

Markets and Politics in Central Asia

Structural reform and political change

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5 Civil war and reconstruction in Tajikistan

How have Tajikistan's economic policy choices since independence affected the country's political development? Tajikistan's economic choices have been constrained by its situation. It is probable that Tajikistan would have moved decisively in the direction of structural reform initially if the country had not fallen prey to an internal contest for power in the first year of independence. The contest plunged the country into civil war. While Tajikistan would have been classified as a lower middle-income economy in the former Soviet period, in the decade since independence it has become one of the world poorest countries.¹

The following profile of Tajikistan surveys the distinguishing features of the country. The section on "Post-conflict reform of the state" describing the attempts at post-conflict economic reform, sets out the economic policies adopted after 1996 when the reconciliation process began. The section on "Regional pluralism and competition" analyzes the effect of these economic policy choices on government and politics in Tajikistan, emphasizing the role of regional cleavages.

Tajikistan profile

Tajikistan had an estimated population of 6.2 million people in mid-2001.² Tajikistan's population has been growing at 1.3 per year, a relatively modest rate. Agriculture dominates Tajikistan's economy, with cotton being the most important crop. During the first decade of independence, cotton production fell to less than half its pre-1991 level. Other agricultural output also decreased significantly in most areas except foodstuffs and cereals. Tajikistan's mineral resources include silver, gold, uranium, and tungsten, but in small amounts. Industry is limited to a number of obsolete processing factories in the northern part of the country and one large aluminum plant in the southern part of the country. Coal, other minerals and aluminum production decreased significantly. Electricity production from Tajikistan's aging hydroelectric plants also decreased, although at a lower rate than other industrial output (Table 5.1(a)). Tajikistan was dependent on Russia, Uzbekistan, and on international humanitarian assistance for much of its basic subsistence needs.

Tajikistan is a landlocked country. Tajikistan's trading relationships have been constrained by politics and geography. Since 1992, Tajikistan's western access

routes have been virtually blockaded by its neighbor Uzbekistan for both economic and political reasons (Table 5.1(b)). Difficult terrain and political uncertainty constrained trade with Tajikistan's eastern neighbor, China. Difficult terrain and border disputes complicated trade with Tajikistan's northern neighbor, Kyrgyzstan. Political instability and insurgency complicated trade relations with Tajikistan's southern neighbor, Afghanistan.

Tajikistan has an authoritarian government, one that has made good faith but substantially unsuccessful efforts to introduce economic and political reforms. The executive branch appears to dominate the administration, the legislature, and the judiciary. The full extent of political control by executive branch officials is thrown into question by the fact that the national government does not fully exercise control in many outlying areas of the country (Table 5.2). Some nongovernmental civic organizations are active in Tajikistan. The Tajikistan government rhetorically adheres to principles of the rule of law and the protection of civil rights. But in the charged political atmosphere of post-civil conflict and post-Afghanistan conflict, insurgency and militant regionalism are constant realities for the government. The Tajikistan government's significant counter-insurgency and counter narcotics efforts have compromised many procedural protections for civil and human rights. Tajikistan is regarded by international organizations as having a poor human rights record. The World Bank Institute governance indicators ranked Tajikistan in 2001 below the tenth percentile in all key governance measures except "voice and accountability" in which Tajikistan ranked in the twenty-seventh percentile (Table 5.3). This unusual evaluation reflects that fact that there are elements that vocally favor liberalization and reform within Tajikistan.

Post-conflict reform of the state

Tajikistan's structural reform efforts have been very much the product of the extreme circumstances the country has faced since independence.³ Tajikistan's economy today is based primarily on subsistence agriculture, foreign assistance from donor organizations, barter relations with neighbors, and the commercial export of a few commodities. As much as 80 percent of Tajikistan's foreign exchange earnings result from sales of three commodities: aluminum, cotton, and illegal drugs. The metals and drugs sales are sources of revenue that, under Tajikistan's current conditions, have negligible or negative social welfare effects.

During the Soviet period Tajikistan's primary trading relations were structured around the import of manufactured and consumer goods from the North and the export of primary commodities, particularly aluminum and cotton, to northern markets in the former Soviet Union (Rakowska-Harmstone, 1970). Trade was channeled through a small number of corridors, all of which passed through the former Soviet Republic of Uzbekistan. Civil strife in Tajikistan interrupted shipping routes through Uzbekistan in 1992. These routes have not been reestablished for normal commercial purposes. Tajikistan's easternmost border with the People's Republic of China previously offered no commercial access to foreign markets.

Table 5.1a Tajikistan key indices: production

Item	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<i>Population</i> (million; as of July 1)	5.46	5.57	5.64	5.75	5.84	5.93	6.02*	6.11*	6.20*	6.29*
<i>Labor force</i> (thousand; calendar year)	—	1915	1876	1886	1891	1777	1842	1855	1780*	1794*
Employed	1970	1908	1854	1854	1853	1731	1791	1796	1726*	1745*
Agriculture	881	892	949	1002	1095	1026	1145	1080	1118*	1120*
Mining	405	382	335	315	264	249	216	200	174*	170*
Manufacturing	683	634	570	538	494	456	430	516	434*	455*
Others	—	7	22	32	38	46	51	59	54*	49*
Unemployed	—	0.4	1.2	1.7	2.0	2.6	2.8	3.3	3.0*	2.7*
Unemployment rate (%)	—	0.4	1.2	1.7	2.0	2.6	2.8	3.3	3.0*	2.7*
<i>Production</i> (thousand metric tons; calendar year)										
<i>Agriculture</i> (crop year)										
1 Seed cotton	826	515	524	531	412	210	175	183	169	180
2 Wheat	153	156	159	182	174	548	559	500	483	550
3 Potatoes	181	167	147	134	112	108	128	175	240	303
4 Cotton (lint)	247	174	180	167	130	120	104	108	103	107
5 Grapes	121	100	88	80	96	122	127	46	54	110
6 Rice	26	20	23	20	24	21	44	40	47	82
7 Barley	51	39	30	25	22	17	23	26	25	19
8 Maize	60	32	34	18	19	90	30	36	36	38
<i>Mining</i>										
1 Hard coal	313	214	174	106	34	14	9	8	9	9
2 Crude petroleum	100	57	49	32	24	26	26	19	19	18
3 Natural gas (Mn cu. m.)	93	72	49	33	39	47	42	32	36	40
<i>Manufacturing</i>										
1 Cement	1013	447	262	178	78	49	36	18	33	55
2 Wheat flour	756	628	667	360	304	271	322	417	341	307
3 Aluminum	380	345	252	237	237	198	189	196	229	269

Production indexes period averages										
Agriculture (1989-91 = 100)	—	75.8	71.5	69.3	60.4	51.8	50.2	48.4	47.4	54.3
Mining (1990 = 100)	96.0	73.0	67.0	50.0	43.0	33.0	32.0	—	—	—
Manufacturing (1990 = 100)	96.0	73.0	66.0	49.0	41.0	29.8	26.6	28.1	31.7	—
Energy (annual values)										
Crude petroleum ('000 m. t.)	99	57	39	33	26	26	26	19	19	18
Production	—	—	—	—	—	—	—	—	—	—
Exports	—	—	—	—	—	—	—	—	—	—
Imports	—	—	—	—	—	—	—	—	—	—
Consumption	—	—	—	—	—	—	—	—	—	—
Coal ('000 m. t.)	313	214	174	106	34	20	17	19	19	22
Production	274	186	80	42	—	14	219	—	60	—
Exports	649	422	33	14	—	—	—	—	—	—
Imports	688	450	127	78	—	—	—	—	—	—
Consumption	93	72	49	33	39	47	42	32	36	40
Natural gas (Mn cu. m.)	—	—	—	—	—	—	—	—	—	—
Production	—	—	—	—	—	—	—	—	—	—
Exports	2	1	1	1	1	1	2	1	1	1
Imports	—	—	—	—	—	—	—	—	—	—
Consumption	17,600	16,800	17,700	17,000	14,800	14,980	14,005	14,422	15,797	14,247
Electricity (Mn kWh)	5400	5600	6400	5800	4200	4890	4247	3724	3831	3909
Production	6900	6400	5200	4900	4900	3978	4345	3969	3641	5242
Exports	19,100	17,600	16,500	16,100	15,500	14,068	14,103	14,667	15,607	15,580
Imports	—	—	—	—	—	—	—	—	—	—
Consumption	—	—	—	—	—	—	—	—	—	—

Source: Asian Development Bank. *Key Indicators 2001: Growth and Change in Asia and the Pacific*. New York: Oxford University Press, 2001.

Note

* ADB internal estimates.

Table 5.1b Tajikistan key indices: foreign trade

Item	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<i>External trade (Mn US dollars; calendar year)</i>										
Exports, fob	—	185	456	559	839	770	746	597	689	784
Imports, cif	—	240	660	707	880	668	750	711	663	675
Trade balance	—	-55	-204	-148	-41	102	-4	-114	26	109
<i>Direction of trade (Mn US dollars; calendar year)</i>										
Total exports	—	29.3	349.8	491.9	748.6	771.5	803.4	596.6	688.7	935.0
1 Netherlands	—	—	1.1	147.6	255.2	218.0	229.4	221.4	222.3	211.3
2 Uzbekistan	—	—	20.3	22.7	132.0	190.7	172.5	125.7	181.0	236.3
3 Russia	—	—	62.5	46.2	95.3	79.0	63.5	47.8	115.1	215.7
4 Switzerland	—	0.4	5.8	44.9	37.2	83.5	140.7	94.9	75.1	108.5
5 Kazakhstan	—	—	16.3	10.1	7.0	24.3	10.0	10.0	3.6	3.6
6 Korea, Republic of	—	—	0.9	2.9	9.3	24.9	3.2	0.2	7.4	14.5
7 Iran	—	—	—	1.4	0.7	1.7	3.5	13.6	13.5	13.5
8 Italy	—	6.8	2.5	0.4	2.4	6.6	7.8	9.8	5.1	11.6
9 Belgium	—	—	—	—	—	—	14.7	12.7	7.0	6.4
10 United Kingdom	—	—	119.9	30.3	20.7	15.2	6.5	5.1	5.5	7.1
Total imports	—	72.9	532.1	547.0	809.9	668.1	750.3	711.0	663.1	800.9
1 Uzbekistan	—	—	65.4	83.2	251.4	198.9	261.6	227.3	264.4	301.6
2 Switzerland	—	0.1	4.3	100.4	51.7	99.8	185.1	157.9	25.1	31.7
3 Russia	—	—	83.8	60.7	136.0	74.4	115.1	102.2	92.4	61.5
4 Kazakhstan	—	—	65.5	32.8	26.5	52.4	42.0	51.9	78.8	105.7
5 United Kingdom	—	—	16.4	68.0	161.2	78.3	10.1	3.8	70.5	93.2
6 Ukraine	—	—	4.4	13.6	2.2	19.2	20.7	16.6	37.7	58.7
7 Turkmenistan	—	—	26.0	39.4	57.4	26.3	29.7	31.3	15.2	15.2
8 United States	—	9.7	8.7	31.9	25.3	16.0	3.2	32.8	1.7	15.7
9 Iran	—	—	—	0.1	0.7	10.5	12.0	11.3	10.4	10.4
10 Azerbaijan	—	—	1.1	0.2	1.2	0.0	3.2	1.8	15.6	29.4

Source: Asian Development Bank. Key Indicators 2001: Growth and Change in Asia and the Pacific. New York: Oxford University Press, 2001.

Table 5.2 Tajikistan: political freedoms

	<i>Nations in transit 2000 political indicators</i>								
	1991– 92	1992– 93	1993– 94	1994– 95	1995– 96	1996– 97	1997– 98	1998– 99	1999– 2000
Political rights	3	6	7	7	7	7	6	6	6
Civil liberties	3	6	7	7	7	7	6	6	6
	PF	NF	NF	NF	NF	NF	NF	NF	NF

Source: *Nations in Transit*, 2000. New York: Freedom House.

Table 5.3 World Bank Institute governance indicators for Tajikistan

<i>Governance indicator</i>	<i>Year</i>	<i>Percentile rank (0–100) in %</i>	<i>Estimate (–2.5 to +2.5)</i>	<i>Standard deviation</i>	<i>Number of surveys/polls</i>
Voice and accountability	2000/01	27.6	–0.69	0.19	3
Political stability/No violence	2000/01	3.1	–1.77	0.42	2
Government effectiveness	2000/01	7.5	–1.31	0.28	3
Regulatory quality	2000/01	5.9	–1.46	0.38	3
Rule of law	2000/01	4.7	–1.25	0.22	4
Control of corruption	2000/01	9.3	–1.08	0.24	3

Source: Kaufmann, Kraay, and Zoido (KKZ), 2002. *Governance Matters II: Updated Governance Indicators for 2000–01*. World Bank Institute.

Tajikistan's southern border with Afghanistan had not been used for normal commercial purposes since the outbreak of the Afghanistan war in 1979. Only three major paved roads, each of which has high mountain passes making them unsuitable for most commercial traffic, traverse Tajikistan's northern border with Kyrgyzstan. The northern and southern sections of the country are linked by rail by only one line, which traverses Uzbekistan's territory.

Before the breakup of the USSR, Tajikistan's development prospects looked comparatively bright. Tajikistan was a relatively independent republic during the Soviet era. Centuries old traditions of mountain culture had protected the country from the loss of cultural identity (Rakowska-Harmstone, 1970; Atkin, 1989; Jawad and Tadjbakhsh, 1995; Akbarzadeh, 1996; Djalili *et al.*, 1997; Jonson, 1999). Many Tajik traditions had survived the Soviet period intact. At independence, there was an expectation that Tajikistan would simply return to its historical roots. However, by the spring of 1992 various clan-based, regional factions had become highly polarized in the competition for control over the post-communist government. The president of the country, Rakhmon Nabiev, was forced from power by an opposition government. Civil war ensued. The war was resolved in favor of the "Popular Front" coalition based in the valley region of the city of Kulob. The war resulted in a blockade of Tajikistan by its neighbors,

further compressing the already collapsing Tajikistan economy. The modest level of civil normality that was maintained in Tajikistan was largely a result of the presence of foreign peacekeeping forces.

The defeated opposition, scattered in the remote mountainous regions of the country did not disarm but regrouped. Led by the Islamic Revival Party, the opposition formed into a bloc called the United Tajikistan Opposition (UTO). The Tajikistan government and the UTO entered into cease-fire negotiations in 1994. With mediation from the United Nations Mission in Tajikistan, UNMOT, a cease-fire agreement was reached in September 1994. The cease-fire was periodically violated but both sides continued to negotiate. The Russian government financed peacekeeping troops with a limited amount of assistance from other countries of the region, particularly Uzbekistan and Kazakhstan. Russian-controlled border guards were stationed along the Tajik–Afghan border. The Russian military presence was headquartered in Dushanbe, Tajikistan's capital. The peacekeeping troops claimed to remain aloof from the regional and clan-based conflicts that divided Tajikistan, although the UTO viewed the Russian presence as pro-government. A National Reconciliation Accord was signed in June 1997 bringing the war officially to an end and specifying a process of reintegration of civil-war era combatants into the Tajikistan government.

The specific shape of Tajikistan's post-conflict economic reform was very much the product of the country's civil war and post-conflict political environment. The current political leader, Emomali Rahmonov, took power as a result of the civil war. Members of parliament selected Rahmonov as chairman of the Tajikistan parliament in November 1992, in the midst of the civil conflict. Rahmonov soon thereafter acquired the title "head of state" and was popularly elected to a five-year term as president in November 1994. Tajikistan's first presidential elections were marred by numerous procedural violations and were widely considered unfair. The OSCE (then known as the CSCE, Conference on Security and Cooperation in Europe) withdrew a team of election monitors prior to the final vote count to prevent dignifying the elections with the presence of foreign monitors.⁴

Under Rahmonov's leadership, the Tajikistan government committed itself to post-conflict reconciliation and reconstruction. At the urging of the international financial institutions, the Tajikistan government agreed to undertake a comprehensive program of structural reform.⁵ The government's program was established in the form of a policy matrix with timetable benchmarks. The priorities for the structural reform agenda were: fiscal reform; currency reform; improved governance; privatization; bank restructuring; land reform; and energy sector reform. Governance measures included reform of the treasury system, the establishment of a single independent auditing agency to control the efficiency of public finances and eliminate redundant inspection rights, the cessation of quasi-fiscal operations of the central bank, the prevention of unjustified intervention by public officials in the operation of private enterprises, and the completion of public procurement reform. The goal of privatization was to raise productivity and support growth targets, as well as aid in the achievement of

fiscal goals by bolstering revenues and lowering direct or indirect subsidies. The goal of bank restructuring was to increase the stability of the banking system. In Tajikistan's structural reform particular emphasis was placed on measures that would lead to a greater use of monetarized commercial transactions and a reduction in inefficient and non-transparent barter relations.

Fiscal and monetary policy

The Tajikistan government committed itself to fiscal reform by adopting a new governance structure that agreed to refrain from: (1) imposing or intensifying restrictions on the making of payments and transfers for current international transactions; (2) introducing multiple currency practices; (3) concluding bilateral payments agreements that may lead to multiple currency practices; and (4) imposing or intensifying import restrictions for balance of payments reasons. To strengthen the government's control over the money supply, the National Bank of Tajikistan, the NBT, resolved to open market operations through purchases and repurchase agreements with banks. Short-term treasury bills were issued as part of the regularization of financial relations between the Ministry of Finance and the NBT.

In order to improve governance, measures were taken to prepare for the reform of the national treasury, to establish regional treasuries, to extend the treasury coverage of payments to all central and local government transactions. In order to make the treasury more effective, emphasis was placed on improving control systems on commitments and arrears, staff training, and implementation of the treasury instruction manual. The Ministry of Finance, beginning January 2001, began publishing important public budget documents, including quarterly budget execution reports, the medium-term expenditure framework, and the public investment program. In order to increase accountability and transparency, the NBT was restricted from issuing directed credits. An independent audit agency was established to inspect public financial management systems, judicial reform, and the adoption of a meritocratic civil service system.

Fiscal policy focused on improving the country's fiscal deficit, disentangling government finances from the financial activities of the NBT separating revenue and expenditure functions through the creation of a new income ministry, the Ministry of National Incomes and Duties, charged with taxation and customs, and improving revenue collection through emphasis on the value added tax (VAT) and better administration. The government established fiscal targets to reduce the deficit even as it acted to reduce subsidies. The government lowered the sales tax on cotton to 10 percent (January 2002) in order to boost agricultural incomes. The destination principle for applying the VAT was adopted in foreign trade, with the exception of gas and electricity.

The government phased out the TICEX mechanisms (The Tblisi Interbank Currency Exchange) and established competitive interbank markets. In order for an interbank foreign exchange market to develop, the role of the NBT as the sole supplier of foreign exchange was reduced. The NBT ceased all foreign exchange

activities with non-banks and suspended the operations of TICEX in July 2000. Plans were made for meeting with creditors for the purpose of debt rescheduling. The government adopted the goal of avoiding external, sovereign non-concessional borrowing.

Privatization and liberalization

As early as March 1992, the Tajikistan parliament had approved land reform legislation that gave Tajikistan citizens the right to own, lease, and inherit land. Both the Tajikistan constitution and the laws on privatization guaranteed property rights, including intellectual property, real estate, and business property. Agricultural land remained under state ownership, but could be leased. Under the land code, lease rights are inheritable and can also be sold. Soviet-era privatization legislation remained on the books and formed the basis for the early years of privatization.

Price liberalization took place in Tajikistan soon after dislocation from the USSR. However, the extremely rapid fall in standards of living encouraged the government to reintroduce price controls. An anti-monopoly law was adopted in 1993 and an anti-monopoly department in the Ministry of the Economy was charged with enforcing the anti-monopoly policy. But during the period before the IMF sponsored structural reform program of 1998, little progress was made in establishing competition policy in accord with international standards. Price controls continued on farm produce, utilities, and transportation. Many prices in the formal sector were effectively set by state-owned enterprises. Financial and commodity markets were limited by size and restrictions on the banking industry.

The initial privatization process in Tajikistan moved slowly, stalled by the civil conflict, by uncertainty and by the weak banking sector. With the assistance of the World Bank and the IMF, the “Law of the Republic of Tajikistan on Privatization of State Property in the Republic of Tajikistan” was passed on May 16, 1997. The law established the framework for privatization including a legal framework, title registry, and procedural guarantees. The state property committee database listed 6974 small-scale enterprises, of which 1694 were not subject to automatic privatization. A much larger number of small-scale objects remained under the control of the consumer cooperative, Tajikpotrebsoyuz and under the farm-based enterprises.

The new privatization legislation changed the process from a bottom-up process of negotiated sale to collectives on an enterprise-by-enterprise basis, to an open and competitive top-down program with more rapid wholesale transfer of assets into the private sector. The process accelerated through 1998 and 1999. The government established as a goal the privatization of 40 percent of small and medium enterprises (SMEs), and the beginning of the implementation of a program to privatize the TADAZ aluminum smelter with the assistance of the International Finance Corporation (IFC).

By July 2000, roughly 284 of the 600 state-owned farms had been restructured into approximately 13,750 private (“dekhan”) farms. These private farms were established through marketable land use certificates and land share certificates.

Local authorities managed the process with support from the State Committee for Land Resources (SCLR). In order to strengthen the land reform process, especially with regard to the independence of the newly established farms, the government created a special financing unit in the SCLR. This unit was for providing newly created farmers with agricultural extension services, including advice on their legal rights and training. The government pledged to continue the land reform process by continuous restructuring of state-owned farms at the rate of thirty farms each quarter. A system was put in place to establish a depository, title registration, and land registry system to regularize the market in land shares.

Trade and investment

Tajikistan, like all of the countries of the Central Asian region, claims to support the principle of free trade with certain reservations. However, unsatisfactory arrangements regarding government subsidies, currency controls, interbank clearing, customs and tax incompatibilities, insufficient infrastructural development, and control over access to markets continued to hamper trade in the region. At the informal level, government policy is influenced by obstacles and impediments including visas, exactions, paperwork, and red tape.

Tajikistan's trade with the outside world was heavily affected by Uzbekistan government actions. When conflict broke into the open in the northern regions of Tajikistan in spring 1992, Uzbekistan acted to establish border controls. In August 1992 the Dushanbe–Tashkent railway line was closed to passenger traffic to prevent political refugees from entering Uzbekistan. A short time afterward, Uzbek officials closed the entire border between Tajikistan and Uzbekistan. The border with the northern Tajikistan province of Leninabad remained opened for a period but then also was closed, cutting off Tajikistan almost entirely from the outside world. Customs and duty stations were hastily constructed at every border checkpoint, giving newly independent Tajikistan the character of an “embargoed society.” There was no Uzbekistan Embassy in Tajikistan. The Uzbekistan–Tajikistan border has been periodically opened and closed, but has remained continuously subject to extensive regulation from the Uzbekistan side.

Banking and financial markets

In order to strengthen the legal framework and correct lax law enforcement mechanisms, the government enacted numerous laws, including the Law on Collateral, the Bankruptcy Law, and the Law on Secured Transactions. In order to reduce inter-enterprise arrears, the government established a list of high arrears enterprises and target specific measures to address the problem, including restructuring and bankruptcy. The most common forms of corruption typically involve the conditioning of a public good or public service on some form of emolument. “Baksheesh” style “speed payments” or “service payments” were the most common, widespread, and easily concealed form of corrupt practice.

In 1994 a new law "On Banks and Banking Activities" was adopted. A number of decrees were adopted that established a qualification committee of the NBT, established procedures for forming statutory capital, specified procedures for starting and terminating commercial bank activities, procedures of issuing and recalling licenses for bank audits, established procedures for bank bankruptcies, and established procedures for the operation of non-banking financial organizations that offer financial services and were licensed and regulated by the NBT.

The NBT is state-owned and carries out central bank functions. Two other state-operated banks were Khatlon Reconstruction and Development Bank and Sberbank. Sberbank had a government guarantee on its deposits from households and, with more than one million clients, led the market for individual savings. Tajikistan's largest private banks, Agroinvestbank, Tajikbankbusiness, Sberbank, Orionbank, and Vnesheconombank underwent reorganization in 1998.

A new Tajikistan tax code was adopted effective from January 1999. The elimination of several categories of exemptions in VAT took place in 1998. A reform in VAT levies, eliminating exemptions on certain items such as food, took effect in July 1999. Improvements in tax policy and tax administration contributed to an improvement in revenue in 1999. The practice of tax offsets remained a hindrance to full monetization of the economy.⁶ VAT tax compliance has improved after the IMF structural reform program was introduced. But compliance rates for excise taxes, personal income taxes, and enterprise profit taxes remained low. The largest gains in revenue collection were attributable to increases in collections associated with the transition from a severance tax to an excise tax basis in aluminum and cotton. Access to consumer credit in Tajikistan remained very limited, in part as a result of low bank credit ceilings and high prudential standards.

Regional pluralism and competition

In 1999 Tajikistan celebrated the 1100 Year anniversary of the Samanid civilization in Tajikistan. Yet Tajikistan's experience as a separate, independent, and sovereign state began only with the country's declaration of national independence on September 9, 1991. Tajikistan is truly a new state in an ancient country. Tajikistan is located at the center of the Pamir Knot in the middle of Asia. The Pamirs are a unique high mountain complex located primarily in Tajikistan. The Pamir Knot is the central hub from which five great ranges of Asia radiate outward; the Himalayas extend southeast; the Karakoram range extends southeast; the Hindu Kush range extends southwest; the Tian Shan range extends northeast; and the Kunlun Shan range extends east.

Tajikistan consists of three geographically isolated regions separated by high mountain ridges. The northern region of the country is divided from the southern regions by the Hissar, Zeravshan, and Turkestan mountain ridges. There is no direct rail transportation between the north and south. Highway transportation is limited to two major roads that are closed frequently by weather conditions

during winter. The eastern part of the country, Gorno-Badakhshan autonomous province, is remote and relatively underdeveloped. It is linked to the other parts of the country by road but not by rail. Weather conditions interrupt existing east–west highway transportation for long periods of time in the winter. The northern and western regions of the country have historically been more closely linked economically to other neighboring areas than to the capital and central regions of Tajikistan.

Constitutional, legal, and regulatory policy

Tajikistan's Constitution, adopted on November 6, 1994, emphasizes sovereign independence, territorial integrity, and national traditions, a strong executive branch, and the maintenance of social stability. According to Article 1 of the Constitution, Tajikistan is a sovereign, democratic, law-governed, unitary, and secular state. The Constitution affirms basic principles of limited, constitutional government, including the rule of law, the division of powers, and the protection of fundamental human rights and liberties. There are three branches of government, executive, and legislative and judicial. The president is both head of state and directs the prime minister, the head of government. The government is a presidential system. The prime minister is appointed by the president and heads a council of ministers, each of whom is appointed by the president upon approval of the parliament. The officials of the Constitutional Court, the Supreme Court, and the Arbitrage Court are elected by parliament for terms of five years on the nomination of the president.

Legislative, executive, and judicial policy

In a national referendum on September 26, 1999 Tajikistan voters approved key changes in Tajikistan's Constitution, including an extension of the presidential term of office from five to seven years and changes in the structure of the national parliament.⁷ In accordance with the constitutional changes, a presidential election was held in November 1999 and parliamentary elections were held in February and March 2000. Tajikistan's president, Emomali Rahmonov was reelected in the general election of November 6, 1999 to a seven-year term.⁸

According to the Tajikistan Constitution, the president is the head of state and the commander-in-chief of the armed forces. The President has numerous executive powers including the power to sign legislation into law and to appoint, subject to the approval of parliament, the prime minister, ministerial level cabinet members, and local territorial officials. The prime minister heads the government and serves at the pleasure of the president. The prime minister is the chief implementing officer and heads the council of ministers. The bicameral parliament is made up of the lower house, or *Majlisi Namoyandagon*, consisting of sixty-three seats, and the upper house, or *Majlisi Milli*, consisting of thirty-three seats. The most recent parliamentary elections for the two houses were held on February 28, 2000 and March 23, 2000, respectively.⁹

At the national level, the judicial system includes a Supreme court, a Constitutional Court, a court of commercial appeal, and a Military Court. Regional and municipal courts exist in local jurisdictions. The judicial system is based on the Continental system. While judicial independence is a government goal, in practice constraints on government revenue limit the full implementation of the principle of judicial independence. In April 1997, the government created a Higher Economic Court. The Higher Economic Court is governed by the 1995 Legal Code and the 1994 Constitutional Law on Economic Courts. The court consists of legal, appeal, and mediation boards. Previously, one-judge arbitration courts made decisions. Now, a verdict is delivered by a group of fifteen judges. The economic court's mandate includes any economic disputes arising from civil, administrative, business, and other economic relationships. Before a case reaches trial, plaintiffs are required to pay legal expenses of 10 percent of the suit sum, which is believed to limit the number of cases brought to the Higher Economic Court. Only legal entities, as opposed to individuals, may bring cases.

General government finance consists of the republican budget, seventy local governments, and two extra-budget funds: the Social Protection Fund and the Road Fund. The Social Fund was created in mid-1996 as a combination of the Pension, Social Insurance, and Employment Funds. One additional public finance mechanism is that the NBT has occasionally carried out quasi-fiscal operations such as directed lending to particular enterprises.

The single most important aspect of the political process in Tajikistan is the principle of coalition government that was adopted as an element in the post-conflict national reconciliation process. The principle is implemented through a process of power sharing and incremental, phased reintegration of former combatants. The program of national reconciliation prescribed a minority participation formula for the Central Electoral Commission (25 percent posts), Ministerial Cabinet posts (30 percent opposition), and the civil service.

Transparency and integrity policy

Major efforts are underway to improve the trade environment in the region. As these efforts succeed, they can be expected to exacerbate the trends in the region regarding organized crime and drug trafficking. Traffickers use legitimate transportation infrastructure and banking operations in order to move their wares and to conceal the funds derived from the trade in handguns, weapons materials, drugs, drug precursors, and production materials. In countries as poor and underdeveloped as those of Central Asia, there is little reason to expect that typical enforcement sanctions are apt to have any substantial effect on the growth of these crime syndicates unless exceptional efforts are undertaken to counter these trends.

In April 2000, the Tajikistan government's Tajik Drug Control Agency began functioning. The Tajik Drug Control Agency was principally charged with dealing with the consequences of the drug trade emanating from Afghanistan. In 1998, Afghanistan was responsible for producing 2800 tons of opium, making it

the largest opium producer in the world. Afghanistan's Helmand and Nangarhar provinces, located in the south of the country, were the top producers but the largest gains in Afghanistan's opium production took place in the provinces adjacent to Tajikistan. The 1998 survey of the UN Drug Control and Crime Prevention Program noted that Central Asia, principally Tajikistan, had become a major transit zone for Afghanistan's opium and heroin trafficking. In September 2000, the UN Office for Drug Control and Prevention announced that there was no substantial change in the area under poppy cultivation in Afghanistan for the year 2000. With an overall fresh opium harvest of more than 3000 metric tons, Afghanistan remains the largest opium producer in the world.¹⁰ The Tajik Drug Control Agency (TDCA) may play a role in improving cooperation among law enforcement bodies in Central Asia. But if the trends in collusion between drug traffickers and local government officials in other parts of the underdeveloped region are illustrative of what to expect in Tajikistan, it is clear that much more substantial efforts will be necessary to successfully confront this key challenge to government integrity in Central Asia.

Regional administrative policy

The country is administratively divided into provinces, cities, and districts. The country has three provinces, one autonomous province, one city, and seventy-four raions. The capital, Dushanbe, is under the direct control of the central government. Tajikistan is a unitary state, but within this structure the organs of local government have specific prerogatives in the areas of implementation. These formally include control over local budgets, local taxes, non-budgetary revenues, and municipal property. A republican body, the State Tax Committee, collects state taxes. Local administrations are responsible for carrying out some social service functions and many local public services.

Tajikistan's population is concentrated in the western half of the country. Population figures are approximate but a reliable index appears to be that the population is about 65 percent Tajik; 25 percent Uzbek; and 10 percent Slavic and other. Approximately 70 percent of the population live in rural areas. The official language of Tajikistan is Tajik, a dialect of Persian similar to Farsi and Dari. Many Tajikistan citizens are bilingual or trilingual, speaking Tajik, Uzbek, and Russian as well as other languages. Roughly 80 percent of the population speaks the Tajik language. Approximately 40 percent of the population in the Leninobod and Kulyob regions speaks the Uzbek language. And about 40 percent of the population and most business-persons and government officials speak or understand Russian. Tajikistan is a pluralistic country, with many different cultures and regional interests.¹¹ Its regional peculiarities are reflected in the capacity of government to carry out economic and political reforms. Decentralization in Tajikistan is equivalent to promoting regionalism and separatism. Centralization, on the other hand, removes formal decision-making authority from those who are most likely to make key informal decisions and to implement formal policies.

Political participation and openness

In 1990 the only legally registered political party was the Communist Party. During the period of the disintegration of the USSR new political movements appeared. Soon after Tajikistan national independence was declared, a number of political parties sought government registration. During the period of civil conflict the registration of four political parties – the Islamic Revival Party, the Rastohez National Movement, the Lali Badakhshan Movement for the Autonomy of the Pamirs, and the Democratic Party – were suspended. In 1994 the Democratic Party split into two sections and in 1995 the government registered the Democratic Party (Teheran Platform). On December 9, 1998 the Tajikistan Supreme Court banned the National Unity Party.¹²

The United Tajikistan Opposition consisted of a coalition of the Islamic Revival Party, the Democratic Party and the Lali Badakhshan Movement for the Autonomy of the Pamirs. In December 1999, in implementation of provisions of the agreements concerning post-conflict national reconciliation, the Tajikistan Ministry of Justice formally registered the Islamic Revival Party, the Rastohez National Movement, the Lali Badakhshan Movement for the Autonomy of the Pamirs, and the Democratic Party (Almaty Platform). Six Tajikistan parties were legally registered to nominate candidates to run in the 1999 presidential elections: the People's Democratic Party, the Socialist Party, the Islamic Revival Party, the Communist Party, the Democratic Party, and the Party Adolatkhoh.

Election policy

In 1999 a draft reform of the parliamentary system was developed in accordance with agreements regarding post-conflict power sharing. In December 1999 a new structure for the parliament was proposed. According to the new structure, the *Majlisi Namoyandagon*, or lower house, consists of sixty-three seats and the *Majlisi Milli*, or upper house, consists of thirty-three seats. With respect to the sixty-three seats of the *Majlisi Namoyandagon*, twenty-two seats are filled on the basis of proportional representation and forty-one seats are filled in single-seat constituencies. It was also agreed that the local elections would be conducted simultaneously with the election to the *Majlisi Namoyandagon*. With respect to the thirty-three seats of *Majlisi Milli*, twenty-five seats are filled by local *Majlisi* elections and eight seats are filled by appointment of the president. The term of office for both houses is five years. Tajikistan parties began the campaign process. Registration of presidential candidates required the gathering of 145,000 signatures.

On December 10, 1999 the new electoral law was adopted by parliament. On February 27, 2000 elections were held for the lower house and localities. According to the Tajikistan Central Electoral Commission, 93.23 percent of voters cast their ballot in this election. The People's Democratic Party won thirty-three seats, eighteen by direct election and fifteen through the party list. The Communist Party won seven seats, two by direct election and five through

the party list. The Islamic Revival Party won two seats, both through the party list. Independent candidates won in eight constituencies, but two were declared invalid, requiring a new vote that was to be held at the end of April. In twelve constituencies, where no candidate received a majority of the vote, a run-off election was held on March 12, 2000. The People's Democratic Party won in seven constituencies.¹³

Civil and human rights

Tajikistan is a predominantly Muslim country. While Tajikistan's dominant culture is based on Islamic tradition, the Tajikistan Constitution describes a secular state. The relationship between religion and state has been the source of controversy in Tajikistan. On May 23, 1999 the *Majlis Oli* (the Tajikistan unicameral parliament until the seating of a new bicameral parliament as a result of the parliamentary elections of 2000) passed a law prohibiting the creation of political parties with a religious orientation. The opposition UTO, international organizations, and foreign governments strongly criticized the law for violating the spirit and the letter of the 1997 peace agreement. On June 2, 1999 President Rahmonov established a Special Conciliation Commission to resolve the dispute. On June 18, 1999 the Commission reported that it had devised compromise language for the law, banning political parties from receiving support from religious institutions. A new version of the law including the compromise language was passed in the November 1999 parliamentary session.

Political stability and support

The anti-government uprising in Hujand, Tajikistan, in November 1998 revealed that the conflicts of the Tajikistan war had not been completely resolved by the Tajikistan peace accord and reconciliation process. Just three months after these events, Uzbekistan was shaken by terrorist bombings in Tashkent in February 1999. The Kyrgyzstan hostage crisis in the Fergana Valley in August 1999 drew Kyrgyzstan into the situation. In August 2000, a new hostage crisis in Kyrgyzstan refocused attention on the country's vulnerability. In September 2000, an insurgent military force penetrated into Uzbekistan to within 100 kilometers of the capital.

As a result of these signs of deterioration in border security, the Uzbekistan government implemented a significant counter-insurgency program beginning in early 2000. The campaign included redoubled foreign security measures and border controls. In May 2000, the foreign ministries of Tajikistan and Uzbekistan resolved to introduce a new visa regime. The two countries introduced the mutual visa requirement in September 2000. In December 2000, the Uzbekistan Ministry of Foreign Affairs introduced a requirement that, as of January 1, 2001, citizens of Tajikistan would be required to obtain a transit visa in order to cross the territory of Uzbekistan.¹⁴ The security measures also included the emplacement of anti-personnel landmines in the Zeravshan valley border region with Tajikistan.¹⁵

These and other trends in Tajikistan's national security during the period 1991–2001 illustrate that political stability remains precarious. The authoritarian nature of the Tajikistan regime calls into question the real depth of the government's apparent popular support.

Summary

While the Tajikistan government's progress at structural reform has been constrained by circumstances, key policy decisions reflect the government's abiding commitment to reform and liberalization. With the help of foreign donor assistance, Tajikistan established a three-stage economic reform process. The first stage (1995–97) focused on improvement in the legal infrastructure, reforms in the agricultural sector, privatization of small-scale enterprises, and creation of favorable conditions to attract foreign investors. The second stage (1998–2000) focused on privatizing large-scale enterprises, and establishing efficiently functioning banking, credit, and taxation systems. The third stage (2001–03) was oriented toward modernization of the economy, particularly the formation of an efficient infrastructure and the implementation of large-scale socio-economic programs.

Since the time of the disintegration of the USSR in 1991 Tajikistan has experienced the most difficult years in its modern history. Civil war, economic collapse, political divisions, social disintegration, and foreign pressures have created a range of extremely complex public policy problems. The government of Tajikistan has taken concrete steps to establish the legal and institutional framework of a democratic, market oriented society. The international community – including foreign government representation, donor organizations, and international organizations – has also sought to encourage the transition to democracy and a market-based economy. Yet these efforts too have not yet produced the desired results. The experience of Tajikistan, given the country's unique conditions, does not offer good insight into the general relationship between market change and political development.

6 Petro-dollars and “Positive Neutrality” in Turkmenistan

How have Turkmenistan’s economic policy choices since independence affected the country’s political development? Turkmenistan’s economic system may be described as a highly administered, command-style economy, dominated by the government and the ruling political party. Structural market reforms, underway since Turkmenistan became an independent country as a result of the disintegration of the USSR in October 1991, have proceeded slowly. Economic activity in Turkmenistan is characterized above all by dominance of the agricultural sector and by a high concentration of public investment in the export-oriented natural gas sector. Turkmenistan, with an estimated 10–14 trillion cubic meters of natural gas, ranks as the world’s fourth largest potential gas producer, after Russia, the United States, and Iran. Turkmenistan has substantial oil reserves. Turkmenistan also has large deposits of other natural resources, having, for instance, the world’s third largest sulfur deposits. But making use of this natural wealth assumes Turkmenistan’s ability to integrate into the international market, adopt modern trading practices and, above all, attract foreign investment necessary to create the physical and policy infrastructure necessary to bring these commodities to market.

The following profile of Turkmenistan surveys the distinguishing features of the country. The next section, describing the decisions of the Turkmen state to create and extend monopoly and monopsony powers in agriculture and energy, surveys the economic policies adopted during the first decade of independence. The succeeding section analyzes the effect of these economic policy choices on government and politics, emphasizing the lack of meaningful reform in Turkmenistan.

Turkmenistan profile

Turkmenistan is a landlocked country bordered by Iran and Afghanistan to the south, Kazakstan to the north, Uzbekistan to the north and east, and the Caspian Sea to the west. Sandy deserts dominate the country’s physical terrain. Low lying mountain ranges in the south form the borders with Iran and Afghanistan. The northern border with Uzbekistan is in part defined by the watercourse of the Amu Darya river, one of Central Asia’s most important natural resources.

Table 6.1 Turkmenistan key indices: production

Item	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<i>Population (million; as of July 1)</i>	3.918									
<i>Labor force (thousand; calendar year)</i>	1624									
Employed	1585	1578	1628	1692	1749	1780	1816	1839	1872	—
Agriculture	675	697	713	743	789	817	850	892	—	—
Industry	168	155	169	169	177	183	203	230	—	—
Others	742	726	746	780	783	780	763	717	—	—
Unemployed	39	—	—	—	—	—	—	—	—	—
Unemployment rate (%)	2.4	—	—	—	—	—	—	—	—	—
<i>Production (thousand metric tons; calendar year)</i>										
<i>Agriculture (crop year)</i>										
1 Cotton	1433	1290	1341	1283	1293	437	635	707	1304	1300
2 Wheat	205	377	509	675	695	453	707	1245	1506	1700
3 Cotton (lint)	430	390	402	385	379	131	190	200	—	—
4 Grapes	110	125	114	147	163	165	160	177	—	—
5 Barley	128	127	198	203	207	50	100	100	—	—
6 Rice, paddy	54	64	88	92	79	60	55	55	—	—
7 Maize	124	159	214	150	121	60	50	50	—	—
8 Potatoes	30	35	32	30	21	30	28	25	—	—

Mining										
1	Natural gas (mn cu.m.)	84348	60102	65154	35722	32264	35182	—	—	—
2	Crude petroleum	4828	5200	4301	4083	4394	4424	—	—	—
3	Salt	650	483	173	—	—	—	—	—	—
Manufacturing										
1	Cement	904	1050	1118	690	437	438	—	—	—
2	Crude steel	1775	1486	—	—	—	—	—	—	—
3	Fuel oils	—	1942	1399	1150	1000	—	—	—	—
4	Wheat flour	446	453	429	429	515	374	—	—	—
5	Nitrogenous fertilizers, N content	—	—	79	92	90	95	110	—	—
Production indexes period averages										
	Agriculture, 1989-91 = 100	—	88.9	99.4	105.8	103.9	68.1	78.2	85.1	99.4
	Mining, 1990 = 100	96.2	—	—	—	—	—	—	—	—
	Manufacturing, 1990 = 100	106.7	—	—	—	—	—	—	—	—
Energy (annual values)										
	Electricity (Bn kWh)	14.90	13.18	12.64	10.50	9.80	10.10	9.50	9.42	8.86
	Production	6.30	5.45	4.44	3.69	1.50	1.50	1.50	1.20	0.40
	Exports	1.13	1.15	1.25	1.04	—	—	—	—	—
	Imports	16.03	8.88	9.45	7.85	7.78	7.30	—	—	—
	Consumption	—	—	—	—	—	—	—	—	—

Source: Asian Development Bank. *Key Indicators 2001: Growth and Change in Asia and the Pacific* (New York: Oxford University Press, 2001).

The oases and river valleys of Turkmenistan have supported civilization since ancient times. But Turkmenistan's inhospitable desert climate created barriers to the development of a modern state until the past century. The contemporary national frontiers of Turkmenistan are a product of the modern period. Turkmenistan announced political independence on October 27, 1991.

Turkmenistan had an estimated population of 5.5 million people in mid-2001.¹ Turkmenistan's population is growing at a rate of 1.3 percent per year. Turkmenistan's workforce was historically predominantly agricultural and service oriented. Since independence the service workforce has diminished in size while the agricultural workforce and the industrial labor sectors have each grown by about 25 percent. Official statistical materials on economic activity in Turkmenistan supplied by the Turkmenistan government are viewed with some skepticism by outside observers. According to the statistical data provided by the Turkmenistan state, agricultural production is reported to have increased substantially in the years since independence. While cotton production is reported to have increased modestly, Turkmenistan's production of food and forage crops is reported to have increased sharply. Official Turkmenistan government data, for instance, suggest that wheat production in the country increased sevenfold between 1991 and 2001 (Table 6.1).

While agriculture is the largest employer in Turkmenistan, the country's energy sector is the largest revenue earner. Since gas and oil sectors revenues are so closely related to Turkmenistan government revenues, because of recurring allegations that gas sector revenues improperly have enriched some private individuals responsible for public decision making, and because gas sector revenues are critical to Turkmenistan's official credit rating, statistical reporting on the energy sector has come to be an item of great sensitivity for the Turkmenistan government. The Turkmenistan government began concealing production figures for natural gas in 1997. However, there are suggestions that actual output levels for gas production and other forms of industrial production in the latter 1990s were considerably below 1991 pre-independence levels. Turkmenistan foreign trade (Table 6.2) figures are similarly unreliable. Thus it is difficult to develop a clear picture of Turkmenistan's balance of payments situation. But there are suggestions that the 1998 financial crisis in Russia impacted heavily on Turkmenistan's balance of payments by leading to the cancellation of Russian gas orders and delays in outstanding payments. There are indications that after 1998 Turkmenistan ran a significant balance of payments deficit for at least three years. Thus despite Turkmenistan's great potential energy wealth, problems of administration, and governance have prevented the country from fully benefiting from its natural resource base. Turkmenistan has remained the most deprived of the Central Asian countries in terms of education, social, and economic development.

Independent Turkmenistan's first president, Saparmurad Niyazov, was the former first secretary of the Turkmenistan communist party during the Soviet period. Until the Soviet collapse, Niyazov appeared to be a staunch communist, ideologically committed to supporting communism and the Soviet Union.

Table 6.2 Turkmenistan key indices: foreign trade

	1991	1992	1994	1995	1996	1997	1998	1999	2000
<i>External trade (mn US dollars; calendar year)</i>									
Exports (fob)	—	2692.7	2175.8	2146.7	1681.5	751.1	593.9	1187.0	2506.0
Imports (cif)	—	1592.7	1690.1	1113.4	1011.1	1183.4	1007.5	1478.0	1785.0
Trade balance	—	1100.0	485.7	1033.3	670.4	-432.3	-413.6	-291.0	721.0
<i>Direction of trade (million US dollars; calendar year)</i>									
Total exports	64.3	559.4	1162.1	1880.7	1692.6	751.4	505.8	1051.4	1873.3
1 Ukraine	—	—	—	460.3	0.3	1.0	1.2	437.3	873.4
2 Russia	—	—	54.8	66.8	33.6	56.7	39.5	69.7	429.8
3 Iran	—	25.4	30.5	11.4	16.9	123.5	133.4	129.8	144.6
4 Italy	7.6	53.8	89.8	13.0	1.2	6.3	64.7	145.7	100.3
5 Turkey	—	70.9	59.7	149.6	79.3	51.0	38.2	—	—
6 Switzerland	0.2	2.3	1.7	116.8	114.8	18.2	0.1	1.1	1.2
7 Hong Kong, China	—	0.8	2.0	36.0	104.1	16.2	—	—	—
8 Kazakhstan	—	—	252.4	127.4	54.1	30.8	11.6	11.6	11.6
9 Afghanistan	—	—	—	9.1	12.9	20.9	23.8	25.2	28.3
10 Germany	2.9	33.7	36.5	32.6	17.8	2.7	27.2	42.9	14.4
Total imports	141.5	568.8	905.4	1364.0	1313.5	1227.7	965.6	922.9	1153.4
1 Uzbekistan	—	—	—	28.5	5.5	87.9	170.4	252.9	335.4
2 Ukraine	—	—	—	416.4	127.5	283.9	133.2	112.3	112.4
3 Russia	—	—	122.9	95.8	154.6	164.0	103.3	66.1	143.2
4 United States	37.8	50.1	151.1	53.5	395.2	88.0	30.8	21.8	79.5
5 Turkey	—	91.3	92.5	160.4	120.3	153.8	105.2	—	—
6 France	0.8	2.9	7.6	16.3	49.4	47.9	32.0	114.0	40.4
7 Germany	27.6	50.2	98.2	52.1	51.3	16.3	95.2	44.0	60.3
8 Iran	—	45.9	73.2	36.4	45.2	38.8	39.9	39.6	42.5
9 Kazakhstan	—	—	27.8	31.4	22.2	86.9	13.5	13.5	13.5
10 United Arab Emirates	—	—	—	13.2	10.7	25.9	26.7	26.5	28.4

Source: Asian Development Bank. *Key Indicators 2001: Growth and Change in Asia and the Pacific* (New York: Oxford University Press, 2001).

Table 6.3 World Bank Institute governance indicators for Turkmenistan

<i>Governance indicator</i>	<i>Year</i>	<i>Percentile rank (0–100) in %</i>	<i>Estimate (–2.5 to + 2.5)</i>	<i>Standard deviation</i>	<i>Number of surveys/polls</i>
Voice and accountability	2000/01	6.3	–1.42	0.19	2
Political stability/no violence	2000/01	52.5	+0.11	0.49	1
Government effectiveness	2000/01	9.4	–1.23	0.32	2
Regulatory quality	2000/01	3.0	–1.73	0.38	3
Rule of law	2000/01	12.9	–1.02	0.23	3
Control of corruption	2000/01	6.2	–1.12	0.27	2

Source: Kaufmann, Kraay, and Zoido (KKZ), 2002: *Governance Matters II: Updated Governance Indicators for 2000–01*. World Bank Institute.

As the Soviet Union began unraveling, Niyazov changed his ideological colors, quickly assuming the position of a Turkmen nationalist. Since national independence, Turkmenistan’s progress in democratization has been negligible. Most political authority is concentrated in the office of the president. There is little legislative or judicial autonomy. Non-governmental civic initiative is routinely curtailed. Political opposition figures are isolated and excluded from the political process. Human rights abuses are frequent and severe. While Turkmenistan was ranked in terms of “political stability” in the top fifty percentile in 2001 by the World Bank Institute governance indicators (Table 6.3), Turkmenistan was ranked in the bottom tenth percentile of countries in terms of the categories of “regulatory quality,” “voice and accountability,” and “government effectiveness.”

The state as monopoly: the monopoly as state

Turkmenistan’s economic activity in ancient times was restricted to oasis agriculture and animal husbandry. During the Soviet period investment was concentrated in agricultural development and the gas and oil industries. Turkmenistan agriculture heavily emphasized cotton production. Given the country’s arid environment, the expansion of the Turkmenistan’s cotton-based agricultural economy required the development of an extensive irrigation system. Diversion of the waters of the Amu Darya river through Turkmenistan’s Garagum canal contributed to the desiccation of the Aral Sea and fueled disagreements among the Central Asian states regarding water use.

Turkmenistan’s Soviet-era economy was organized in terms of the principle of cooperative production, meaning that primary commodities such as raw cotton fiber, oil, and natural gas were transported to existing manufacturing centers, located primarily in the Russian areas of the USSR, for high-value secondary processing. As a consequence, Turkmenistan served as a supplier of primary commodities while the associated processing and manufacturing took place in northern industrial centers. Turkmenistan’s Soviet-era economy was based upon massive

hidden subsidies. When Soviet subsidies came to an end, many industrial and agricultural enterprises immediately became insolvent. The Turkmenistan government quickly sought to liberalize prices for external trade while maintaining price supports domestically. The government adopted a development strategy that stressed increasing foreign trade earnings with assuring domestic political stability.

Turkmenistan's post-independence structural reform program has been heavily influenced by the political objectives of the current political leadership.² Turkmenistan's economic reform programs have been oriented around two economic sectors, agriculture, and natural gas. The key feature of Turkmenistan's economic reform is that the government has acted to maintain strict administrative and financial control over these two dominant sectors of the economy. The organizational changes in the gas sector illustrate the leading tendencies in Turkmen's development strategy, namely the reliance upon para-statal production and trading organizations in the early period of independence (1991–96) and the increasing reliance on contractual relations with international partners in the latter period (1997–2002).

Para-statal organizations are firms that appear to be private and independent but in reality are closely tied to the government either through close connections of management or financial accountability. An example is *Turkengasprom*. This organization, an inheritance of the Soviet period, was redesigned in 1992 to attract large-scale direct foreign investment in the gas industry. At the same time, a new agricultural equipment corporation was established to compensate for the disruption in the supply of former Soviet agricultural technology. Ostensibly independent, these para-statal entities appeared to act as independent profit-maximizing firms. In reality, they functioned as disguised branches of the government.

The Turkmenistan government's dissatisfaction with the results of reliance upon para-statals in the early stages of independence due to a lack of technical capacity, led during the mid-1990s to government reappraisals of the strategy of indigenous development. In 1997, a new national law regulating on hydrocarbon resources was adopted. After 1997 a number of important major gas sector agreements for joint ventures in exploration, development, processing, and transportation were signed with major international partners and with CIS-based partners. The CIS-based partners included Russia's Gasprom and Zarubezhneft, and the active gas marketing firm Itera. International partnerships included such western firms as Bechtel, Hagler Bailly, Halliburton International, and Mobil Exploration working in cooperation with the Turkmenistan's governments' Turkmengas as well as Turkmenistan-based private sector partners such as the Turkmenbashi Oil Refinery. Foreign firms, such as England's Monument Resources Petroleum, the Middle Eastern firm Dragonoil, the Malaysian firm Petronas, and the Chinese state oil concern, the Chinese National Petroleum Company (CNPC), have been active in Turkmenistan's oil and gas exploration, development, and processing sectors. The increased activity of foreign enterprises has brought a new level of sophistication to Turkmenistan. However,

despite Turkmenistan's shift to outsourcing and contracting of many of the technically most sophisticated aspects of the gas and oil industries, the Turkmenistan government has remained at the core of decision-making. The main energy policy decision-making body, referred to in Turkmenistan simply as the "Competent Body for the Use of Hydrocarbon Resources," has remained under the personal authority of President Saparmurad Niyazov.

Turkmenistan's efforts to transform into a market economy have met with little success. Russia's price liberalization in January 1992 forced Turkmenistan either to free prices or impose restrictions on exports of subsidized goods. Neither option was attractive, since exports were needed to bring rubles into the economy. Free prices, the government reasoned, would result in inflation and perhaps social dislocation. Turkmenistan's solution was to introduce rationing of basic foodstuffs, flour, rice, butter, and sugar at subsidized prices, while restricting the export of these commodities. The decision was made to undertake gradual privatization in most spheres of the economy, with the notable exceptions of energy, transportation, and public utilities such as water. Agriculture was identified as an area of gradual privatization. A State Committee on State Property and Privatization was established to oversee the process of the transition of state enterprises to private management and ownership.

While the oil and gas sectors accounted for a large proportion of foreign currency earnings, they produced incomes that were restricted to a relatively small circle and form only a small portion of overall employment. Agriculture and animal husbandry, in contrast, accounted for about 20 percent of GDP and more than 60 percent of overall employment. Turkmenistan is among the top 10 cotton producers worldwide. The production of cotton increased in 1999 to 1,200,000 tons, up from 707,000 tons in 1998 and from 630,000 tons in 1997. In an effort to establish food self-sufficiency, Turkmenistan subsidized wheat production leading to an increase to 1240 thousand tons, up from 655,000 tons in 1997.

Despite some economic gains in recent years, much of Turkmenistan's population (48 percent by World Bank estimates) is living below the poverty level.³ The government has adopted populist policies to support the social safety net. Since 1992 the government has subsidized housing and related utilities (e.g. electricity, water, gas, sanitation, heating, and hot water) virtually free and subsidizing key consumer goods (e.g. bread, flour, and baby food). According to social indicators, however, the safety net was far from sound. Local gas and water supplies, while without cost to the consumers, are frequently interrupted. The country's infant mortality rate (39.6 per 1000 live births) is among highest in the region and life expectancy (63.9 years) is among the lowest in the former USSR.

Fiscal and monetary policy

Turkmenistan's new national currency, the *Manat*, was introduced in November 1, 1993. In December 1994, President Niyazov issued a decree requiring all companies operating in Turkmenistan to conduct transactions in the *Manat*.

In December 1995, President Niyazov announced the "President's Program for Social and Economic Development in Turkmenistan." The program focused on restructuring the economy, convertibility of the Turkmen *Manat*, and foreign investment attraction measures. The proposed structural reforms including banking reform to control the expansion of credit and introduce prudential standards, expenditure management, and debt management. But the Turkmenistan government has been unwilling to enact serious post-communist structural reform by reducing the dominance of the government, liberalizing the price structure and monetarizing the economy to allow a true private sector to emerge. A weak financial and banking infrastructure continues to hobble economic growth. The government has sought to increase direct foreign investment, but has pursued this goal primarily through efforts to woo strategic investors with concessions rather than establishing a level playing field for economic activity. The government's credit policy has been expansionary, based on "directed credit programs" and sweetheart deals. This has led to lax budget constraints and resulted in a predictably high number of unperforming loans as credits are dispersed frequently not on a financial merit basis but on the basis of access to influence and power.

The Turkmenistan government continues to play a highly interventionist role in the economy. All decisions affecting business involve some political considerations. The fusion of political and economic decision making require that business people "facilitate" necessary decisions to avoid capricious and quixotic regulatory delays by offering inducements in the forms of bribes and payoffs. Rather than creating greater oversight, this form of control creates opportunities for corruption. Faced with declining tax revenues from gas exports, the Government has reduced budgetary spending by curtailing some expenditures (wages, pensions, stipends, and medicines are protected) in order to achieve fiscal balance. According to official figures, state budget deficits have not been large. The reported deficit was roughly 1.5 percent of GDP from 1994 to 1996, and a slight surplus was recorded in 1997 and 1998. But these figures are misleading. Turkmenistan's true budgetary picture is hard to assess because of a large number of extra-budgetary funds. A realistic assessment would estimate the real overall public sector deficit of 10 percent of GDP in 1999.

Privatization and liberalization

Turkmenistan was a largely underdeveloped socialist republic during the Soviet period. With the exception of the natural gas industry, the minimal economic activity that existed in Turkmenistan was maintained by Soviet central subsidies. Industry unrelated to the gas and oil complex was generally not commercially viable. The country's specialization in cotton production was based upon massive irrigation subsidies that promoted highly inefficient and environmentally damaging agriculture. As soon as Soviet-era subsidies came to an end, most of the non-subsistence agriculture and non-gas related industry immediately became insolvent. The Turkmenistan government maintained its control of the industrial service and trading industries related to the gas, oil, and the chemical

industries. Together these made up about 80 percent of Turkmenistan's industrial economy. The architect of the para-statal strategy in the gas industry, Valerii Otchertsov, argued that Turkmenistan's privatization program would stress small businesses in trade, the service sector, and the petroleum and gas refining and processing industries. Otchertsov explained to his fellow citizens that these industries were "within the government sector" in most market economy nations.⁴

The Turkmenistan government adopted the Law on Foreign Concessions in 1993. According to this law, foreign concessions can be granted for onshore and offshore areas containing natural resources, and for investment in industrial enterprises that explore, develop, extract, and use natural resources. The law provides for competitive tendering of concession rights for periods from five to forty years. A new Law on Hydrocarbon Resources adopted in March 1997 granted concessions to multinational energy companies to participate in the development of Turkmenistan's large oil and gas reserves through production sharing agreements and joint venture agreements. There is a substantial presence of foreign multinational energy and energy supply companies in Turkmenistan.

The Turkmenistan government announced major privatization initiatives in 1996. Government ministries were required to bring forth lists of subordinate state-owned entities for privatization. A mass privatization program was announced and a voucher style privatization was planned for entities with more than 330 employees. Auctions for privatization of many of the most attractive assets, however, were delayed and then apparently cancelled. The energy sector was excluded from the initial stage of privatization.

Under Turkmen law, individuals have the right to own land, including agricultural land. However, Turkmenistan has only a small number of private farmers as most agricultural land continues to be leased by the government on long-term use agreements. Large state-owned farming associations still dominate the agricultural landscape. The Turkmenistan government maintains a state order system of agricultural procurement that provides for monopsony control over prices.

In sum, the transfer of the state's most valuable assets to the private sector – privatization – has been slow and unsuccessful. While small-scale trading and service operations have largely been privatized, the Turkmenistan government has delayed transfer to the private sector of medium- and large-scale enterprises, preferring to hold these as state managed trusts or para-statal enterprises.

Trade and investment

The cornerstone of Turkmenistan's future economy is its energy wealth. With an estimated 2.7 trillion cubic meters in natural gas reserves and additional potential reserves estimated at 14 trillion cubic meters, Turkmenistan is the second largest natural gas producer in the former Soviet Union and the fourth largest producer in the world. Turkmenistan also has an estimated 1.1 billion tons of oil reserves and is the fourth largest oil producer in the region. In 1998,

Turkmenistan produced 13,284 million cubic meters of gas, down from against 17,322 million cm in 1997. Turkmenistan produced 6280 thousand tons of oil in 1998, down from 4481 thousand tons in 1997.

Turkmenistan's gas industry is not limited by capacity. Turkmenistan can expand the output of natural gas with the turn of a valve. The constraints on production arise from the physical transport capacity. In late 1997, Turkmenistan began exporting gas to Iran through a newly completed pipeline. The Turkmenistan government has also sought to develop new pipelines for access to external gas markets. The Turkmenistan government has lobbied hard for international cooperation in the construction of a gas pipeline across the Caspian, through Azerbaijan, Georgia, and through the Turkish port of Ceyhan to Western consumers.

Turkmenistan's hydrocarbon resources offer great long-term potential for economic development. But, if past management practice is any indicator of future practices, it also implies certain developmental vulnerabilities. Turkmenistan was an early beneficiary of price liberalization after the disintegration of the USSR. This enabled Turkmenistan to charge world market prices for the gas it supplied to its former Soviet era customers in Ukraine, Georgia, Russia, and other countries. On the other hand, the existing transportation infrastructure made Turkmenistan dependent upon customers in countries that were not in a position to pay. Accordingly, gas was supplied sporadically on credits that exceeded the consumers' ability to pay. A large proportion of Turkmenistan's gas sales were conducted on an inefficient barter basis. This led to serious problems of external arrears and led to a declining gas output. The total of arrears – mainly to Armenia, Azerbaijan, Georgia, and Ukraine – rose to \$1.2 billion and the Turkmenistan government interrupted some gas exports in 1997, greatly exacerbating political tensions in the region. Following complex negotiations involving trading partners, governments, commercial banks, and international organizations, many of the debts were rescheduled and the Turkmenistan government resumed gas exports.

For several years in the late 1990s, Turkmenistan was a major player in the effort headed by the US government to promote a pipeline under the Caspian Sea for the purpose of exporting Turkmen gas to the Turkish domestic market. The partners in the initiative included Turkmenistan, Georgia, Azerbaijan, and Turkey. By the summer of 2000 the Turkmen political leadership essentially abandoned the idea in favor of separate arrangements with Russian gas transporters and new arrangements with Iran.

Banking and financial markets

The Turkmenistan banking sector is small and access to finance for commercial purposes on the basis of commercial criteria is highly limited. The Central Bank of Turkmenistan (CBT) carries out central bank functions. Several other large state-owned banks carry out commercial bank functions, including two large banks, Turkmen-Vnesh-Econom-Bank and Sberbank. Some sixty smaller banks

carry out consumer banking functions. The Turkmenistan government holds majority shares in most of the commercial banks and directly or indirectly controls almost all of the financial system’s assets.

Mirage of reform

Turkmenistan is a highly authoritarian state with a highly authoritarian political culture. Turkmenistan’s President, Sapamurad Niyazov, popularly known simply as Turkmenbashi, or “Head of the Turkmen,” leads Turkmenistan’s single functioning political party, the Turkmenistan National Democratic Party. An engineer by training, Niyazov climbed the administrative ladder in the old Soviet system. Niyazov became the republic’s Prime Minister in 1985 and served during the final days of Soviet power as the first secretary of the Communist Party of Turkmenistan, the highest political official in the country. The parliamentary delegates elected Niyazov chairman of the Turkmenistan Supreme Soviet in January 1990. Niyazov was elected president of the Soviet Socialist Republic of Turkmenistan in October 1990.

At the time of Turkmenistan’s national independence on October 27, 1991, Niyazov sought to bolster his political image at home and abroad by holding popular elections. Niyazov was elected president of Turkmenistan for a five-year term in elections held on June 21, 1992, running without opposition. Niyazov’s term was extended for an additional five years by a national referendum held on January 15, 1994. On December 28, 1999, Turkmenistan’s parliament approved an amendment to the Turkmenistan Constitution allowing the President to remain president for an unlimited period, effectively making Niyazov “president for life.” Turkmenistan has recognized its president by naming numerous institutions, including cities, irrigation canals, numerous schools, streets and buildings, in his honor. Even the famed “Lenin Karakum Canal” of Turkmenistan was renamed the “Niyazov Garagum Canal.” A new medal of Turkmenistan National Distinction was introduced to honor extraordinary service to the Turkmenistan state. President Niyazov was honored as the first bearer of this new distinction.

Constitutional, legal, and regulatory policy

Turkmenistan moved more swiftly than the other Central Asian countries to accommodate the circumstances of independence, adopting a new post-Soviet Constitution that went into effect in May 1992. The new constitution described a “presidential democracy.” The constitution paid lip service to a tripartite distinction of executive, legislative, and judicial powers. In reality, however, there was no separation of power. The legislature and the judiciary possessed only advisory powers. Virtually all authority was concentrated in the executive branch.

Niyazov is a populist political figure, claiming to rule in the interests of the people. During his 1992 presidential campaign, Niyazov offered Turkmenistan citizens a number of inducements for their support, including a promise that after October 27, 1992 – the first anniversary of Turkmenistan’s independence – electricity,

gas, and water would be provided to all Turkmenistan citizens free of charge. In return for public support, President Niyazov announced a "10 Years to Prosperity Program," claiming that the standard of living in Turkmenistan would soon approach that of Kuwait and that Turkmenistan would pursue a policy of "Positive Neutrality" in foreign affairs, establishing good relations with all countries.

The Chairmen of the Supreme Court, the members of the Supreme Economic Court, and the Prosecutor General serve at the President's pleasure. The President appoints judges at all levels. The President has the power to disband the local governing bodies and the *Mejlis* (the national parliament) in the event that there is a no-confidence vote twice in eighteen months. The concentration of power in the president's hands was initially defended as a temporary expedient, necessary in the circumstances of post-communist transition.

Turkmenbashy has repeatedly pointed out that the Turkmenistan constitution was the first legal document in any of the Central Asian states to explicitly endorse private property. The constitution guaranteed citizens the right to capital, land, and other material or intellectual property.⁵ However, there were no provisions in the constitution regarding the source from which this private land is to come, nor was the creation of a land fund announced. Niyazov stated that "until the people have learned to be property owners, the government will hold all resources in its hands and use them in the interests of the entire society."⁶ The new constitutional provisions did little to establish a land market. Furthermore, in order to dissuade non-Turkmen citizens from selling their assets and migrating to Russia, *Turkmenbashy* issued a series of decrees that effectively made the sale of apartments illegal. Subsequent legal provisions made it possible for Turkmenistan citizens to "own" land, but placed restrictions on alienation and other forms of transfer that are typically thought to be inherent in the right of ownership.

Legislative, executive, and judicial policy

The government is managed on a top-down principle, contending that accountability and responsiveness in Turkmenistan should be maintained not through the electoral process but through the paternalism of the head of state. The Cabinet is composed of Deputy Chairman of the Cabinet of Ministers, usually eight in number, each with responsibilities in a broadly defined functional area. Beneath the level of the Cabinet are the Ministers leading Ministries defined by functional areas. While number of ministries varies from time to time, the list includes functional areas familiar from Soviet-era government administration such as Foreign Affairs, Defense, Internal Affairs, Justice, Finance, Education, Energy and Industry, Oil and Gas.

Other high officers of government include the chairmen of the national parliament, the *Mejlis*, the members of the Supreme Court, the members of the Supreme Economic Court, and the Prosecutor General. The Cabinet members and the other officers of government serve at the President's pleasure. The President appoints judges at all levels.

The legislative branch consists of the *Halk Maslhaty*, the Peoples Council. The *Halk Maslhaty* is intended to be a public information institution rather than a true deliberative assembly. The *Halk Maslhaty* includes the President, the high officers of government including high court justices, fifty elected members of the *Mejlis*, fifty elected members to the *Halk Maslhaty* from territorially defined single voter districts, and certain other appointed local officials. In the *Mejlis* elections held in December 1994, the Central Electoral Commission reported a 99 percent voter turnout. In this election, fifty new *Mejlis* deputies were elected in uncompetitive, single-candidate districts. All the candidates were registered members of the Turkmenistan National Democratic Party, the party headed by *Turkmenbashi*. In the most recent parliamentary elections, held on December 12, 1999, the parliamentarians were elected in the same way and all seats went to candidates of the Turkmenistan National Democratic Party.

The Turkmenistan president is head of state and the chief executive officer of the government. There is no Vice-President or Prime Minister. While the Turkmenistan Constitution pays lip service to the principle of separation of powers, in fact no system of checks and balances functions in the country. Since declaring national independence, Turkmenistan has made minimal progress in the movement towards establishing an independent judiciary, promoting a truly deliberative legislature, conducting competitive elections, promoting institutions of democratic accountability, defending civil rights, or allowing the free operation of the freedom of association. The public and private sector remain as closely interdependent today as during the period of state communism. This fusion of political and economic decision-making in Turkmenistan creates constraints on the normal operation of business and provides a fertile ground for petty economic corruption.

Transparency and integrity policy

Transparency refers to freedom from deceit and misrepresentation. Transparent government refers to public decision-making in a context in which information is available to the public in such a way as to reduce the likelihood of concealed transactions. Traditionally, openness and honesty in government have been supported by a free and open media, by a legal and regulatory order that separates the public from the private sectors, and by clear and uniformly enforced regulations regarding nepotism, cronyism, favoritism, and the influence of special interests. No single set of policies and no single legal framework can ensure that the objectives of transparency and honest government can be assured because societies differ greatly in their expectations about what is appropriate interaction between the public and private sectors. But governments that are interested in reducing misunderstanding, suspicion and compromise regarding the use of public resources undertake activities to promote transparency and openness. In this light, the Turkmenistan government's efforts ranks poorly in terms of measures of transparency and integrity.

Historically in Turkmenistan authority has been highly personalistic. The concentration of substantial political authority in the hands of the executive branch in modern Turkmenistan reinforces the use of public resources for political purposes. Consequently, Turkmenistan's post-independence government has evolved in the direction of a patronage system. In Turkmenistan, as in some other areas of Central Asia, position of authority and influence were historically bought and sold. This practice continues today. Many government services that are nominally free of cost are in fact paid for by under-the-table transactions.

Accountable modern government rests upon the transparency of executive branch implementation, particularly in such areas as government procurement, distributive policy, and intergovernmental relations.

Turkmenistan has strict anti-corruption laws that specify criminal sanctions for violations of the public trust such as embezzlement, bribe-taking, kickbacks, and illegal forms of favoritism. However, these laws are applied sporadically and non-uniformly in ways that suggest that political considerations outweigh objectivity and neutrality.

Turkmenistan was not ranked in the most recent corruption indices published by Transparency International.

Regional administrative policy

The former territorial divisions of Soviet days into oblasts and raions have been replaced by the more traditional organizations, the *velayet* and *etrap*, respectively, although no territorial borders were actually changed. The territorial units are ruled by the local *hakim* and *archin*. The local bodies of government were renamed the *gengesh*. Only ethnic Turkmen could head the *gengesh*.

Political participation and openness

Turkmenistan has not succeeded in recognizing the importance of institutional pluralism in the modern period. Formal opposition political parties are outlawed. Small, unofficial parties and opposition movements are dealt with harshly by government security services. Fundamental freedoms of speech, press, assembly, movement, and confession (Table 6.4) are routinely subordinated by the state to the prevailing definition of the national interests as determined by the leader of the government. Only Islam and Russia Orthodoxy are registered religions. Authorities have intimidated, arrested, and otherwise persecuted individuals and groups outside of these government-supervised structures.

The Turkmenistan government maintains that the country is "not ready" for openly functioning political parties working in a context of open contestation of values, ideals and policies as in most developed democratic countries. The government prefers to avoid social tensions, conflicts, and bloodshed by outlawing democratic institutions. While elections have been held in Turkmenistan, these have been instruments designed to legitimize the existing power structures rather than to express popular will.

Table 6.4 Turkmenistan: political freedoms

	<i>Nations in transit 2000 political indicators</i>								
	1991– 92	1992– 93	1993– 94	1994– 95	1995– 96	1996– 97	1997– 98	1998– 99	1999– 2000
Political rights	6	7	7	7	7	7	7	7	7
Civil liberties	5	6	7	7	7	7	7	7	7
	PF	NF	NF	NF	NF	NF	NF	NF	NF

Source: *Nations in Transit*, 2000 (New York: Freedom House).

Election policy

Turkmenistan does not pass the “election test,” that is, it does not reflect a situation in which “the government can be changed by elections as opposed to one where elections are changed by the government.” (Lewis)

Civil and human rights

Turkmenistan is not tolerant toward opposition perspectives. The Turkmen communist party had its last meeting in the morning of December 16, 1991. At that meeting the party faithful agreed to disband the communist party. The assembled ex-Party members then went to lunch together and reconvened afterwards in a session that established the “Peoples Democratic Party of Turkmenistan.” Within months the new Turkmenistan Democratic Party had a membership of nearly 52,000 members, 48,000 of whom were former communist party members. *Turkmenbashi* became the president of the democratic party.

Small and fragmented opposition parties have emerged from time to time. For instance a group called *Agzybirlik* (Solidarity) nominated its head, Nurberdy Nurmamedov, as republican presidential candidate in 1992, but Nurmamedov was not allowed to register in the presidential election. An alternative Democratic Party, headed by Durdy Murad Khadzhi-Mukhamed, was tolerated by the government, but not allowed to organize as an official opposition party. Clandestine political opposition exists within the existing political structures, however. It can be assumed to play a more important role than the visible opposition.

International Human rights organizations have been highly critical of the Turkmenistan political system as failing to meet minimal standards of progress toward international standards of policy and practice. There has also been criticism of the influence of the foreign community.

The international development community has not been satisfied with Turkmenistan’s progress toward the adoption of democratic norms of policy and practice. In April 2000, the EBRD took the unprecedented step of suspending its public sector lending programs to Turkmenistan on the basis of the government’s

unwillingness to take to implement agreed upon structural reforms.⁷ Turkmenistan's economic development in the years ahead rests upon the country's ability to break out of the cycle of excessive government controls and crony capitalism toward a modern economy based upon international standards. The US government and other major world powers have been criticized for turning a blind eye to Turkmenistan's record by virtue of the goal of promoting the development of Turkmenistan's fabulous gas potential.⁸

Political stability and support

The Turkmenistan government is the most precariously poised of the governments of Central Asia. Few opportunities for legitimate political change, monopoly political power of the existing leadership, the dissatisfaction of previous high-level politicians including Ministers of Foreign Affairs, and the extremely high financial stakes involved in a government overthrow, would suggest the Turkmenistan government remains in power not as a result of public support and inherent sources of political stability such as legitimacy, but merely by virtue of coercion and control.

Summary

The general principle of *Turkmenbashi's* foreign posture was called "Positive Neutrality." According to the policy of Positive Neutrality, Turkmenistan sought to remain aloof and "Neutral" with respect to all relationships that might be risky or costly and to remain engaged and "Positive" with respect to all relationships that might be beneficial and reliable. While such a formula might be ideal, the real world choices of foreign economic and security relations in a context as highly nuanced as that of the Caspian basin make avoiding all risk impossible without forbearing all possibility of benefit.

In practice, Turkmenistan's Positive Neutrality was initially designed to provide that, first, Turkmenistan could maintain as much distance as possible from Russia without giving up access to northern and European gas markets that, for the first few years of independence at least, would continue to be under Russian control by virtue of geography. Second, the policy of Positive Neutrality was designed to promote the expansion of trade with Turkmenistan's southern and western neighbors on the basis of Turkmenistan's self-interest. Third, the policy was designed to make it possible for Turkmenistan to attract foreign direct investment to the extent possible to revitalize the gas-related industry and build a Kuwait-style emirate in the country while not relinquishing Soviet-style controls over the political system.

None of these goals of Positive Neutrality were achieved by the end of the first decade of independence. In 2000, the Russian natural gas monopoly, Gazprom, resumed purchasing Turkmen gas. This resulted in increased export revenue and contributed to improved political relations with Russia but it also resulted in Turkmenistan's losing a substantial degree of control over the export route of

Turkmenistan's most important commodity. A decade of debate over equitable trade arrangements in the Caspian Basin did not result in substantial improvements of trade relations with Turkmenistan's western and southern neighbors. With the elimination of the Taliban regime in Afghanistan, the Turkmenistan government could seek to rekindle interest in a trans-Afghanistan gas pipeline that would offer Turkmenistan gas an inexpensive egress route to the Indian Ocean. But the political and financial complexity of shipping gas across war-torn and unstable Afghanistan offered no early prospects of success. Meanwhile, with the lack of success in solving domestic governance problems and with Turkmenistan's failure to establish collaborative and cooperative relations with its immediate neighbors, the goal of establishing a Kuwait-style emirate with economic growth sustained by gas export revenues has proved elusive. High inflation, large government deficit, and a persistent lack of capacity continue to make Turkmenistan's dreams of economic transformation seem like a mirage.

The Turkmenistan government rhetorically encouraged foreign direct investment and joint ventures with foreign firms. However, actual government policies did not adequately support this rhetorical commitment. A large portion of formal economic activity, some analysts say as much as 90 percent, continued to be under the direct or indirect control of the government. A highly restrictive currency exchange system acted as a major inhibitor to participation of foreign firms. Excessive and quixotic government regulation, local unfamiliarity with international business practices, and most of all, the absence of a stable, established rule of law, with procedures for equitable dispute resolution undercut the capacity of the state to carry out its rhetorical commitment to international standards.