation of foreign investors), the top priorities in the coming period include:

- the exploration and extraction of hydrocarbons located on the Turkmenistan shelf of the Caspian Sea;
- the development of new and promising areas in the Amu-Dar’ia oil and gas basin (for purposes of creating a raw-material basis for the export gas pipeline, Turkmenistan-Iran-Turkey-Europe);
- the planning and construction of pipelines to transport oil and gas condensate from the oil and gas fields of Kokdumalak to the Seidinski oil refinery (so as to ensure efficient processing of the natural gas condensate and oil from the deposits at Kokdumalak and from the gas condensate deposits at Samandepe);
- the construction of a natural gas processing complex to process the natural gas condensates from the fields of Samandepe (with the subsequent addition of other promising deposits, including sulphur).

For purposes of realizing global projects to ship natural gas and oil to world markets, Turkmenistan has determined the top-priority routes for gaining access to the most important industrial regions of the world-that is, those markets where the demand for oil and natural gas deliveries is greatest.

In this regard, Turkmenistan proposes to create international consortia to back the following projects:

- a natural gas pipeline Turkmenistan-Iran-Turkey-Europe;
• a natural gas pipeline Turkmenistan-Afghanistan-Pakistan;
• a natural gas pipeline Turkmenistan-China-Japan;
• an oil pipeline Turkmenistan-Iran-Persian Gulf;
• an oil pipeline Turkmenistan-Afghanistan-Pakistan (with an outlet on the Indian Ocean.

This proposal includes plans to attract interested companies and financial institutions at all stages in the realization of these projects.

Turkmenistan has significant reserves of hydrocarbon resources, which can provide the bulk of the income of the national economy. In this regard, the government of Turkmenistan regards the attraction of foreign investments for this economic base as a means to raise the efficiency of the national economy as a whole and thereby achieve a corresponding improvement in the well-being and life of its population.

In December 1996, the president of Turkmenistan promulgated the "Law on Hydrocarbon Resources." This law regulates a number of important spheres: the relations that emerge from the realization of petroleum projects on the territory of Turkmenistan (including both land areas and the Caspian shelf); the issue of licenses; and the signing and implementation of agreements to perform work in this sector. It also defines the rights, authority, and obligations of state organs, companies, enterprises, and businesses that engage in oil projects.

According to this law, no one has the right to engage in oil work without the appropriate government license. Article eight of the law provides that licenses to engage in prospecting and mining are granted on the basis of tenders or through direct negotiations conducted by a competent state organ with the party seeking a license.

A presidential decree of 25 May 1997 announced a tender for the exploration and extraction of hydrocarbons on the Turkmenistan segment of the Caspian shelf. It is expected that this tender will lead to significant investments by foreign oil companies to development the country’s Caspian shelf, and that in turn will yield greater income and a long-term expansion in oil production.

During the first stage, the government plans to expand the raw-material base and to increase the production of oil by tapping investments from firms that are already active in Turkmenistan. These firms include the oil company Petronas (Malaysia), the joint-venture firm Lagmar-Cheleken, the oil company Monument (Great Britain), and Mobil (USA). In 1999, the total level of petroleum production by these enterprises had reached the level of 2-3 million tons.

The growth of the oil and gas industry, as a top priority, will in turn contribute to the development of foreign economic activity in other branches-construction, machine-building, railways, trucking, agriculture, and the social infrastructure. Consequently, all this development will help increase the number of jobs available for the population. Foreign economic activity in the fuel and energy sector is promoted through the grant of preferential credits and through special tax exemptions for a stipulated period (as is done in the free economic zones). Such measures are intended to attract investors from both the CIS as well as from other foreign countries.
Mutually advantageous cooperation is also expected in the case of the chemical industry. This includes the production of iodine and bromine (and their derivatives), sulphate and chlorine salts (from the subterranean brine deposits at Karabogazgol), chlorine-free potassium fertilizers, calcified and caustic sodas, magnesium oxide, and so forth. It is on the basis of the known reserves of mineral deposits that the establishment of joint-venture enterprises has been accelerated; these new plants have the goal of increasing the level of complex, diversified utilization of such raw materials.

Another top priority will be the creation of new branches of industry that have a high degree of potential. These include, in particular, machine-building (on the basis of the production of tools for small-scale mechanization as well the equipment needed to use solar energy (heliotechnology). The development of the production of solar energy technology holds particular promise in terms of the prospects for the export goods.

An expansion of foreign economic activity can also be achieved through the creation of branches of labor-intensive production in small towns, urban-type villages, and rural areas. Such production can focus on light industry, food processing, and the electronic branch within machine-building; it also involves the broad use of the means of small-scale mechanization. This activity will make it possible to attract foreign investors and to accelerate the formation of private property.

It also makes sense to exploit the experience of various capital countries in the development of small enterprises. The American experience, for example, encourages application of the "franchise system," whereby large-scale firms and enterprises contract the services of small firms and individual entrepreneurs.

The use of irrigation is one of the most important factors in the development of agriculture. The unevenness in the territorial distribution of lands being used to raise crops is essentially dependent upon the availability of irrigated water. Turkmenistan has enormous reserves of fertile land suitable for agricultural exploitation, but the availability of water for irrigation purposes is limited.

The active resources of surface water in Turkmenistan amounts to approximately 33.4 billion cubic meters, a significant portion of which is used to supply the needs of agriculture. About half of the water goes for filtration, but a large portion is lost because of the backward technology used to water the crops. In the near future, an improvement in the capacity of canals will make it possible to save up to 1.5 billion cubic meters of water, and an improvement in the watering technology will save another 0.5 billion cubic meters per year. These savings will make it possible to put hundreds of thousands of new hectares of land into agricultural exploitation.

To supply the population of Turkmenistan with good quality drinking water (an important factor in protecting public health), the president of Turkmenistan adopted a program to develop water supply in 1998-1999. This program seeks to resolve the problem of a shortage of purification facilities, but also to provide a modern system of water mains. At the present time, the existing system does not permit the rational utilization of the available reserves of water. The principal goal of the President’s program is to create a rational system to provide the entire population with good quality drinking water.
Capital investments in this branch amounted to 195 billion manat in 1998-1999. These funds enable the construction and reconstruction of 701 kilometers of water pipelines and 48.3 kilometers of sewage lines. The new system is expected to supply users with an additional 333 million cubic meters of water per year.

With a 30-million dollar credit announced by the International Bank of Reconstruction and Development, it is possible to complete the repair and installation to develop the system of water supply in eight districts and nine peasant associations of the Dashauz region, where the problem of potable drinking water is most acute. Here it is proposed to rebuild 64 wells, which will provide a stable supply of drinking water for approximately 200,000 inhabitants. Within the framework of the credit from the International Bank of Reconstruction and Development, it will be possible to purchase equipment to conduct bacteriological and chemical analyses of the water.

In 1998, the government plans to put into use equipment with a capacity of 100,000 cubic meters per day and a 6-km pipeline to supply purified water for the population of Mara. The realization of this project is made possible through a bilateral governmental agreement between Turkmenistan and Iran.

In accordance with the program for 1999, the government of Turkmenistan plans to resolve completely the problem of providing potable water for the population of the capital, Ashgabat. By this time, the government will put into operation a complex of equipment with a capacity of 200,000 cubic meters per day; it will also construct a pipeline with a total length of 12 kilometers to supply water to the western part of Ashgabat. This will make it possible to supply Ashgabat with water and to take into account its future needs as well.

In the course of two years (and in cooperation with the United Nations Development Program), the government plans to realize a national project for the development of water and sewage facilities in the cities of Turkmenistan.

Important questions are resolved by the presidential decree "On State Licensing, Expertise, and Technical Supervision for the Planning, Construction, and Utilization of Water and Sewage Facilities." The decree took effect on 1 March 1998. Beginning in April of this year, the government will terminate funding for all enterprises that operate with the requisite license.

The development of the economy since Turkmenistan became independent has been promoted by the large scale of capital construction. The country has achieved a huge level of construction for industry, agriculture, water and sewage, schools and educational institutions, childcare, medicine, culture and education, science, and cities and small towns.

Foreign firms have constructed a whole series of sites. Contractors from abroad have performed a certain amount of work to develop the material and technical basis for construction; they have also built new production facilities in Ashgabat, Biuzmein, Nebitdag, Charzhdev, Mara in Dashovuz, and elsewhere. In addition, several plants have been renovated and equipment based on new technology has also been installed. These improvements have made it possible to increase significantly the production of construction materials and to upgrade the quality of goods produced.
To achieve a complex realization of the economic potential of the country, to
develop foreign economic relations, and to gain direct access to the Persian Gulf and the
Arabian Sea, in 1994-1996 a new rail line (Tedzhen-Serakhs-Meshkhed) was built. There
were also extensions added for other lines (Koneurgench-Kernai, Kerki-Takhtabazar,
Turkmenbash-Bekdash, Nebitdag-Cheleken, Kazandzhik-Gzylygaia, Gazazhdik-

The further development of the national economic potential is possible only if
Turkmenistan, with the assistance of foreign partners, conducts large-scale work to create
a stable productive infrastructure and transportation network. The construction of new
railway lines is of international significance and will contribute to the integration of
Turkmenistan into the world economy.

Turkmenistan has accelerated the construction of the state railway lines. The goal
is to promote the complex utilization of economic potential and the available resources
(minerals, raw materials, agriculture, and labor), to expand foreign economic relations
with neighboring countries, and to achieve a high social-economic and cultural standard
of living in the country.

The new railroad line Tedzhen-Serakhs (with an extension to Ashgabat and then
to the territory of Iran) is the last link in a trans-Asian railway system. It is intended,
especially, to organize the transit shipping from the countries of the Asian-Pacific region,
China, and the countries of Western Europe to Iran, Turkey, and countries in the Near
East. It is also aimed at expanding the foreign economic ties between the countries of
Central Asia (including Kazakhstan) with foreign countries through the Mediterranean
and the Persian Gulf.

The construction of railway lines will promote the formation of a Trans-Asian
railroad from Istanbul to Beijing, with access to the seaports of China. That new route
will shorten the delivery route for shipments between western and eastern Asia, between
Western Europe and East Asia. To ensure the timely delivery of the necessary material
resources and equipment for the lines under construction, Turkmenistan has made
 provision for the production of rail ties.

According to government forecasts on economic development in Turkmenistan,
by the year 2000 the volume of freight on the general highway network will rise to 140-
145 million tons per year. The volume of passengers will rise to 350 million persons.
Thus, highway transportation carries, and will continue to carry, the bulk of the freight
and passengers both within the territory of the country as well as to foreign countries.

By 1995, Turkmenistan was already examining the possibilities for joint ventures
with foreign partners to arrange intergovernmental agreements in the sphere of highway
transportation. To do this, however, it is essential to make a significant upgrade in the
fleet of vehicles of an international class (capable of performing round trip deliveries) and
for transit deliveries to third countries. This, in turn, requires that Turkmenistan
participate in various international motor vehicle conventions as well as international
agreements on customs and other matters. In this regard, Turkmenistan plans in the first
instance to realize (together with foreign partners) the following:
• design, construct, and reconstruct roads linking Ashgabat with all the other districts (velaiaty) in the country;

• design, construct, and reconstruct the roads east of Ashgabat (2 km), the road around the city of Mara (12 km), the road around the city of Chardzhev (29 km), the road from Ashgabat (via Gaudan) to the state border of Iran (40 km), and the road from Ashgabat (via -Berzengi) to Vanovskii (29 km). The reconstruction and construction of these highways will be achieved by providing the productive and technical basis of rail and construction organizations.

An important role in the development of foreign economic relations is also given to Turkmenistan’s fleet of sea-going vessels. At the present time, the lack of the requisite number of sea ships creates certain difficulties for transporting passengers along the Turkmenbashi-Baku line, for the export of chemical products from Bekdash, for the delivery of water from Baku to Bekdash, Okarem, and Kianla. As a result, all this shipping is now being performed by vessels from the Republic of Azerbaijan. With the assistance of foreign investors, it will be possible to reconstruct the main seaport of Turkmenbashi and to construct new seaports and sea vessels.

An increase in the number of commercial ships will also make it possible for Turkmenistan to resolve some other problems. In particular, it will be possible to obtain a profit not only from the above routes, but also to carry passengers and tourists between the ports of Makhachkala, Bender-Turkmen, Ezel’, and the ports in Turkey and on the Black Sea and the Mediterranean.

To realize the above goals, it is necessary to have significant foreign investments to develop not only the transportation, but also all the branches as a whole.
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and

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Normative-Legal Basis

Turkmenistan launched the reform of its banking system in 1992, when it began to transform the existing state banks in the country and to create a new network of commercial banks. It also took the first steps toward separating the budget and banking spheres. Formal law guarantees the independence of the State Central Bank from the executive and the regulatory organs of state authority and administration; it has also established its accountability to the president of Turkmenistan, Saparmurat Turkmenbashi. The law also regulates the relationship between the State Central Bank and commercial banks.

In practice, in 1992 Turkmenistan created a three-tiered banking system:

- Level 1: State Central Bank
- Level 2: state banks (Foreign Trade and Savings Banks)
- Level 3: commercial banks

The activity of banks at each level bears its own specific characteristics, which are expressed in terms of their functions, the conditions for creating and using credit resources, the forms of regulatory control, and so forth. However, as was the case in the Soviet period, that earlier principle confers on the State Central Bank the power to determine the basic thrust of credit and monetary policy.

The collapse of a single ruble zone in the Commonwealth of Independent States (CIS) subsequently led to the introduction of national currencies in all of the member states. In establishing a separate currency in Turkmenistan, the government operated on the assumption that the banking system can develop only if the country has a stable political authority that respects (juridically and economically) the interests of financial and credit institutions and promotes a secure monetary circulation. Therefore, simultaneous with the introduction of its own national currency (on 1 November 1993), the Medzhlis (parliament) of Turkmenistan adopted three statutes: "On the Central Bank," "On the Regulation of Hard Currency," and "On Commercial banks and Banking Activities." This legislation established a two-tiered banking system, with the Central Bank forming the first tier and commercial banks the second tier.1

These laws bestowed full autonomy on commercial banks in conducting a credit policy. However, in contrast to the Central Bank, they do not have the right of credit and monetary emissions, and credits are placed within the limits of the resources actually available to them. Such a system is standard for countries with a market economy.

The Central Bank functions as the banker, advisor, and fiscal agent of the government of Turkmenistan. It also supplies information to the Ministry of the Economy and Finance of Turkmenistan to deal with questions pertaining to the preparation of the state budget. The Central Bank, its resources, property, incomes, and transactions are exempt from the payment of all taxes, fees, and state duties. The law "On the Central Bank of Turkmenistan" regulates the activity of the Central Bank as the

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1 All the statistical data presented here come from 1 February 1999. See Statisticheskii ezhegodnik Turkmenistan za 1997 g. (Ashgabat: Natsional'nyi institut statistiki i prognozirovania Turkmenistana).
national bank and its relations with other banks; it also guarantees that the interests of creditors and depositors will be respected.

The main tasks of the Central Bank are to support the national currency, to ensure the stability of the manat and prices, to uphold the functioning of the banking system, and to provide financial support for the economic policy of the government of Turkmenistan.

The Central Bank of Turkmenistan is obliged to perform the following functions:

- formulate and implement credit and monetary policy (for which it bears responsibility);
- participate in the formulation and implementation of hard-currency policy, exercise control over hard currency, and help to prepare and confirm the exchange rates;
- issue licenses and exercise control over banks and the banking system;
- hold and control the international reserves of the state;
- organize an efficient system of accounting.

According the law on the Central Bank, this institution has the right to demand that commercial banks maintain a certain minimum level of deposits at the Central (the proportion being the same for all banks). At the same time, however, the amount of the deposits can depend on the term for the payment of credit resources and other obligations that the Central Bank prescribes as obligatory reserves.²

The law "On the Central Bank of Turkmenistan" permits the Central Bank, on the basis of conditions and rules that it has formulated, to issue credits to other banks, but only on the condition that the latter hold accounts at the Central Bank (i.e., that they possess banking accounts). Loans issued by the Central Bank of Turkmenistan to the holders of banking accounts are given only to their main bank offices.

According to the law "On Foreign Investments in Turkmenistan," foreign investors have the right to open accounts in the banks of Turkmenistan. They may also use the national currency of Turkmenistan to purchase foreign currency on the domestic hard-currency market.

The Central Bank maintains business relations with other banks. At the same time, however, the Central Bank is responsible for the issue of banking licenses and for regulating the activity of banks to which it has granted these licenses.

In contrast to the Central Bank, commercial banks have a different form of property ownership. This characteristic feature is explicitly stipulated in the legislation of Turkmenistan. The law "On Commercial Banks and Banking Activity," other statutes, the charters of these banks, and the normative rules of the Central Bank regulate the activity of such banks.

² The amount of the obligatory reserves of banks that are held by the Central Bank is not to exceed 20 percent of the total aggregate obligations of banks (nor more than a higher amount that, in exceptional circumstances, may be determined and imposed by normative documents issued by the Central Bank).
The formation of commercial banks on a shareholder basis constituted the first step toward the creation of a money market in Turkmenistan. The determining factor in creating this new type of bank was their economic effectiveness and utility. It bears noting that the term "commercial bank" can be understood in either the broader or narrower sense. The former term connotes a bank that operates on commercial principles; the latter term designates a bank that has been created by non-governmental enterprises and organizations (e.g., cooperatives). Here the term "commercial bank" is employed in the broader sense—that is, it connotes commercial as well as cooperative banks.

The existing commercial banks can be classified according to the following schemata:

1. **According to the Legal Category:**
   - Joint-stock commercial bank
   - Commercial bank
   - Cooperative bank
   - Branches of foreign banks
   - Bank with the participation of foreign capital

2. **According to the Type of Property Ownership**
   - State
   - State-commercial
   - Non-governmental (private)

3. **According to Goals and Services**
   - Universal bank of the territorial (regional) type
   - Branch bank (including inter-branch banks)
   - Banks formed to service multi-branch state enterprises (associations)

The process of establishing commercial banks has moved forward at rather high rates. If, at the beginning of 1993, there were seven such banks, by the end of 1998 their number had grown to sixty-seven. In accordance with the law "On Commercial Banks and Banking Activity," commercial banks are not responsible for the obligations of the state; contrariwise, neither is the state responsible for the obligations of commercial banks. The only exceptions are those cases foreseen in the law "On Commercial Banks and Banking Activity" and other statutes, or those instances where the bank or state has assumed this responsibility.

Commercial banks, like other banks in Turkmenistan, carry out their activities on the basis of licenses issued by the Central Bank.

The laws governing the territory of Turkmenistan permit the activity of foreign
banks and their branches from the moment they register and obtain a license from the Central Bank of Turkmenistan.

The charter capital of banks is formed from the resources of juridical entities and individuals, from shares of deposits, and from the issue of stock and other securities. All the foregoing serve to back the liabilities of the bank. Founders and stockholders of commercial banks may be either juridical entities or individual persons. However, the stock held by any given individual founder or shareholder may not exceed 35 percent of the charter capital.

To create this charter fund, the law prohibits the use of state budgetary resources intended for some functional activity (the sole exception being the Central Bank). Nor is it permissible to use the resources of philanthropic public organizations that have been obtained as a security deposit for credits.

Banks can create hard-currency funds from profits in foreign currency and use these to develop their banking activities or to make investments in Turkmenistan or abroad (in accordance with the rules stipulated by state law).

According to the banking statutes of Turkmenistan, commercial banks can conduct the following types of banking transactions and operations:

- open and maintain the accounts of clients and corresponding banks, including foreign banks;
- perform operations as authorized by clients and corresponding banks;
- receive deposits and grant credits per agreements with the borrowers;
- finance capital investments upon the authorization of depositors and from the bank’s own funds;
- issue stock and other securities;
- purchase, sell, and hold instruments of payment and other securities (issued by the bank itself), hold the funds of clients, and conduct any other transactions not explicitly prohibited by law;
- issue sureties, guarantees, and other obligations for third parties (authorizing their execution in monetary form);
- acquire the rights to demand (on the basis of contracts) the delivery of goods and services, assume the risks of enforcing such demands and collecting these dues (forfeiting), and also to perform operations that entail additional control over the movement of goods (factoring);
- make purchases and sales transactions with juridical entities and individuals (including foreigners) that involve hard-currency cash as well as hard-currency funds in accounts and deposits;
- attract and distribute resources, as well as manage securities upon authorization from clients (i.e., perform trust transactions);
- perform consulting services that are associated with banking (for example, the management of investments by clients, advisor, financial agent, and

consultant);

- at the bank’s own expense, acquire equipment, motor vehicles, and other property that can be transferred on the basis of leasing arrangements (in other words, conduct leasing transactions);

- perform collateral and other transactions with real estate (in accordance with existing law);

- make other transactions if so authorized by the bank license and if not prohibited by the pertinent laws on banking and the other statutes of Turkmenistan.

It bears noting that the law of Turkmenistan does prohibit the following:

- bank activity in the sphere of material production and the trade in material valuables;

- involvement in all forms of insurance (with the exception of insurance on hard-currency, credit, interest, and other risks involving bank transactions).

It is mandatory for commercial banks to observe the following economic norms and maximum limits (established by the Central Bank of Turkmenistan):

- minimal reserves of charter capital;

- sufficient capital, which is determined by the ratio of capital to assets (weighted to account for risks);

- the maximum volume of credit (risk) per borrower;

- norms of liquidity, which is determined by the ratio of assets in liquid form to obligations payable upon demand.

The banks of Turkmenistan are also obligated to create insurance, reserve, and other requisite funds.

In accordance with the law "On Commercial Banks and Banking Activity," commercial banks (as well as all other banks in Turkmenistan) may accept savings deposits from the general populace. The depositors may be citizens of Turkmenistan, foreign citizens, and people who do not hold any citizenship. Each bank can, independently, prescribe the conditions under which it accepts such deposits and as well as the terms for returning such funds upon demand by the depositor. However, banks may not accept deposits of the population in excess of the charter capital; they are also bound to create interbank funds to insure the deposits of the population (pursuant to an order prescribed by the Central Bank of Turkmenistan).

The state guarantees the complete security of money and other valuables entrusted to the Savings Bank of Turkmenistan, as well as their immediate repayment upon demand.
The laws of Turkmenistan permit, on a contractual basis, commercial and other banks to solicit and to receive funds in the form of deposits and credits. These institutions may also perform various mutual operations as foreseen in the governing statutes. In the event of a shortage of funds (needed to provide credits to clients and to perform obligations that have been assumed), commercial banks and other banks can apply to the Central Bank of Turkmenistan for credits.

Current law permits commercial banks to accept, as a guarantee for the repayment of credits, collateral\(^3\) or security guarantees in other forms that are familiar to banking practice. Banks have the right to make decisions to grant credits without requiring such collateral, and also to sell such property used as security guarantees in the case of a loan default (and may do so without the sanction of a court).

Today’s banks are differentiated by the extreme heterogeneity in the methods of their banking operations. This diversity results from the fact that, to a substantial degree, they are independent in formulating their credit policy and are not legally bound to follow centrally issued instructions with respect to the issue of credits or other transactions.

This independence diminishes the danger of bureaucratization and contributes to the operational resolution of questions pertinent to banking activities. The existing legal base makes it possible to devise a new structure for the banking system. Its main goal is, to the fullest possible degree, to use economic levers to accelerate the reform process.

However, certain articles and statutes in the above legislation were composed without taking into account the changes that have transpired in the banking sphere of developed industrial countries during the last decade. Hence, there is no doubt that the existing banking laws of Turkmenistan are in need of revision.

During the transition period (from a rigid administrative-command system of economic administration to a market economy), the banking system must both resolve its own “internal” problems and facilitate the broader economic reforms in Turkmenistan.

Therefore, to determine how to improve the banking system and to formulate recommendations on financial and credit policies, it is necessary to:

- assess the contemporary condition of the banking system;
- formulate fundamentally new ways to regulate the economy of Turkmenistan.

The Banking System of Turkmenistan

At the present time, as noted above, Turkmenistan has created the two-tiered banking system that is characteristic of countries with a market economy. The Central Bank embodies the upper echelon of the national banking system and represents a single integral unit; commercial banks constitute the secondary or lower level. There is no

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3 In 1993, Turkmenistan adopted a law “On Security Deposits,” which also includes banks-as specialized organizations issuing credits against the collateral of security deposits. Licenses to perform banking deposit transactions are granted by the Central Bank of Turkmenistan. The use of property as collateral entails the issue of a deposit declaration by the party tendering the security deposit.
alternative to this strategic choice of a two-tiered banking system, given the conditions inherent in the transition to a market-based economic system. That fact is evident not only from the experience of countries in Western Europe, but is also true for all the post-Soviet states of Eastern Europe and other developing countries.

As of 1 February 1999 (as recorded in Table 1), the banking system of Turkmenistan consisted of sixty-seven banks, supplemented by another 132 branches (including 36 branches of the Savings Bank).

Table 1
Commercial Banks Registered in Turkmenistan
(1 August 1998)

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Registered Banks, including:</td>
<td>67</td>
</tr>
<tr>
<td>A. State Commercial Banks</td>
<td>2</td>
</tr>
<tr>
<td>B. Joint-stock Commercial</td>
<td>8</td>
</tr>
<tr>
<td>C. Banks with share basis</td>
<td>55</td>
</tr>
<tr>
<td>D. banks with foreign capital</td>
<td>2</td>
</tr>
<tr>
<td>E. Foreign Banks</td>
<td>4</td>
</tr>
<tr>
<td>including: banks with foreign capital</td>
<td>1</td>
</tr>
<tr>
<td>including: foreign-owned</td>
<td>3</td>
</tr>
<tr>
<td>2. Branches of Commercial Banks</td>
<td>148</td>
</tr>
<tr>
<td>including: Branches of State Savings Bank</td>
<td>50</td>
</tr>
<tr>
<td>3. Banks receiving general banking license</td>
<td>11</td>
</tr>
<tr>
<td>4. Banks receiving domestic hard-currency license</td>
<td>6</td>
</tr>
<tr>
<td>5. Actual charter capital (millions of manat)</td>
<td>40,918.1</td>
</tr>
<tr>
<td>Including: banks with internal currency license</td>
<td>1,346.2</td>
</tr>
<tr>
<td>Including: Banks with general license</td>
<td>38,885.3</td>
</tr>
</tbody>
</table>

The market model of credit and monetary regulation is effectively in operation here, given the competition among different types of banks.

At the present time, several types of commercial banks are operating in Turkmenistan. They differ according to:

- ownership of the charter capital and the method by which it was raised;
- the types of operations and transactions (universal and specialized);
- territorial locus of activity;
- the specific economic branch toward which they are oriented.

The majority of commercial banks can only conditionally be called “private,” since state organizations still figure among their founders. Among many commercial banks, the number of founders and shareholders can include several dozen parties. In the event that the banks are created for the purposes of raising credits for a branch of the economy, then the ministries pertinent to that branch of the economy comprise some of the
founders of the bank. For example, the founders of "Daikhanbank" (which is active in providing credits for the agricultural complex of the country) consist mainly of organizations that, in one way or another, are associated with the agro-industrial complex of Turkmenistan. Therefore, in practice banks form an integral part of a single production financial structure and supply the "financial policy" for that branch of the economy.

As noted above, all the banks perform their activities on the basis of licenses issued by the Central Bank of Turkmenistan. Thus, according to data from 1 February 1999, twelve banks had a general license to conduct banking operations in foreign currency, and six banks had a license for domestic hard-currency transactions.

By the end of the 1990s, the banks of Turkmenistan had generally adapted to the new conditions prevailing in the economy. It is now possible to regard each banking operation as the result of the adaption of the banks to the needs of the economy. It is also a relatively new phenomenon for non-banking institutions (such as insurance companies, pension funds, and trade and industrial corporations) to become involved in the banking sphere.

Although all the large banking institutions evince a tendency toward universalization, that tendency is offset by a continuing (indeed, growing) tendency toward specialization. In those cases where specialization provides a niche on the market for a given sphere of financial services or raises efficiency, this path is chosen as an alternative to the competitive advantage of universal institutions. These contrary tendencies toward universalization and, simultaneously, re-specialization of banking activities are organically linked to the process of diversification of production that prevail under the conditions of a market economy. A universal bank is one that combines deposit and loans, investments and emissions, and para-banking transactions-all of which most fully answers the needs of contemporary financial capital.

The density of the banking network in Turkmenistan is thinner than that found in the highly developed countries. The network of branches (including agencies) provides one office per 37,000 inhabitants.

As of 1 February 1999, the aggregate charter capital of banks amounted to 109,450 billion manat. A significant part of the capital is held by the Bank for Foreign Economic Activities (52 percent), the State Commercial Bank "Turkmenistan" (18 percent), and the Ashgabat branch of the National Bank of Pakistan (6 percent).

As a result, these three banks alone accounted for 76 percent of the capital in the banking system. Hence four-fifths of all banks possessed less than 1.0 billion manat. As a rule, banks without branch offices represent institutions with an insignificant amount of charter capital (see Table 2).

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4 The Russian text indicates billions of manat; however, the rest of the text uses millions. [Translator]
Table 2
Groups of Commercial Banks According to the Volume of Official Charter Capital
(On 1 February 1999)

<table>
<thead>
<tr>
<th>Amount of Charter Capital (million manat)</th>
<th>Number of Banks</th>
<th>Proportion of Banks (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 25</td>
<td>12</td>
<td>17.9</td>
</tr>
<tr>
<td>25 to 50</td>
<td>37</td>
<td>55.2</td>
</tr>
<tr>
<td>50 to 100</td>
<td>2</td>
<td>3.0</td>
</tr>
<tr>
<td>100 to 200</td>
<td>1</td>
<td>1.5</td>
</tr>
<tr>
<td>200 to 500</td>
<td>2</td>
<td>3.0</td>
</tr>
<tr>
<td>500 to 1,000</td>
<td>5</td>
<td>7.5</td>
</tr>
<tr>
<td>1,000 to 2,000</td>
<td>1</td>
<td>1.5</td>
</tr>
<tr>
<td>More than 2,000</td>
<td>7</td>
<td>10.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>67</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The density of the banking network is spread unevenly among the different regions of Turkmenistan. The leader is Ashgabat, with 2.5 banks per 100,000 inhabitants. In the other administrative districts (velaiaty and etrapy), the availability of banking services is considerably less.

Of the total number of commercial banks, approximately a third were formed on the basis of earlier specialized banks, while the remaining 70 percent were newly created. The main sources for increasing the charter capital of commercial banks consist of additional contributions by shareholders as well as the issue and placement of stocks.

Experience around the world shows that the combination of small, middling, and large banks is a normal phenomenon and acceptable in a market economy where the mechanism of banking services was delayed for decades. Even in the United States and the developed countries of Western Europe, small and middling banks account for more than 80 percent of the total number of credit institutions. Small banks are needed to service the small and middle-sized entrepreneurs—a stratum that, in Turkmenistan, is only beginning to emerge, but should grow substantially. To be sure, the capital of the large banks should also increase in order to provide investments for the primary branches of the economy and for various economic programs. However, there is no contradiction here; each bank must find its own niche in the market.

An analysis of the financial condition of the banks could disclose the qualitative characteristics of their work. Until recently, however, virtually no attempts were made to analyze the activity of banks: under the Soviet economic order, whereby rigid regulations determined the results of the activities of each bank, there was simply no need to make such evaluative assessments. But now that commercial banks have become legally independent, it is absolutely essential to conduct an independent analysis of their activities. Without such an analysis, it is impossible for the management of a bank to formulate an effective credit policy, to identify shortcomings and bottlenecks, and to work out recommendations to eliminate such problems. Today, many commercial banks in the country have devised their own methodology for making such analyses and are successfully carrying this out.
The office for banking oversight in the Central Bank of Turkmenistan has also been conducting systematic analyses of the effectiveness of banks in the country. This office also conducts surprise spot checks, a practice designed to help promote security and stability in the banking sector.

As to the quality of the work performed by the banks of Turkmenistan, one can draw some conclusions from how they collaborate with Western banks. Thus, in 1998, after the European Bank for Reconstruction and Development (EBRR) conducted an audit of a number of banks in Turkmenistan, it opened a credit line for the following banks: the State-Commercial Bank "Turkmenistan," the State Commercial Bank "Investbank," the joint-stock Commercial Bank "Senagat," the Foreign Economic Activities Bank of Turkmenistan, and the joint-stock Commercial Bank "Garashsyzlyk." To some degree, this decision by the EBRR attested to the high level of effectiveness in the work of these banks (compared to that of others).

The sources of financial resources for commercial banks (as of 1 February 1999) had the following structure. First, about a third of the financial resources consisted of the banks' own means. The majority of these funds were created from the capital of banks and reserves, with the balance coming from bank profits. The greatest share of funds came from the Central Bank (40 percent); the funds from economic entities were also significant (16.8 percent). The investments of citizens remained an insignificant source of financial funding (5 percent), although, to be sure, this indicator has tripled during the last few years.

Still, within the structure of the sources of financing for commercial banks, the share contributed by citizens nevertheless remains very low. The banks of Turkmenistan are attempting to attract the deposits of clients by offering high interest rates. Still, notwithstanding a rather high interest rate (which, in some banks, reached 35 percent for time deposits in 1998), the volume of monetary bank deposits by the general population of Turkmenistan has been growing at a rather slow pace. The majority of inhabitants prefer to keep their money at home ("in stockings"). This pattern of behavior emerged after the collapse of the USSR, when the majority of inhabitants of Soviet republics (because of the Russian decision to introduce a new national currency in 1993) lost the entire savings that they had accumulated over many years. The introduction of national currencies in the countries of the CIS helped to stabilize the situation.

Nevertheless, the inhabitants of countries in the CIS still prefer not to keep their money in the national currency, but rather to hold their savings in American dollars. In this respect, Turkmenistan is no exception. Only when Turkmenistan is able to stabilize the economic situation and to overcome the "socialist syndrome" will banks be able to attract the savings of the general populace.

In regulating the activities of commercial banks, the state demands that they maintain a certain level of their own capital so as to ensure their efficient operation. The

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5 At the present time, there is no statistical data on the volume of savings of the inhabitants of Turkmenistan. The volume of cash in dollars held by the general population, according to estimates by some experts, exceeds the hard-currency reserves of the state several fold. The population of Turkmenistan spends up to 50 percent of their monthly incomes on the purchase of hard currency.
bank's own capital must be sufficient to fulfill all the obligations that they have assumed, to defend the interest of depositors and other creditors, and to avert the danger of bankruptcy.

According to the normative documents of the Central Bank of Turkmenistan, the bank's own capital must amount to 8 percent of its assets (weighted so as to take into account the factor of risk). On 1 January 1999, all banks met this criterion.\(^7\)

The banking system of Turkmenistan follows a credit policy aimed at raising the effectiveness in placing credit resources and at reducing the arrears ("nonpayments") owed to banks and suppliers. Within the structure of active transactions by banks, the main thrust has been the extension of loans. The grant of bank credits bears primarily a short-term character; that predominance of short-term loans is attributable to the high risk of granting loans for long-term projects and the low profitability of credits issued for investment purposes. The banks most active in granting credits are the banks of "Daikhanbank," "Turkmenistan," and "Investbank."

The rate offered by the Central Bank to commercial banks for refinancing has dropped from an annual rate of 50 percent in June 1994 (see Table 3) to 30 percent in June 1998. That decrease reflects the stabilization of the economic situation in Turkmenistan.

### Table 3

<table>
<thead>
<tr>
<th>Period</th>
<th>Rate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.06.1994-20.04.1995</td>
<td>50</td>
</tr>
<tr>
<td>21.04.1995-01.01.1996</td>
<td>15</td>
</tr>
<tr>
<td>02.01.1996-01.02.1996</td>
<td>50</td>
</tr>
<tr>
<td>02.02.1996-26.05.1996</td>
<td>86</td>
</tr>
<tr>
<td>27.05.1996-13.06.1996</td>
<td>108</td>
</tr>
<tr>
<td>14.06.1996-26.06.1996</td>
<td>114</td>
</tr>
<tr>
<td>27.06.1996-28.11.1996</td>
<td>120</td>
</tr>
<tr>
<td>29.11.1996-16.01.1997</td>
<td>105</td>
</tr>
<tr>
<td>17.01.1997-28.02.1997</td>
<td>85</td>
</tr>
<tr>
<td>01.03.1997-28.02.1997</td>
<td>68</td>
</tr>
<tr>
<td>08.07.1997-07.07.1997</td>
<td>35</td>
</tr>
<tr>
<td>from 6.08.1998</td>
<td>30</td>
</tr>
</tbody>
</table>

6 The essence of this syndrome is manifested in the leveling of incomes: unprofitable enterprises were maintained at the expense of profitable ones, and part of the income of highly-paid citizens was diverted to the indigent.

7 The sufficiency of capital is determined by the correlation between a bank's own capital and its assets. The Central Bank determines the norms for the sufficiency of capital in commercial banks.
Within the structure of credits issued (in the Turkmen manat) to different branches of the economy, the most credit-intensive branches have been industry (30 percent), trade (9.5 percent), and agriculture (15 percent). In terms of the recipients of these short-term credits, the state sector accounts for 84.5 percent, with the balance (15.5 percent) going to the private sector. In recent years, there has been an increase of credits in hard currency.

Two main tendencies have been characteristic of the contemporary stage of economic reform (1997-2000): (1) the onset of the privatization process of enterprises in the industrial sector and the agro-industrial complex; and (2) an active influx of foreign investments into the fuel and energy sector. These developments have mandated a modification of the mechanisms for financing the productive sector and the creation of an adequate credit-banking service to sustain these processes.

Banks prefer to give loans to trade and middleman activities. In this regard, it is essential to note that this behavior on the part of banks is, above all, driven by the high degree of risk. At the same time, one must also take into account the fact that the majority of banks (in one or another form) are associated with the production of industrial or agricultural goods.

As the contemporary banking system has adapted to the changing conditions of economic development, two interrelated processes have emerged. One is the restructuring of the banking system, which has led to a concentration and universalization of the activities of banks even as they retain their earlier specialization. There has also been a dynamic increase in the array of non-banking institutions (insurance and investment companies, pension funds, etc.) The other process is the restructuring of the basic framework of banking activities.

Notwithstanding the fact that the state monopoly in banking (which has existed for decades) was eliminated in the early 1990s, the banking system of Turkmenistan nonetheless retains certain elements of the administrative system of management. This is due to the fact that the economy of Turkmenistan is still in a transition phase; at this point in time, it is manifestly impossible to preserve banking in its earlier form and simultaneously, to make the transition to a market, commercially-based system.

To address the real needs for a reorganization of the banking system of Turkmenistan, the country’s leadership has made the task of developing commercial banks a top priority.

Commercial banks are the cornerstones of the banking system of a country. That fundamental role derives from the fact that the state has empowered them to engage in specific credit and accounting activities with clients. The formation of diverse commercial structures (representing alternative types of property ownership) in the production, supply, and trade sectors of Turkmenistan’s economy makes it essential that these be provided with commensurate credit institutions. In short, the commercial banks in their present form represent the result of a transition from a centrally-controlled economy to one based on market relations.

The banking clientele has an interest in securing a diversity of services from banks, and the latter are constantly offering new kinds of operations and transactions.
The opening of a current account is usually accompanied by the offer of a number of services for making payments, arranging noncash transfer of funds, obtaining short-term credits, investing capital in securities, discharging commissions and intermediary transactions, performing making calculations in its computer center, and so forth. The offer of additional services attracts small depositors, who usually enjoy preferential treatment in obtaining loans.

**Monetary and Credit Policy, 1992-1998**

The Soviet planned economy issued unbacked credit emissions that, in turn, led to inflation. Under a system where the state set prices, the emission appeared in the form of a general deficit on the markets of consumer goods and means of production, and it also resulted in an increase in involuntary savings. The growth in the deposits of the population in the state savings bank was therefore regarded as a source of credit for the economy. The expansion of credit provoked a growth in deficits and general chaos in the system of material-technical support and in the retail markets. In concrete terms, this system was responsible for the long lines, corruption, and pilfering. The opportunities for the state to use the population's savings to provide credits for production (and without the need to create obligatory reserves) were deemed an advantage of the socialist monetary-credit system. If one also takes into account the periodic practice of extending or simply writing off of state loans (especially for enterprises in the agro-industrial complex), it becomes perfectly clear why the Soviet credit and financial system eventually collapsed. "Socialist credit," which meant the grant of credits to insolvent enterprises, was essentially a mechanism that served to redistribute surplus product.

Immediately after Turkmenistan introduced its own national currency, the Central Bank—which had previously had no experience in conducting an independent monetary and credit policy—increased the money supply. In 1993-1995, it expanded the money supply by 20 to 28 percent per month, and that in turn led to an increase in prices (averaging from 25 to 43 percent per month). During the years 1993-1995, the volume of cash in circulation increased by 47.8 percent.

The velocity of money circulation in Turkmenistan in 1993-1995 was high and kept rising. Thus, the average monthly rate of increase in the velocity of monetary circulation reached 20 percent (and more) in the course of a year. It was only at the beginning of 1997 that the velocity of money circulation declined—one of the most reliable signs of an increase in the demand for national currency and a strong indication that financial stabilization had finally begun. This stabilization was also evident in the changing levels of refinancing by the Central Bank of Turkmenistan (see Table 3). The absence of a budgetary deficit in Turkmenistan had not been an obstacle to inflation in 1994-1995. The point is that a substantial proportion of the increase in pure domestic assets was being used to provide credits to finance production projects in industry and agriculture (in the form of "centralized" and other specialized forms of "targeted" credits).

The economic situation in the first years of independence made it possible to make large-scale investments that, several fold, exceeded those previously available. Specifically, these amounted to five billion US dollars in 1992-1995, and to seven billion dollars in 1996-1998. One can expect a real return from these production projects in 1998-
Beginning in mid-1996, the authorities of Turkmenistan began to implement, in a systematic way, an austere monetary policy. This new policy achieved financial stabilization as well as a stable exchange rate for the national currency; it also halted the decline in production, sparked a renewal of economic growth, and led to an increase in real wages.

At the same time, a number of problems persisted. For example, the Central Bank was limited in the array of instruments that it could employ to regulate the money supply.

As a result, credit and monetary dynamics in 1997 remained unstable. As of 1 January 1998, the total volume of money supply (aggregate M2) amounted to 866.1 billion manat, including cash (aggregate M1) of 407.7 billion manat (i.e., 47.1 percent of the money supply). Altogether, the rate of growth in money supply for the year was 102 percent; in other words, the money supply increased twofold.

The monetary and credit flows in 1997 were characterized by a decrease in the emission of cash. The level of emissions was 6.4 percent (compared to 21.1 percent the previous year). It must be noted, however, that the main source of currency in bank accounts came from the sale of cash. By contrast, earnings from commodity sales remained extremely low (15.7 percent in December). This forced the Central Bank to redirect its hard-currency flows so as to sell cash through the exchange offices of commercial banks. The persistence of a high level of cash in the aggregate monetary supply reflects the fact that cash was still preferred as the main instrument for financial transactions (both by individuals and enterprises).

For purposes of regulating liquidity and reducing the inflation rate, the Central Bank actively used such devices as hard-currency intervention, adjustment of the refinancing rate, and changes in the level of obligatory bank reserves.

The policy of seeking a systematic reduction in the level of inflation has made it possible to achieve a stable dynamic of declining interest rates. It also enabled a gradual approximation of such rates to the level characteristic of a normally operating economy.

The general dynamics of interest rates in the banking system for loans and deposits have therefore shown a clear tendency to decrease. For short-term credits to juridical entities, the interest rate has fallen by 1.5 times; for individuals, the decline has been nearly twofold. The differentials in interest rates among different banks have also declined. There has also been a reduction in the interest rate gap between loans to enterprises in the state sector and loans to the private sector; the difference between them has run at approximately 18 to 20 percent (see Tables 4-6).
Table 4  
Bank Credits for Different Sectors of the Economy (January 1999)

<table>
<thead>
<tr>
<th>Type of Loan</th>
<th>Economic Branch</th>
<th>Amount (millions of manat)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term Loans</td>
<td>Total</td>
<td>1,230,700</td>
<td>100.0</td>
</tr>
<tr>
<td></td>
<td>Industry</td>
<td>370,742</td>
<td>30.1</td>
</tr>
<tr>
<td></td>
<td>Agriculture</td>
<td>190,997</td>
<td>15.5</td>
</tr>
<tr>
<td></td>
<td>Construction</td>
<td>32,899</td>
<td>2.7</td>
</tr>
<tr>
<td></td>
<td>Trade</td>
<td>62,262</td>
<td>5.1</td>
</tr>
<tr>
<td></td>
<td>Material-Technical Supplies</td>
<td>41,870</td>
<td>3.4</td>
</tr>
<tr>
<td></td>
<td>Transportation-Communications</td>
<td>6,333</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td>Procurement</td>
<td>474,094</td>
<td>38.5</td>
</tr>
<tr>
<td></td>
<td>Other branches</td>
<td>51,503</td>
<td>4.2</td>
</tr>
</tbody>
</table>

| Long-term Loans      | Total            | 25,891                      | 100.0   |

Table 5  

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>22.30</td>
<td>8.44</td>
<td>18.23</td>
<td>56.50</td>
<td>55.70</td>
<td>54.40</td>
<td>58.51</td>
<td>39.86</td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>22.37</td>
<td>16.83</td>
<td>2.45</td>
<td>6.41</td>
<td>6.57</td>
<td>6.21</td>
<td>6.21</td>
<td>4.85</td>
<td></td>
</tr>
<tr>
<td>Construc</td>
<td>6.07</td>
<td>5.12</td>
<td>4.18</td>
<td>2.57</td>
<td>1.83</td>
<td>3.54</td>
<td>1.98</td>
<td>1.92</td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>18.50</td>
<td>32.91</td>
<td>19.00</td>
<td>16.49</td>
<td>15.82</td>
<td>16.00</td>
<td>13.09</td>
<td>10.31</td>
<td></td>
</tr>
<tr>
<td>Mat.-Tech. Supply</td>
<td>9.06</td>
<td>6.10</td>
<td>4.04</td>
<td>4.00</td>
<td>3.07</td>
<td>2.64</td>
<td>1.84</td>
<td>2.15</td>
<td></td>
</tr>
<tr>
<td>Transp.-Commun.</td>
<td>3.55</td>
<td>1.01</td>
<td>1.95</td>
<td>0.29</td>
<td>0.24</td>
<td>0.64</td>
<td>0.40</td>
<td>0.43</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>18.15</td>
<td>29.59</td>
<td>50.15</td>
<td>13.73</td>
<td>16.77</td>
<td>16.57</td>
<td>17.97</td>
<td>40.48</td>
<td></td>
</tr>
</tbody>
</table>

Table 6  
Bank Credits: Manat and Hard Currency

<table>
<thead>
<tr>
<th>Type of Credit</th>
<th>January 1999</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Bank Credits</td>
<td>10,034,926</td>
<td>100.0</td>
</tr>
<tr>
<td>Credits in Manat</td>
<td>1,256,591</td>
<td>12.5</td>
</tr>
<tr>
<td>Credits in Hard Currency</td>
<td>8,778,335</td>
<td>87.5</td>
</tr>
</tbody>
</table>

In 1997-1998, the banks of Turkmenistan increased the volume of credits and conducted a campaign to reduce arrears owed to banks and suppliers. The grant of bank credits continued to be primarily short-term. That policy was due both to the high risk of loans for long-term projects and to the low profitability of issuing credits for investment purposes.

In the course of 1998, the Central Bank regularly conducted sales at the Inter-Bank Hard-Currency Market.
In January 1999, the exchange rate for the manat was set at the level of 5,200 manat per U.S. dollar. The Central Bank controlled the movements in the exchange rate of the manat, based on the rate of inflation, and did not permit any sharp fluctuations.

The banking sphere is still underdeveloped in a qualitative sense. This backwardness is evident both in the technical deficiencies in the performance of accounting, as well as in the failure to use the opportunities to regulate the money supply more effectively.

To improve accounting and responsibility, in 1998 the banking system of Turkmenistan adopted a new plan for accounting and created a different order for the compilation of financial reports. In 1998, the leadership of the country was successful in sustaining a stable financial situation. Monetary emissions that year amounted to 19.2 percent, with the volume of total money supply amounting to 1.04 trillion manat. In December 1998, in connection with the collapse of the Russian banking system, the government decided to reorganize the banking system in order to avoid a repetition of the Russian crisis.

As a result, the state encouraged the merger of banks, a process that was to be completed in the course of 1999. Hence several banks were reorganized into state-commercial banks, thereby making it possible for central authorities to finance state expenditures.

To be sure, one cannot expect that, as a result of these mergers, there will be particularly pronounced investment boom during the initial phase.

In any case, the position is secure for those banks that have a reliable and stable clientele among producer enterprises.

The concentration of banking capital will be effected through the absorption of weaker banks by the stronger ones. However, in this case, the weaker banks (which, in most cases, are regional banks) will be restructured as branches of banks that have their main offices in the capital. As a modern credit system is adapted to a country undergoing a fundamental change in its economic system, there is one further characteristic process: the restructuring of bank operations. This change is facilitated by the abolition of certain administrative rules that regulate banking activities (i.e., a process of deregulation). The goal of this deregulation is to encourage banks to use a broader spectrum of instruments in the competitive struggle and to develop the market of banking services.

Under the pressure of restructuring in the credit system, banking laws are becoming more liberal. This is reflected in the elimination or amelioration of barriers separating the spheres of operation permissible for different types of credit and financial institutions. The boundaries between commercial and investment banks are gradually being dismantled.

The foregoing constitutes the main thrust of the adaption of the banking system of Turkmenistan to the structural transformation of economic activity.
System of Payments

The establishment (alongside state banking institutions) of commercial and cooperative banks, insurance companies, and other financial institutions, together with the introduction of international hard-currency transactions by many different banks—all this requires a solid, modern system of payments and an improvement in accounting (both within banks and also between them and their clients). This new system must include the application of uniform standards, common procedures of communication, and the use of modern telecommunications and computing equipment.

The growth in payment flows (and the consequent increase in the expense of monetary circulation) makes it essential that the mechanism of the payments system itself be modified and corrected. That requires the introduction of new elements to satisfy the rapidly growing demand for payments and to accelerate the circulation of resources. There must also be a simultaneous reduction in financial and labor costs.

The transactions performed by the banks of Turkmenistan can be divided into the following categories:

- passive (attraction of resources)
- active (placement of resources)
- commission and intermediary functions (upon authorization by the client and on a commission basis);
- trustee.

The phase of renewal has affected, in the first instance, the methods used to attract funds. An increase in passive transactions, which were recently characteristic for credit-financial institutions, has the support of the government. Thus, the process of deregulation began with the introduction of a differential in the bank interest rates for different types of deposits. This served to strengthen the deposit base of commercial banks: these can offer higher interest rates for demand deposits than Sberbank (Savings Bank), a fact that proved very attractive to clients. As a result, this differential has enabled commercial banks to compete successfully with Sberbank.

Innovation in the sphere of passive transactions took the form of new instruments to attract additional monetary funds. For owners of capital who seek a profitable application, the banks opened new types of deposit accounts, where the interest rates approximated those on the market. These include deposit accounts on the money market. Another attractive instrument for passive activity of banks has been the banks' own stocks—that is, the securities issued by joint-stock commercial banks. A distinctive feature of this instrument (compared to others in the deposit policy of commercial banks) is the circulation of such funds on the money market.

The mechanism for granting loans has also been modified in the direction of larger forms of credit.

Recently, commercial banks have become more careful with respect to the quality of their deposits. They believe that a precise and timely evaluation of the quality of assets is the key factor in the "health" of a bank.
The current modernization of banking activity would be impossible without the intensive application of the most recent developments in scientific-technical thought in the banking sphere and the application of electronic-computer technology.

Throughout the entire world, the share of cash payments in bank transactions is still significant—notwithstanding the significant progress in automation in banks, trade, and the service sector. In Turkmenistan, such cash payments have traditionally dominated the retail trade and the service sector. A large part of the bills for public utilities (which are handled by the offices of Sberbank) as well as the payment of wages, stipends, and pensions all are still paid in cash. In recent years, as a result of the growth in trade turnover, cash accounts have increased and are found not only in trade but also in the service sector. However, in contrast to the majority of countries in the world, where automation of cash payments in retail trade is on a relatively high level, in Turkmenistan manual processing of cash payments still prevails.

Automation in Banking

For a variety of reasons, the means for conducting non-cash accounting and payments are not so diverse in Turkmenistan as in other countries. Other instruments of payment (such as checks, bills of exchange, and credit and debit cards) have had limited use in this country. Only in the last two or three years have a few banks and financial companies begun to use these both for bank accounts and for the trade and service spheres. The main means for making payments have been notices to pay, payment orders, and monetary transfers.

At the present time, the accounts between banks are conducted primarily through correspondence accounts in the accounts office of the state Sberbank. In 1998, the period of time required to make such payments in Turkmenistan ranged from several days to several months—an exceedingly long period. Particularly acute is the problem of the timely settling of accounts that pass through the branch offices at the provincial and district level (the velaiat and etrap), since these account for the bulk of the payment turnover.

The inefficiency of the existing system of payments is obvious. A certain consolation perhaps derives from the fact that all the post-socialist states have—to a greater or lesser degree—encountered a similar phenomenon.8

Under conditions where it is becoming increasingly difficult to provide for the normal operation of the system of accounts, commercial banks need their own system for clearing accounts. For the moment, however, these changes are only at the planning stage.

Under the changed conditions, it is practically impossible for banks to operate
unless they automate all aspects of their activities. Not a single bank in Turkmenistan can proceed without automation, and indeed all the banks are seeking to achieve systemic automation of their operations. The most promising line appears to be the application of an integrated automated system. Such a system would be able to handle an interrelated complex of banking tasks and to store information in a central database that would ensure regular operational access.

In the first stage of the transformation of the economy of Turkmenistan, as the banking system made decisions with respect to automation, it had to deal with several tasks:

- the need to increase sharply its spheres of activity-by intensively enlarging the areas of operation, by broadening the spectrum of services, and by mastering new forms of financial banking activities;
- the need to become integrated into international networks for the exchange of banking and financial-economic information, and also to participate in the organization of such networks and systems within the countries of the CIS;
- the need to apply basic international standards to bank activities in the sphere of interbank operations and to transmit data as well as generally accepted indicators for the quality of work in the accounting, credit, consulting, and informational service of clients and correspondents;
- the need to install an advanced automated informational system for the management and analysis of data in a way that corresponds to international demands and standards (although the task of selecting such a system from the available programming and informational services has itself proved to be rather complicated and multifaceted).

In short, the banking system of Turkmenistan needs to apply modern informational banking technologies. Although this technological need applies above all to electronic payments, it also extends to cash payments (with the assistance of credit and debit cards, etc.) In a word, modern banks need informational systems that employ the latest technology.

In the rapidly changing world of the banking business, the most valued qualities are speed, reliability, and confidentiality. Those who are slow will lose. The limitations of the traditional forms of interbank communications have compelled the banks of Turkmenistan to begin the transition to computerized information technologies.

Banking, like never before, has come to depend on the timely transmission of information, on its rapid processing, and on the reliability of the data. It also depends no less on the analysis of the economic situation and a proper assessment of the prospects for development in the money market. For those who participate in the financial markets, it is essential that they have a large volume of information at their disposal. Information that is provided by telecommunications systems and then processed by computers (along with the programming and informational support for financial services) has become the object of sale and purchase. The market for programming in financial services in Turkmenistan is estimated at hundreds of thousands of manat, but the market for the technical equipment for this purpose runs into hundreds of millions of 100
At the present time, all the banks of Turkmenistan have now put automated systems at their disposal. In addition, these systems are normally inter-linked with dozens of other systems in other banks, branch offices, payment offices, and the like. It is simply unimaginable to think of the current transactions without such systems and networks.

It also bears noting that the current bank system of Turkmenistan still has a number of noteworthy shortcomings. The most important include the following:

- the slow speed in making domestic and international payments;
- the lack of a single computer banking-network for the entire country;
- the lack of a checking system for payments;
- problems in handling cash;
- the weak confidence of the population with respect to the reliability of banks.

This situation forces banks and other financial institutions, as well as large firms, to seek and create new forms of accounts—without waiting for the Central Bank and the government to solve these problems. The most widespread method is a direct transaction between commercial banks through correspondent accounts, a method that simplifies the handling of accounts. But this method neither resolves the main problems nor reduces the operating expenses for banks.

In the authors’ view, an improvement in the system of payments must take the following factors and preconditions into consideration:

- It is impossible, in a single stroke, to replace the payment system of our country with something entirely new. All this will require time before it can be accomplished. Therefore, an evolutionary path is preferable to a revolutionary approach to improving the system of payments and its component elements.
- The transition from the existing system of payments to an electronic system is a protracted, arduous, and financially intensive process. It therefore requires the participation not only of banking institutions but also all the parties involved in payments.
- The application of new technologies to the banking system should rely upon technical progress in the sphere of computerization and communications; it also requires the improvement of the normative and legislative acts.

To create a reliable, well-developed banking structure that corresponds to modern requirements, it is essential to resolve the following urgent tasks:

1. Prepare a conception for the development of bank payment systems (including security measures) for both individual banks and for associations of them.
2. Create reliable communications system.
3. Design and create techniques, algorithms, and programs for the domestic
banking systems and for a system of electronic payments (including crypto-algorithms).

4. In the fastest possible way, create a system of clearing centers with an electronic system of account management.

5. Introduce a system of electronic payments for both corporations and individuals (including inter-city transactions).


Only if these conditions are met will it be possible for domestic banks to operate efficiently, and to provide clients with the requisite level of service.

At the present time, the payment and account system in Turkmenistan is obsolescent and inadequate. Cash still dominates and, in the accounts themselves, the share of paperwork and manual processing is still large. In the trade and service spheres, where the volume of small payments is immense, transactions between sellers and buyers are mainly conducted in cash. At the same time, several commercial banks have recently begun to create a network of POS-terminals, which are widely used in other countries and which use credit and debit cards for making payments. However, for a more widespread use of point-of-sale (POS) terminals and plastic cards (with a magnetic stripe) it is necessary to have the corresponding infrastructure. That entails substantial investment, the creation of modern systems of telecommunications, and the purchase of other equipment needed for such a system.

In 1996, Turkmenistan adopted a statute "On the Use of Plastic Cards on the Territory of Turkmenistan." On the basis of this law, our commercial banks began to issue plastic cards for their clients to use. A plastic card is a personal instrument for payment; it enables the holder to pay for goods and services and also to obtain cash from banks and ATMs. The acceptance of plastic cards to make payments and receive cash is found at those enterprises (trading, service, and banking) that are part of the payment system of Turkmenistan for the use of plastic cards. Moreover, the issuing bank personalizes the cards—i.e., it includes the data needed to identify the cardholder. Each card has its own secret code, which is usually difficult for the client to remember. At the present time, the commercial banks of Turkmenistan are making ever wider use of plastic cards.

One of the first banks to introduce plastic cards was the joint-stock commercial bank "Turkmenistan." In March 1996, this bank began to design and implement its project "Plastic Card" and signed a joint contract with the firm "Center of Financial Technologies." As a result, the two parties prepared and adopted a microprocessor card called "Turkmencard." This is a plastic debit card that gives access to an account, opened at the bank by using either a POS terminal or an ATM. The Turkmencard is an instrument for cash or noncash payment at all branches of the bank "Turkmenistan"; it may also be used at all the juridical entities that have signed an agreement with this bank. The agreement specifies the terms for accepting payment, the schedule for settling accounts, and the schedule and conditions for collection.
The bank "Turkmenistan" can perform the following types of transactions:

- make payments for petroleum fuel and lubricants (for state enterprises);
- handle payments for goods and services;
- accept deposits in manat (call deposits; general deposits);
- accept deposits in hard currency (general deposits);
- accept anonymous deposits in manats (general deposits);
- accept anonymous deposits in hard currency (general deposits; call deposits);
- open accounts for tenants and entrepreneurs who lack the legal status of a juridical entity;
- open accounts for the regular conversion of manats into hard currency;
- provide pension cards that can convert manats into hard currency;
- maintain accounts for the regular payment of wages and salaries;
- provide family credit cards.

The plastic card Turkmencard can have universal functions. That is, it can be used for all transactions performed by a bank: purchase hard currency; pay for goods in stores as well as services in hotels and restaurants; pay customs duties; purchase airline tickets, and so forth.

Although "Turkmenbank" has recently issued a certain number of these debit cards, and although it has devised a series of programs to expand their use in transactions by sellers and buyers, the cards have still not achieved a broad application.

At present, the following types of people use the service of a debit card:

- those who more often make use of banking services;
- those who write a large number of checks;
- those who have a less than average balance in the checking accounts;
- those who have larger than average financial resources at their disposal;
- those who have cards to pay for travel (including tourist entertainment costs);
- those who use the entire range of applications of a bank card in paying for the services of stores;
- those have an above-average income;
- those who belong to the category of younger, not older, families.

Theoretically, the functions of a debit card—viz., ensuring the seller of prompt payment—are in many respects similar to a credit card. However, in contrast to the latter, the debit card also makes it possible to deposit funds into the account of the cardholder.

The leaders of the banking institutions of Turkmenistan are perfectly well aware that the increased use of debit cards by financial institutions will eventually create a system that services virtually all consumers—regardless of their credit solvency. The recognition of the advantages of a debit card system, together with the desire to adopt...
electronic banking services, has already led many financial institutions to begin making plans to issue debit cards. Financial institutions use different incentives to encourage their staff to promote the active use of credit cards, for it is not enough simply to issue the cards. Such active promotion is necessary: unused cards represent a loss for the financial institution that issue them. Therefore, banks are conducting programs to promote the use of the cards; these include gifts, prizes, and various other kinds of material incentive.

**Formation of a Stock Market**

The laws of Turkmenistan presume that transactions involving securities will play a major role in the activity of banks. In 1993, the government adopted a statute "On Securities and Stock Markets in Turkmenistan," authorizing banks to perform certain transactions as investment institutions on the securities market. The Ministry of Economics and Finances is responsible for licensing activities by commercial banks as investment institutions, for establishing the rules on the registration and processing of deals (applicable to all), and for monitoring the requirements for record-keeping and reporting transactions involving securities. According to this statute, the circulation of securities (i.e., their purchase and sale by investors, including transactions where the investment institutes serve as intermediaries) is based on market prices. The price of stock is determined in a monetary unit that has the right to operate as an instrument of payment within the territory of Turkmenistan.

Some commercial banks in Turkmenistan are public corporations that periodically emit their own stocks. Recently, the share of government shares in the charter capital of banks has been decreasing, a development that reflects the gradual rise in the banks' independence from the government. In principle, that is how it is supposed to be when market relations prevail: the state regulates commercial banks only with the assistance of indirect means.

The development of a securities market will enable local investors to participate more actively in the growth of the national economy. The process of selling stocks and bonds should be done under competitive conditions; that will ensure the greatest economic benefit for Turkmenistan. Only then will it be possible to ensure the efficiency of transferring productive capacities to private hands. The normative legal system needs to be reviewed in order to create the conditions for achieving the above goals.

The basic law pertaining to the infrastructure of the stock market (viz., the registry holder and depository of securities) was adopted in 1993. Although this statute permits the creation of these institutions, that law does not itself provide the specific provisions for this. There is also a special edict of the president, authorizing the Ministry of Economics and Finances to keep a register of stock from all the corporations and stockholders. At the present time, this procedure consists of the following:

- registration of the charters of joint-stock companies in the office of the State Agency for Foreign Investments (an agency directly subordinate to the president of Turkmenistan);
- registration of the first issue of stock with the Ministry of Economics and Finances;
• repayment of debts incurred by a joint-stock company within a period of six months (in accordance with the demands of the law).

At the present time, each joint-stock company maintains a list of its stockholders. It is possible that the country will soon adopt a separate law on a "central depository," which is needed to register and hold all the securities circulating on the territory of Turkmenistan. To complete the program of incorporation, it is necessary to accelerate the process of creating this institution. That new body will make it possible to avoid the chaos that erupted in Russia and Kazakhstan, where stocks were created without the existence of the organizations needed to register their securities.

It is essential, moreover, to establish an accounting-clearing center to accelerate the processing of transactions involving securities. Above all, the law must provide a clear and precise definition of this form of activity. "Clearing activity" on the securities market usually includes the determination of mutual obligations (the compilation, verification, and correction of information on transactions with securities, and the preparation of the pertinent accounting documents) and their reconciliation upon the delivery of securities and the settling of accounts. In countries with a developed stock securities market, clearing organizations usually create special funds to reduce the risks for defaults on transactions with securities.9

Once a sufficient volume of stock comes into circulation, it will be necessary to create a system to facilitate the trade in these shares. Until the government adopts a law on stock markets (which would regulate their activity on the territory of Turkmenistan) or amends the existing law, institutions like the State Commodities and Raw Materials Market can trade in stocks and securities.10

Turkmenistan already has legislation on the regulation of stock exchanges—in particular, the statute "On Securities and Stock Markets." However, as yet it does not possess a specialized law on the formation of organizations that would regulate this sphere. That is not surprising, since regulation usually comes only after the initial phase in the formation of a stock market. It is now essential, however, that the government introduce regulation to protect and stimulate participation in the market. Given the backwardness of the securities market in Turkmenistan at this juncture in the country's economic development, it is desirable to keep regulation under government control. It is, for example, possible to use the Japanese variant, whereby the regulatory organ—the Commission on Securities and Exchanges—remains under the control of the Ministry of Finance.

Such control is exceedingly important, for the emerging markets are highly vulnerable to abuses, such as the use of "inside" information.11

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9 For example, in the United States the national clearing organization for securities has a special insurance fund, which is created from contributions by participants and provides a guarantee in the event one party in a securities transactions refuses to pay.

10 Statute on the activity of the State Commodities and Raw Materials Market of Turkmenistan, confirmed by presidential decree no. 1954 (27 September 1994), article 2.

11 Inside information refers to unpublished information that can affect the current rate of securities.
It is therefore essential to establish a solid legal framework to defend the interests of the investor and to ensure the efficient operation of the securities market. The success of this work will depend on the readiness of the population to take over the capital of privatized enterprises and to increase their savings. These factors will determine whether the secondary market will become sufficiently active to provide investors with a relative degree of liquidity.

The stability of the banking system of Turkmenistan depends on the stability of the economy of Turkmenistan. In fact, the country has been making the first successful steps toward an open society, with the goal of finding its own place in world economic relations.