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AFFAIRS OF FINLAND



Turkmenistan

Aid for Trade Needs Assessment – Turkmenistan

ASSESSMENT OF THE IMPACT OF TRADE ON HUMAN DEVELOPMENT TURKMENISTAN

July 2010

United Nations Development Programme



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UNDP Regional Bureau for Europe and the Commonwealth of Independent States

Manufactured in Turkmenistan

The **Aid for Trade agenda** is one of the most important development-related outcomes of the 2005 WTO Ministerial Conference in Hong Kong. It targets developing countries through strengthening their productive capacities, trade-related infrastructures and the ability to compete in regional and global markets. Trade plays an important role in development, although the relationship between trade and human development is not automatic. In order to be inclusive, trade has to be set in a human development framework. It needs to be conceived as a tool to enlarge the abilities and choices of people.

The Aid for Trade initiative covers the following categories:

- Trade policies and regulations;
- Trade development;
- Developing productive capacities;
- Trade related adjustment, and;
- Other trade-related needs.

UNDP's regional **Aid for Trade project** '*Wider Europe: Aid for Trade for Central Asia, South Caucasus and Western CIS*', financed in the context of Finland's Wider Europe Initiative, focuses on the identification of capacity gaps and technical assistance needs both at the national and sub-regional level in Central Asia, South Caucasus and Western CIS and support to the economic development in the areas located along the selected transport corridors, helping small entrepreneurs to gain from new trade opportunities.

The **Wider Europe Initiative** is Finland's harmonised regional development framework. The initiative targets the following themes: security, trade and development, information society development, energy and the environment and social sustainability. The framework includes three regional cooperation programmes - in Eastern Europe (Belarus, Moldova and Ukraine), the South Caucasus (Armenia, Azerbaijan and Georgia) and Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan).

The **Needs Assessments** produced under the Aid for Trade project form part of a long-term vision of developing trade capacities, which will benefit human development in the region. The recommendations presented are expected to constitute the basis for a second phase (2011 – 2013), focusing on the implementation of the recommendations developed in the national and regional Needs Assessments.

Team for the preparation of the Publication

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Introduction

A key objective of socio-economic policy in Turkmenistan is to create a favorable environment for sustainable social and economic development. Improving the efficiency of foreign and domestic trade can do much to help achieve this goal. Foreign trade is of particular importance in view of the need for more intensive investment and modernization processes in Turkmenistan. In addition to its importance for economic growth, foreign trade is also closely associated with human development, so trade policy formulation should account for the country's overall development strategy. Exports support economic growth and increase household incomes: there is even a rule of thumb, according to which USD 1 billion of exports creates 20,000 jobs. However, intensive exports can also lead to negative environmental impacts, disproportions in regional development inside a country, and growth of inequality. The role of imports is also complex, since, on the one hand, imports raise living standards and create jobs, but, on the other hand, they can lead to closure of domestic industry, which finds itself unable to compete with imports, and to a resulting growth of unemployment, particularly among women. Therefore, neither economic growth nor expansion of trade guarantees the promotion of human development. In order to ensure that trade not only promotes economic growth, but also leads to the improvement of people's living standards, it is essential to analyze and take into account external and domestic economic factors, which have an impact on human development. In addition, it is important to remember the importance of a reverse causation, by which human development leads to the creation of an educated and qualified work force, capable of producing highly competitive goods, which can win a place on foreign markets, broadening exports and supporting economic growth.

Much remains to be done in studying the interconnections between trade, trade policy and human development in Turkmenistan. The present work is a first attempt at an integrated approach to the issue and aims to review tendencies in trade patterns through the prism of human development.

Changes to the structure of the economy are urgently needed in Turkmenistan today. Large revenues from hydrocarbons offer a scope for a rapid reorganization of other sectors. The expansion of the country's export base is particularly needed, and will make it possible to create large numbers of new jobs.

The role of export revenues suggests that major changes will soon be required in trade policy. These changes will support the development of domestic trade and help the non-state sector to win positions on the export markets. A proper approach to trade development will create incentives for improving levels of education and workforce qualifications, raising infrastructure standards and achieving efficiency gains in production.

The trade sector offers a huge potential for the development of private businesses and employment, and rapid progress has already been made in recent years as trade has come to occupy an important place in the transition economy.

Many talented business people have entered the trade sector and many of them have altered their profession and way of life in order to do so. Trade turnover is among the most important indicators of socio-economic development, and has a significant impact on both production and consumption.

The development of external trade can support the expansion of markets (including markets for goods produced in the private sector), encouraging competition and knowledge sharing, and thereby stimulating economic growth and human development. The intensification of external trade will increase access to new technologies, raising productivity in the economy and giving a new impulse to economic development.

I. OVERVIEW OF THE CURRENT STATE OF THE NATIONAL ECONOMY

1.1. The economic situation immediately after independence

When Turkmenistan obtained its independence in 1991, the country began a series of economic transformations to create the foundations of a market economy. Prices for the main capital products and goods were liberalized at the beginning of 1992, nearly all retail enterprises were privatized, numerous associations and corporations were formed, various types of businesses took root, and relationships between different regions of the country were placed on a new footing

However, Turkmenistan obtained its independence in difficult economic conditions: the country had to overcome the severe consequences of the dissolution of the USSR and faced the challenge of eliminating distortions in the economy due to a raw material bias. The situation was complicated by the breakdown of the single economic space, which had existed in the Soviet Union, and a systematic failure to observe international obligations regarding the supply of consumer and capital goods.

These and various other objective factors meant that the structural reorganization of Turkmenistan's economy at the start of the 1990s was hampered by difficulties in domestic and international relations, and also by negative processes both with the production and circulation of goods, and in the financial and monetary systems. The fall of production led to a decline of gross domestic product (GDP), which decreased by 18% in constant prices in the first quarter of 1992 compared with the same period of 1991. Productivity fell by 20%.

The number of agreements on product imports to Turkmenistan decreased by 50% in 1992, compared with 1991. There was a particularly steep decline in trade with Turkmenistan's main trading partners: Russia, Ukraine and Kazakhstan. Contracts for delivery of capital goods and materials were inadequate for the needs of industry. The glass industry received only 9.7% of necessary inputs from abroad and deliveries to the food industry were only 20.7% of requirements. Imports were only 10% of the planned levels, resulting in a countrywide shortage of capital goods and materials (tractors, goods vehicles, steel pipes, timber, etc.).

The prices for various products purchased abroad rose steeply (up to 300%), forcing consumers to forego purchases (including purchases under signed contracts). Investment goods (equipment, vehicles, mechanisms) and processing inputs (wood, metal, etc.) were particularly affected, making it difficult to maintain output levels, let alone expand output levels, and leading to a serious downturn of investment levels in the country.

The introduction of a national currency in Turkmenistan, in November 1993, was a major determinant to the subsequent economic transformations, since it created the basis for an independent financial and credit policy. A number of very important economic laws were also passed, governing issues of ownership,

business development, employment, etc.

These and other measures helped to improve the financial and economic situation and make proper use of the country's natural and economic potential. The process of economic reform supported sustainable economic development, although a number of economic problems remained unresolved.

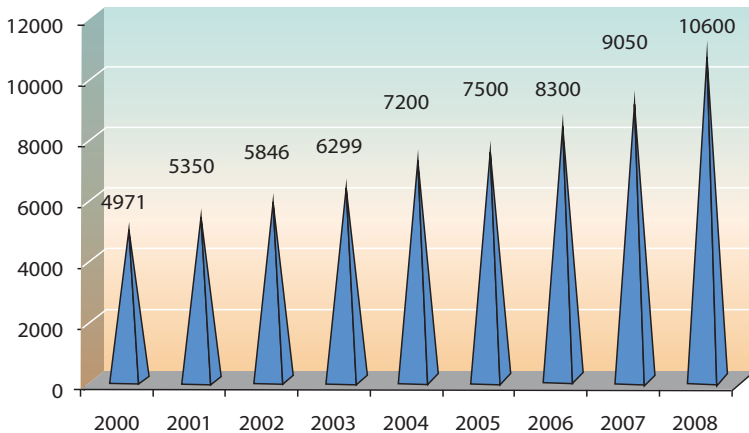
Price trends in 1992-1993 were determined mainly by inflation in the rouble zone. Some prices were deregulated in 1992 when a national currency was introduced, but prices for main products continued to be controlled using subsidies.

About 3 years were needed, following the partial price liberalization, for the national economy to adapt to the new conditions. In the beginning of 1995, Turkmenistan had overcome galloping consumer prices (growth of up to 1000% annually), expansion of cash money supply (by up to 700% annually), and monetary emission unsupported by goods (up to 40% annually).

1.2. Current state of the economy

Gross domestic product. GDP at purchasing power parity had grown 2.5 times in 2008, compared with 2000 (12.1% average annual growth). Per capita GDP rose 2.1 times during the same period (10% average annual growth) to USD 10,600.

Figure 1.2.1.: GDP (PPP) per capita, USD



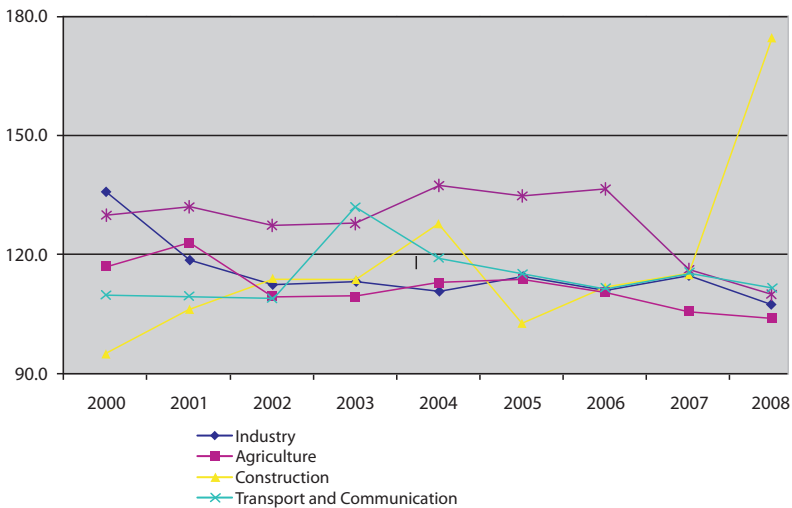
Source: Turkmenistan State Committee for Statistics

Gross industrial output in Turkmenistan rose by more than five times in 2000-2008 (average annual rate of growth was 24%), due to a steady development of nearly all sectors of the economy.

There was also a reduction of the share of intermediate consumption in industry (from 40% in 2000 to 33% in 2007) due to new production and service capacities and the introduction of new technologies, enabling automation, lower production costs, reduction of spending on energy and raw materials, etc. The share of taxes and subsidies in the value of output was also reduced.

Average annual growth of GDP in comparable prices was 15% in 2000-2008. The lowest growth rate over the period was in 2008 (10.5%) and the highest was in 2000 (18.6%).

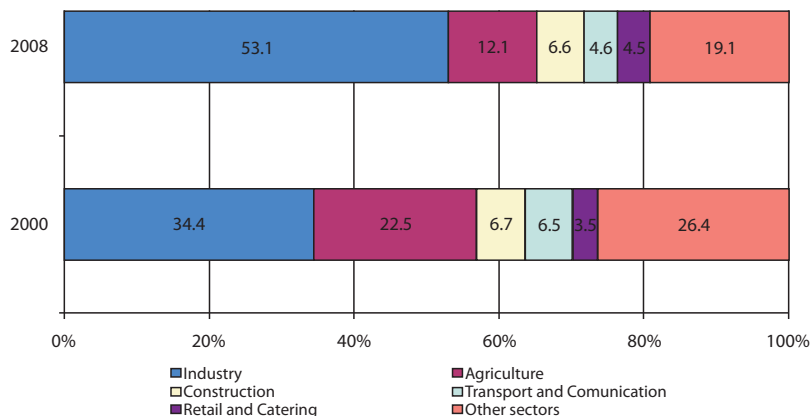
Figure 1.2.2.: Dynamics of GDP growth in Turkmenistan by sectors in constant prices, % to previous year



Source: Turkmenistan State Committee for Statistics

There has been a steady growth in the share of industry in GDP from 34.4% in 2000 to 53.1% in 2008 and a corresponding decline in the share of agriculture. A slight increase in the share of the services sector was due to a gradual expansion of consumer demand.

Figure 1.2.3.: Sectoral breakup of GDP in Turkmenistan, %



Source: Turkmenistan State Committee for Statistics

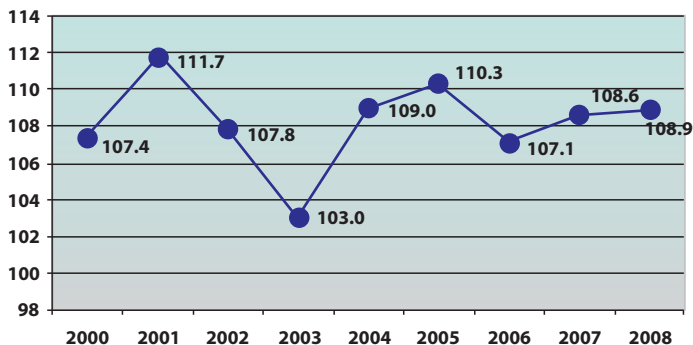
The country's natural resource wealth (particularly gas) and the special focus of the economic reform process on investments have been major drivers of strong economic growth in Turkmenistan.

Inflation. In order to overcome negative tendencies in the economy after the country became independent, the government of Turkmenistan took various measures to ensure an adequate provision of food for the population, control over inflationary processes, and an efficient system of social security.

Market reforms, including price liberalization, had the highest impact on the consumer market, which became genuinely competitive. The non-state sector took an increasing share of the market. Most of the growth in goods turnover was in the private sector, which increased its share of total retail goods turnover from 90.7% 2004 to 94% in 2007.

An upturn in production and retail goods turnover, accompanied by a reform of the financial system, led to a slowdown in rates of price growth. As can be seen in Figure 1.2.4., the annual CPI growth in 2000-2008 never exceeded 11.7%. Average CPI in 2000-2008 was 8.2%.

Figure 1.2.4.: Dynamics of CPI growth for all types of consumer goods, %



Source: Turkmenistan State Committee for Statistics

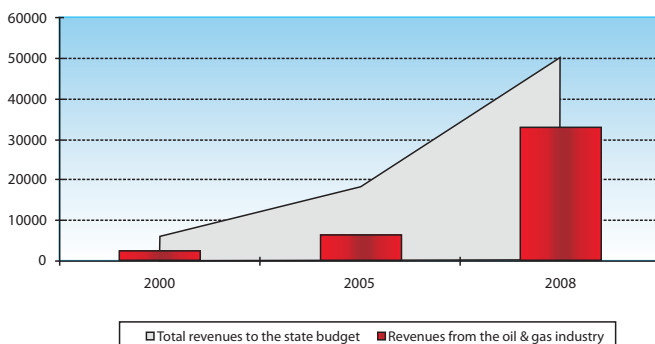
State budget. The unified and simplified Tax Code implemented in 2004 and a number of tax incentives for businesses in 2005 were important steps forward in tax legislation.

The share of tax revenues in the state budget increased from 90.1% in 2007 to 93% in 2008. On the other hand, the share of non-tax revenues (leasing of state property, payments for services, and state duties and levies) was decreasing.

The largest contribution to tax revenues in 2008 came from profit tax (30%) and value-added tax (24%). The expansion of the oil & gas industry led to a growth in tax revenues from the use of mineral resources by nearly 10 times in 2000-2008, and an increase of its share in overall tax revenues from 10.4% to 15.7%.

The revenues of the state budget have become increasingly dependent on the oil and gas industry: contributions of the industry increased from 41.5% in 2000 to 65% in 2008 (Figure 1.2.5.).

Figure 1.2.5.: State budget revenues, billion manats



Source: Turkmenistan State Committee for Statistics

The state sector accounts for 90.5% of all tax revenues to the state budget.

The largest spending item in the state budget from 2000 to 2008 was the social sector, which accounted for more than 60% of spending in 2008.

The process of economic reform now requires greater flexibility, efficiency and selection of priorities in the tax system. In particular, more work is needed to improve the system of indirect regulation of export-import operations in order to protect domestic goods producers. Presently, this system is limited to the expansion of the list of goods subject to excise and change in the applicable excise rates.

Investments. Although capital investments have grown in absolute terms, their share of GDP fell from 34.7% in 2000 to 18.4% in 2007. The average annual growth of capital investments in 2000-2007 was over 14%. However, the growth of GDP in current prices was much faster. Over the same period, for each increase of GDP by one manat the increase in capital investment was only 0.1-0.2 manats.

The volume of investments rose by more than 3 times in 2008 compared with 2007. One of the reasons for such rapid growth was the unification of the exchange rate in 2008. Each manat of GDP growth was matched by an increase of investment of 0.5 manats, and investments represented 32.3% of GDP in 2008.

For Turkmenistan, as for many other countries, foreign investments play an important role in economic development. They make a consistent, positive contribution to the economy, raising productivity and export potential as well as providing employment. Increasing openness of the Turkmen economy has been an important factor for attracting foreign investments. The share of foreign investments in total investments rose from 11.1% in 2000 to 28.6% in 2008 (the level in 1995 was 5.4%).

The biggest share of investments is in industry, which accounted for 45% of total investments in 2007.

Among industrial sectors, the main investment magnets have been export-oriented sectors, particularly oil and gas. As can be seen in Table 1.2.1 there has been very rapid growth of investments in oil production. By contrast, there has been a decline in the levels of investment in refining, which reflects the completion of the modernization works at the Turkmenbashi Oil Refinery in 2000. As levels of domestic oil output have risen, levels of primary refining at Turkmenistan's two operating oil refineries have also risen. Refining volumes grew 1.5 times in 2000-2008 to reach 7.3 million tonnes in 2008. Oil and gas output also rose 1.5 times in the same period to reach 70.5 billion cubic meters of gas and 10.3 million tonnes of oil in 2008. Output of liquefied natural gas rose 12 times in the same period to a level of 412,000 tonnes.

Table 1.2.1.: Capital investments in the oil & gas sector*, %

	2000	2001	2002	2003	2004	2005	2006	2007
Total	100	100	100	100	100	100	100	100
of which :								
fuel	73.4	78.0	52.9	49.7	60.1	70.1	67.9	78.2
of which:								
oil production	20.6	46.9	35.1	22.5	32.6	53.5	74.2	71.2
oil refining	50.2	19.7	10.7	10.9	15.3	5.1	3.3	4.2
gas production	29.2	33.4	54.2	66.6	52.1	40.9	22.5	24.6

* Source: Turkmenistan State Committee for Statistics

Employment. The state of the labor market depends mainly on trends in the supply of labour (economically active population) and demand for labour (actual employment). It can be seen from Table 1.2.2. that the economically active population increased by 390,500 people or by 18.4% in 2000-2006.

Despite some decline in the share of the non-state sector in gross industrial output (from 50% in 2005 to 42% in 2008), there has been an increase in the share of the state sector in total employment. More than 70% of all those in employment currently work in the non-state sector.

Table 1.2.2.: Main employment indicators*

	2000	2001	2002	2003	2004	2005	2006	2007
Population, thousands	4933.7	5014.2	5089.4	5158.8	5237.3	5323.2	5402.2	5479.8
Labour force, thousands	2608.1	2691.0	2780.3	2866.7	2953.3	3054.9	3150.5	3238.5
Labour force as share of total population, %	52.9	53.7	54.6	55.6	56.4	57.4	58.3	59.0
Economically active population (EAP), thousands	2119.8	2179.2	2243.7	2303.1	2369.7	2442.9	2510.3	2554.1
Employees, thousands	1908.3	1947.3	1996.1	2039.7	2093.9	2156.3	2210.9	2255.6
Share of EAP who are employees, %	90.0	89.4	89.0	88.6	88.4	88.3	88.1	88.3

* Source: Turkmenistan State Committee for Statistics

Demographic trends have had an impact on the employment market, as the share of people below working age has declined from 40.2% at the end of 1995 to 34.4% at the end of 2007, causing a steady growth of the labour pool.

Agriculture and industry are the biggest employers, employing 48-49% and 14-15% of all the economically active population.

In 2008, the largest share of the working population at large and medium-sized organizations were employed in the sectors of education, culture and the arts (129,600 people or 22.8% of all those working) and industry (120,900 people or 21.2%). Shares of those working at large and medium-sized enterprises in trade and catering were small but on the increase: in 2007-2008 their share of the total working population grew from 3.8% to 4.5% (Table 6).

The number of people officially registered as seeking employment was 103,900 in 2007, of which 37% were women. Numbers who found employment in 2007 were 50,100, of whom 26.5% were women and 73.5% were men.

Main conclusions:

1. Measures implemented in recent years for reforming the economy have led to positive results. The reforms, and their strong investment orientation, resulted in high rates of economic growth in Turkmenistan.

2. Rapid economic growth has been dependent on natural resource wealth (particularly gas) and on a favourable external environment.

II. ANALYSIS OF THE CURRENT STATE OF DOMESTIC TRADE

2.1. Structure and ownership in the retail trade sector

Since its independence, Turkmenistan has created the conditions for a strong development of the retail trade and catering sector. The change to free market principles has been faster in these sectors than in any others. Over a period of 14 years (1994-2007), a total of 718 trade and catering enterprises have been denationalized, representing 34% of total business privatizations. Several pieces of legislation have also been introduced, regulating trade and helping to ensure that its development matched the needs of the domestic consumer market to the greatest possible extent.

Total physical volumes of retail trade have risen quickly. The average annual growth of retail trade in 2000-2008 was 32.4%, with rates of 34.8% in the non-state sector and 20.7% in the state sector including consumer cooperatives (Table 2.1.1).

The development of the free market has been accompanied by major changes in business ownerships. State monopoly has been replaced by a competitive non-state sector, and the share of state-owned operators in overall

retail turnover has declined steadily as the private sector has developed. The state sector still accounted for 14.9% of total retail turnover in 2000, but that figure declined to about 8% in 2008 (including consumer cooperatives). The role of consumer cooperatives in overall retail trade has declined particularly fast, from 5.2% in 2000 to 1.3% in 2007.

By 2008, the non-state sector represented more than 91% of total retail turnover. Most of this consists of street markets (food, non-food, and mixed markets).

The share of trade in GDP rose from 3.5% in 2000 to 7.1% in 2005, but fell back to 4.5% in 2008.

Table 2.1.1.: Structure of retail trade

	2003	2004	2005	2006	2007	2008
Total retail trade, billion manats	25225.0	34379.0	43336.0	53639.0	66512.0	83194.8
rate of growth, %	35.6	36.3	26.1	23.8	24.0	25.1
<i>of which:</i>						
State-owned retail, billion manats	2918	3208	3620,0	3832,0	3981,0	6563,8
share in total, %	11.6	9.3	8.4	7.1	6.0	7.9
Non-state-owned retail (including markets), billion manats	22307	31171	39716.0	49807.0	62531.0	76631.0
share in total, %	88.4	90.7	91.6	92.9	94.0	92.1
<i>of which:</i>						
street markets billion manats	21394	30399	38922	48589	61123	73670.1
Share of non-state sector in total, %	95.9	97.5	98.0	97.6	97.7	96.1

Source: Turkmenistan State Committee for Statistics

¹Total retail sales are defined as sales of goods to the general public by officially registered retail trade and catering enterprises and at food, non-food and mixed markets.

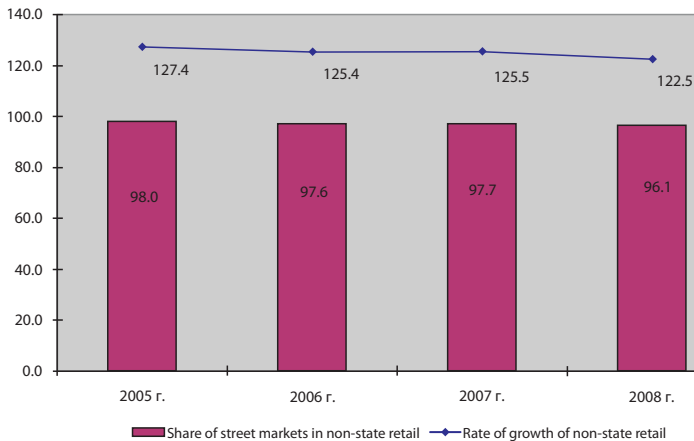
²Sales of goods by consumer cooperatives have been assigned to the state sector since 2004, reflecting merger of the Trade Ministry with the Consumer Union

In 2007, retail trade of enterprises and organizations (not including street markets) was divided as follows: state enterprises (73.9%), non-state small businesses (20.7%), and joint ventures (5.4%). The share of the state sector in the overall retail market in Turkmenistan was 6% in 2007 and 7.9% in 2008.

Most of the state-sector retail turnover in recent years has been generated by enterprises within the Ministry of Trade and Foreign Economic Relations. These goods flows consist both of imports and of various domestic products. The Ministry accounted for 40-50% of overall retail turnover in 2003-2008.

As can be seen from Figure 2.1.1., street markets are dominant in non-state retail. People are reducing purchases at shops (state and private), and consumer demand is met to a great extent by food, non-food and mixed street markets. In 1998-1999, street markets accounted for 60-70% of overall retail turnover, but that had increased to 89-92% by 2005-2008. Nearly all retail purchases of the public are now made in street markets (Figure 2.1.1.)

Figure 2.1.1.: Dynamics of growth of non-state retail trade, and the share of food, non-food and mixed street markets in non-state retail

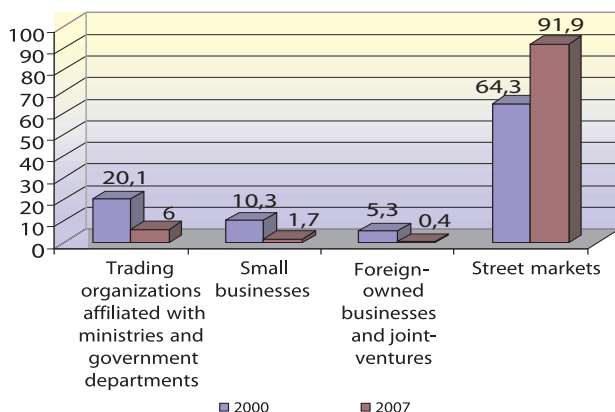


Source: Turkmenistan State Committee for Statistics

There has also been a decline in retail volumes through small enterprises. They presently account for only 2% of retail turnover, down from 10% in 2000. Sales on street markets are mainly undertaken by individual traders, who experience no competition from retail businesses in other forms of ownership (i.e. trading organisations, small businesses or joint ventures).

Retail is the natural sphere of individual traders, since the creation of a retail operation is relatively easy: it does not require large investments of capital, there are no specific educational needs, and development of retail trading can provide individuals and their families a measure of financial security and social status.

Figure 2.1.2.: Structure of retail turnover by forms of ownership, %



Source: Turkmenistan State Committee for Statistics

The change to a market economy, the development of non-state ownership in retail trade, and increased volumes of import and sale of consumer goods on food, mixed and non-food markets have all had major impacts on the structure of retail turnover.

The share of state-owned retail organizations and enterprises in retail turnover declined in 2003-2007, but turnover of state-owned retail increased in the same period by over 49%. As shown in Table 2.1.2, growth of retail turnover has been accompanied by a decline in the number of organizations in all forms of ownership, which are engaged in retail trade. For example, the number of food retail organizations declined by 772, and the number of organizations trading non-food goods declined by 117.

Table 2.1.2.: Number of organizations engaged in retail trade

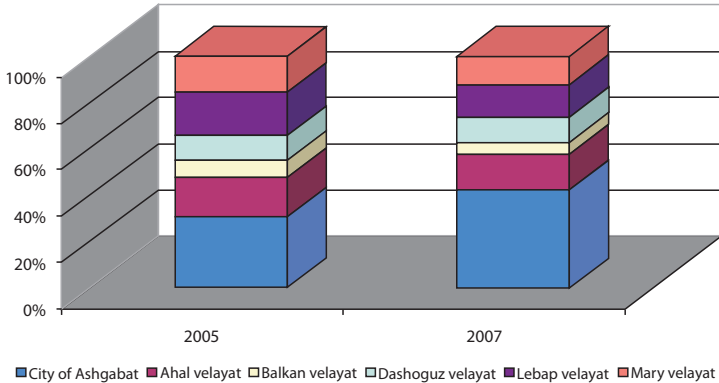
	2005	2007	Change in %
State sector	3467	2877	83.0
Small firms in the non-state sector	558	380	68.1
Joint ventures and foreign firms	128	86	67.1
Food, non-food and mixed markets	103	110	106.8

Source: Turkmenistan State Committee for Statistics

¹ The share of the non-state sector in total retail turnover rose from 62.1% in 1995 to 92.1% in 2008

The number of retail organizations has declined in all regions of Turkmenistan. As a result, the share of the city of Ashgabat in total number of retail organizations rose from 30.5% in 2005 to 42.3% in 2007 (Figure 2.1.3).

Figure 2.1.3.: Breakdown of retail organizations by regions, %



Source: Turkmenistan State Committee for Statistics

2.2. Retail structure by types of goods

There has been sustained growth of retail turnover in recent years (2000-2008) due to a rapid increase in personal incomes. Retail sales of goods and paid services reached 83.195 billion manats in 2008, which is 25.1% more than in 2007. Annual growth in the value of retail turnover from 2000 to 2008 was between 24% and 42%.

The macrostructure of retail turnover has changed together with growth of purchasing power. Since 2002, there has been a decline in the share of food and an increase in the share of non-food sales, pointing to a rise in living standards. However, food goods continue to dominate retail turnover (Table 2.2.1.).

Table 2.2.1.: Structure of retail turnover by types of goods, %

	2000	2001	2002	2003	2004	2005	2006	2007
Food goods	59.0	62.0	62.0	58.0	57.0	55.0	58.0	56.8
Non-food goods	41.0	38.0	38.0	42.0	43.0	45.0	42.0	43.2

Source: Turkmenistan State Committee for Statistics

It is important to note significant regional differences in consumption of food and non-food goods. The highest share of food spending in consumer spending are in Ahal velayat (73%), reflecting the proximity of the capital and higher price levels. The lowest levels are in Dashoguz and Lebap velayats (respectively 43% and 47%), where the development of agriculture enables people to meet a large part of their own food needs.

The food retail market in Turkmenistan in 2007 was dominated by meat and meat products (11% in value terms), potatoes, fruits and vegetables (8.7%), and cereals (3.3%); main non-food items were fabrics and clothes (8.6%), footwear (3.5%), and construction materials (2.7%). Price levels for basic food products remain fairly low, ensuring their affordability.

2.3. Domestic production of consumer goods

Producers in Turkmenistan cannot fully provide for the needs of the country's consumers, since there are 2.3 manats of personal income for every 1 manat of domestic production. The volume of imports of consumer goods is therefore considerable. The share of imports on the Turkmen retail market has been consistently high (41% by our estimates and about 40% for food production alone). The heavy bias towards imports emphasizes the low competitiveness of several domestic sub-sectors that produce consumer goods, particularly in the light industry and the food industry. This situation hinders the development of domestic consumer goods production, since a large share of personal incomes effectively leaves the country (internationally, the "safe" upper limit for import share of the domestic consumption is considered to be 30%, and the limit for food is 25%).

Personal incomes grew somewhat faster than retail turnover in 2006-2007 (personal incomes rose by 25.2% in 2007, compared with 24% growth of retail turnover). However, the ratio of personal incomes to retail turnover (including imports) does not fully reflect coverage of personal incomes by goods and services, since a proper measurement of "physical" growth of retail goods turnover requires a downward adjustment of growth in value terms by the retail price index, which was 8.6% in 2007. Therefore, real physical growth of retail trade in 2007 was 14.2%.

Priorities for development of domestic consumer goods production can be deduced through an analysis of the structure of consumer goods imports and an assessment of potential for their domestic production. Such an approach suggests that priority industries should include food production, fabrics (including cotton), clothes, household goods, etc. In 2008, there was an increase in physical output of some consumer goods, including meat conserves, fruit & vegetable conserves, sour milk goods, flour, pasta, etc. However, output of paper, footwear and cereals declined.

2.4. Retail turnover in public catering

Currently, there are 1300 public catering enterprises in Turkmenistan. The sector's turnover in 2008 was 959.4 billion manats, which is 83.8% more than in 2006.

Most public catering facilities in Turkmenistan are in the city of Ashgabat (the share of the capital in total revenue of public catering business rose by 14.3 percentage points between 2003 and 2008, from 58.5% to 72.8%). Shares of other regions in the sector's revenue have seen a consistent decline over the same period, although turnover of public caterers grew in absolute terms in all regions. The last fact emphasizes the particularly large contribution of Ashgabat to the overall growth of the sector's revenue.

This can be explained by a large share of rural population in the velayats (65.5% in Ahal, 20.9% in Balkan, 66.5% in Dashoguz, 56.3% in Lebap, and 72% in Mary), and by the fact that Ashgabat, as the national capital, is a rapidly developing industrial, retail, and cultural centre, with great importance for the country's socio-economic development. Catering establishments in Ashgabat are dominated by restaurants, cafes and bars, mainly privately owned: about 70% of public catering turnover in Ashgabat is in the private sector, while the figure for Lebap velayat is 15.5% and 9% in Ahal velayat. There are no private-sector catering establishments at all in Balkan, Dashoguz and Mary velayats.

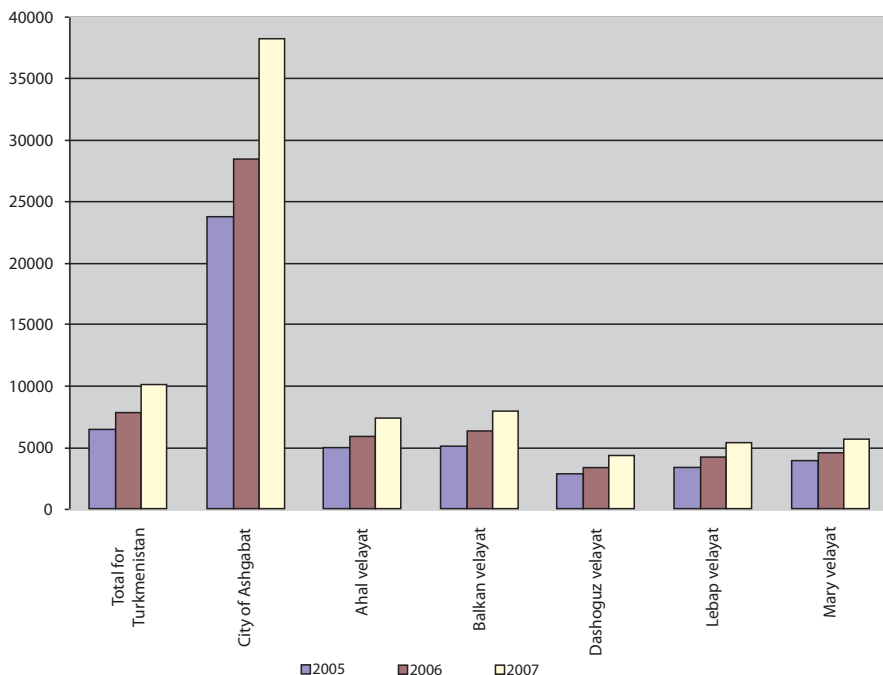
The share of public catering in retail turnover has remained almost unchanged over many years (in 2008 it was just over 1%).

Despite increasing revenue turnover for public caterers, their numbers are declining, particularly in the private sector. This clearly reflects increasing levels of competition, which leads to a decrease of customers at less successful establishments.

2.5. Levels of consumer spending

The development of the Turkmen consumer market is on the background of increasing purchasing power, as shown by rapid growth in per capita retail turnover. Per capita retail turnover in 2007 was 10.1 million manats, which is 29% more than in 2006. As can be seen from Figure 2.5.1., this growth is common to all regions of the country.

Figure 2.5.1.: Retail turnover per capita, thousand manats



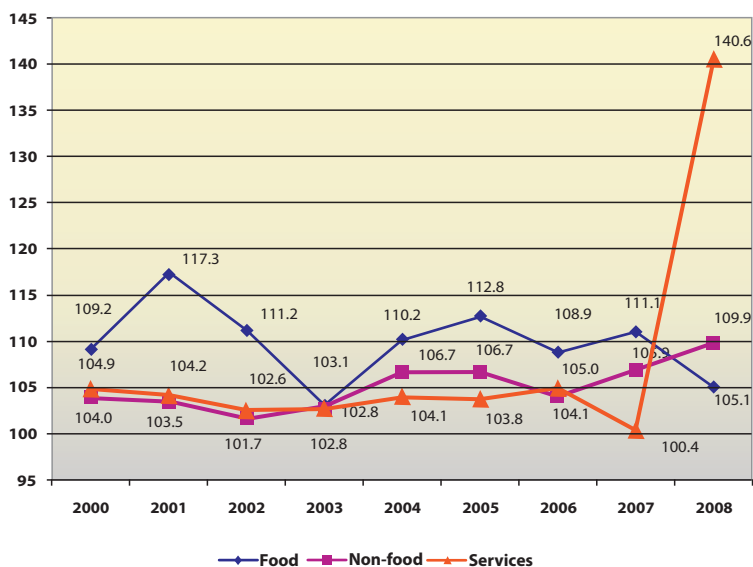
The largest spending item in household budgets is food, which accounted for 54-56% of total budgets in 2000-2008.

Spending levels on consumer goods usually depend directly on income levels of families. But the results of sample surveys of Turkmen households show that the structure of spending on food goods does not differ greatly between families with high and low income levels, since differences between minimum and maximum prices for staples are not significant (between 4% and 8% in 2008).

2.6. Price levels for consumer goods

In recent years, prices for many consumer goods have settled at levels, which are satisfactory for both sellers and buyers. Average annual growth of the consumer price index (CPI) in 2000-2008 was 8.2%. The fastest annual rates of growth (9.9%) were for food goods, which account for most of consumer spending. Average non-food CPI in 2000-2008 was 5.1%, and CPI for services was 7.6%.

Figure 2.6.1.: Dynamics of CPI by groups of goods, %



As can be seen from Figure 2.6.1, prices for services grew particularly quickly in 2008, which is explained by increases of prices for air tickets and public transport services.

Price levels were also driven by an insufficient supply of domestic consumer goods on the retail market (despite adequate capacity and resources for production of such goods inside the country), as well as large numbers of **intermediaries** between producers and consumers, as well as other factors.

A number of goods remain subject to state price regulation, including various products of strategic importance, socially important goods, and services to households. These goods and services represent 3% of the goods and services basket, which is used to calculate CPI.

Price regulation serves state interests and is economically useful. High rates of economic growth (mainly thanks to commodity exports) make it possible to provide a large amount of social support to households, including free supplies of gas, electricity, water, salt, gasoline and diesel fuel.

2.7. Employment in the trade sector

As can be seen from Table 2.7.1, the number of workers in the trade sector has declined as a share of the total economically active population. It is also notable that most of those engaged in trade work at small retail and catering businesses,

Table 2.7.1.: Employment in the trade sector

	2000	2001	2002	2003	2004	2005	2006
Total numbers employed, thousands	1908.3	1947.3	1996.1	2039.7	2093.9	2156.3	2210.9
Numbers employed in retail trade, public catering, wholesale and distribution, thousands	138.5	139.8	134.5	131.7	134.3	138.1	143.2
Share in total number of employed, %	7.3	7.2	6.8	6.5	6.4	6.4	6.5

Source: Turkmenistan State Committee for Statistics

while only 14% are employed by large and medium-sized enterprises.

Individual entrepreneurs are the most common form of business organization in the non-state sector, and retail trade is the most common activity of individual traders. In 2007, the average number of people engaged in private sector retail businesses, on street markets and elsewhere, was 33,700 or 54.3% of all those engaged in private sector business (the figure in 2006 was 31,800 people or 53.7% of all those in private business).

The development of the private sector has led to gender inequality in employment opportunities. As can be seen from Table 2.7.2, the greater part of private entrepreneurs is male, and the share of women is only 30.7%. There has even been a slight decline in the share of female entrepreneurs during recent years.

Table 2.7.2.: Breakdown of individual traders in the retail trade by gender

	2006		2007		Rate of growth, %	
	men	women	men	women		
Total	44663	14582	45697	15091	2	3
of which:						
in retail trade	22005	9840	22865	10152	4	3
Share of all those engaged in retail trade	69.1	30.9	69.3	30.7	x	x

Source: Turkmenistan State Committee for Statistics

More than 95% of those engaged in private sector retail are individual traders, who work mainly without either hired employees or assistance from members of their families.

Employees in non-state small firms in the wholesale and retail trade sectors, the motor trade, and repair services in 2007 were 2300, or 19.4% of total employment in non-state small firms (respective figures for 2006 were 2100

people or 20.4%). Men represent 60.9% of total employees. Average employee numbers per small firm in the non-state sector in 2006-2007 were 3 people.

There is no wage inequality between the genders in Turkmenistan, but there are some distinctions. Statistical data shows that national average monthly wages per employee in 2008 were 2.924 million manats. Average wage levels in sectors dominated by female labour were 2.618 million manats in health and social services, 2.365 million in art and culture, and 2.44 million manats in trade and public catering. The average monthly wage at small firms in the wholesale and retail sectors was a little over 1 million manats.

Shuttle trade. Shuttle trade is a characteristic phenomenon in Turkmenistan as in other countries of the post-Soviet space. After restrictions on travel abroad were lifted, individual traders began to travel outside the country to buy goods, bringing their purchases back to Turkmenistan for sale on street markets. Shuttle trade met the demand for consumer goods in the first years after independence. This form of business had the further benefit of providing employment and developing entrepreneurial skills. Shuttle trade provided a way of building start-up capital for further business development, and it diminished in importance as small business developed.

Main conclusions

Principal features of the Turkmen consumer goods market in 2000-2008 were as follows:

- The share of trade in GDP has been declining since 2005;
- Development of the free market has led to a major adjustment in the structure of retail sector ownership. The non-state share in sector turnover has risen to 92%, and 96-98% of non-state retail turnover consists of turnover in food, non-food and mixed markets;
- The share of household incomes spent on food purchases remains high;
- There has been a decrease in the number of trade organizations and an increase in the number of mixed markets;
- Imports have played a large role in the saturation of the domestic consumer market;
- Conditions have been created in retail trade for the development of small businesses;
- The trade sector has much importance in creating new jobs.

III. CURRENT STATE FOREIGN TRADE

3.1. Turkmenistan's foreign trade

Before independence Turkmenistan's foreign trade was highly centralized. As a result, although the country had much export potential, it ranked in the last position among Soviet republics with regards to the scale of export deliveries. The trade balance remained negative until 1991. Independence and a new policy of decentralization brought extensive changes in Turkmenistan's relationship with foreign countries. The number of business agents in the country involved in foreign trade grew dramatically, Vnesheconombank ("Bank of External Trade") came into existence, joint ventures were set up, direct contacts were established with foreign firms, and export deliveries grew. Deliveries of Turkmen natural gas accounted for a large part of the export growth and enabled the country to achieve a positive balance of trade.

The transition to a policy of open doors, the promotion of foreign trade links with traditional partners, and the forging of links with new trading-partner countries were an important part of the economic reform process.

Turkmenistan now has trading and economic agreements with 24 countries, helping to develop favorable conditions for trade. Free trade agreements have been signed with 7 countries, agreements on stimulation and mutual protection of investments have been signed with 21 countries, there are agreements with 12 countries on avoidance of dual taxation (as a way of encouraging foreign investment), and Turkmenistan has agreements with 28 countries for the creation of intergovernmental commissions on economic cooperation.

Turkmenistan's geographical position is highly favorable for the development of international transit. Intensive expansion of transport networks and geographical diversification of exports are an important aspect of the country's foreign economic policy

Turkmenistan has a liberal trade regime. Only 49 imported products are subject to customs duties. The country's laws also set out a long list of preferences, intended to help attract foreign capital to the country.

3.2. Foreign trade turnover

The nature of a country's foreign economic activity is determined by the volumes of export-import operations, structure and geographical orientation of trade flows and the state of import-export payments.

As shown in Table 3.2.1., Turkmenistan's external trade expanded 4.1 times in 2000-2008. Exports increased 4.8 times and imports 3.2 times, and the country's trade surplus increased 8.7 times. The average value of exports was 1.7 times higher than that of imports during these years.

Table 3.2.1.: Main indicators of Turkmenistan's foreign trade, million USD*

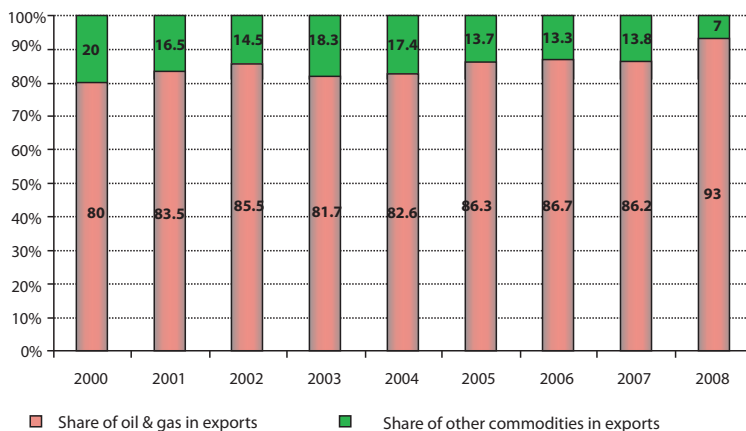
Indicator	2000	2003	2005	2006	2007	2008	Times increase from 2005 to 2008
Export	2506.0	3632.0	4939.0	6724.1	8932.1	11944.7	4.8
Import	1785.0	2512.0	3638.4	3290.0	4442.0	5707.2	3.2
Foreign trade turnover	4291	6144.0	8577.4	10014.1	13374.1	17651.9	4.1
Balance	721	1120.0	1300.6	3434.1	4490.1	6237.5	8.7

* Source: Turkmenistan State Committee for Statistics

3.3. Main exports

Turkmenistan's economy is characterized by a significant and increasing focus on commodities. As can be seen from Figure 3.3.1., the oil and gas share in exports reached 93% in 2008, making the fuel and energy industry the main factor in the country's economic development.

Figure 3.3.1.: Commodity Structure of Turkmen exports, %

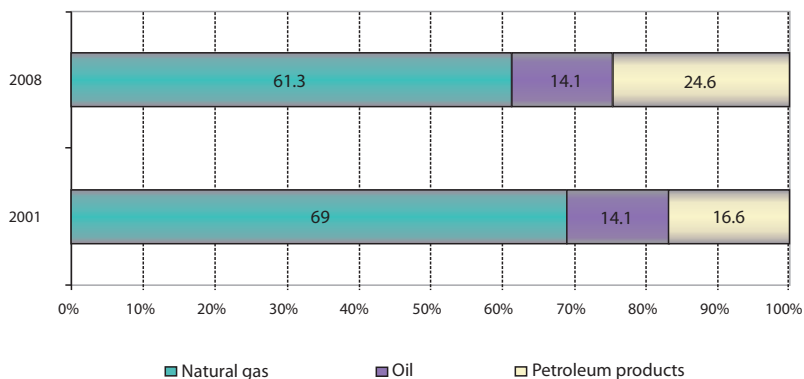


Source: Turkmenistan State Committee for Statistics

The positive balance of trade is mainly due to growth in export of natural gas, the share of which in total exports rose from 44.7% in 2005 to 55.9% in 2008, as well as export of petroleum products, which have varied between 21.4% and 26.7% as a share of exports.

As can be seen in Figure 3.3.2., exports of the oil and gas sector is dominated by natural gas.

Figure 3.3.2.: Structure of Turkmenistan's oil & gas exports, %



Source: Turkmenistan State Committee for Statistics

The development of the oil and gas sector has been increasingly linked to the growth in exports, since 72-74% of natural gas output and over 20% of crude oil output is currently exported. More than 90% of exported oil is produced by foreign oil and gas companies working in Turkmenistan under production sharing agreements. Oil produced by the state oil concern, Turkmenneft, is mainly refined into various motor fuels and petrochemicals inside the country. More than 70% of these petroleum products are exported.

The energy prices on external markets have been more than favorable in recent years, and Turkmenistan's terms of trade index has risen as a result. As shown in Table 3.3.1, prices for exported production have risen much more quickly than prices for imports.

Table 3.3.1.: Efficiency of foreign trade*, %

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Combined export price index	60.5	0.5	2.2	13.1	18.8	27.9	32.2	24.2	38.9
Combined import price index	14.6	11.3	1.8	2.8	11.3	19.9	5.1	6.9	-14.98
Index of terms of trade	40.1	-9.7	0.4	10.0	6.7	6.7	25.8	16.2	63.4

* Source: Turkmenistan State Committee for Statistics

The increase in the value of Turkmenistan's exports has been mainly due to increasing prices for natural gas, crude oil and petroleum products. Growth in average annual prices of natural gas exports was nearly 48% in 2005-2008, although the physical volume of exports rose by only 6%.

The situation for crude oil and petrochemical exports was analogous. Figures 3.3.3.a) and b) show how physical volumes and prices for energy exports have increased. The value of natural gas and petroleum product exports has risen significantly, although physical volume of exports has declined.

Figure 3.3.3.a) Dynamics of growth of natural gas exports,* %

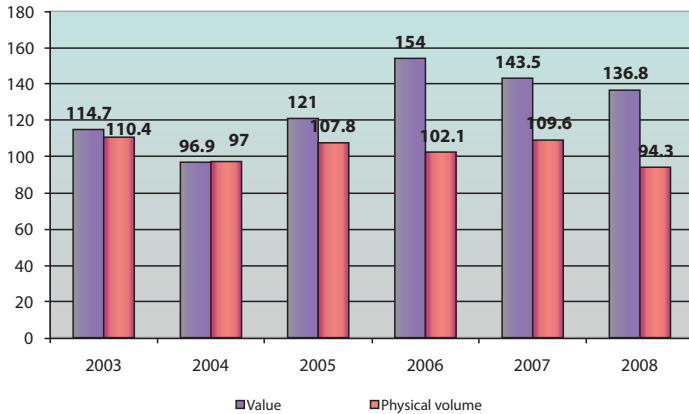


Figure 3.3.3.b): Dynamics of growth of crude oil exports*, %

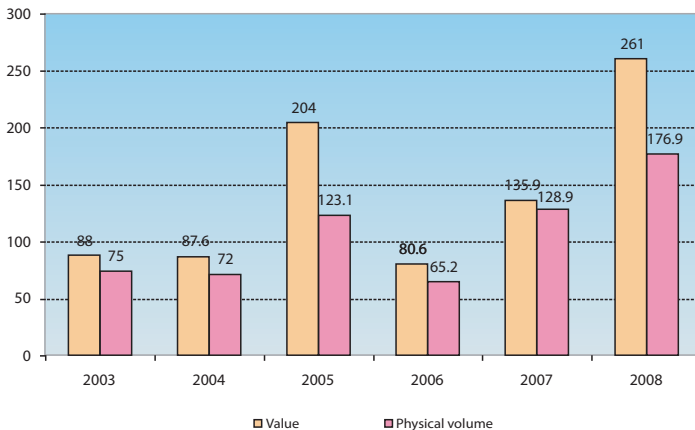
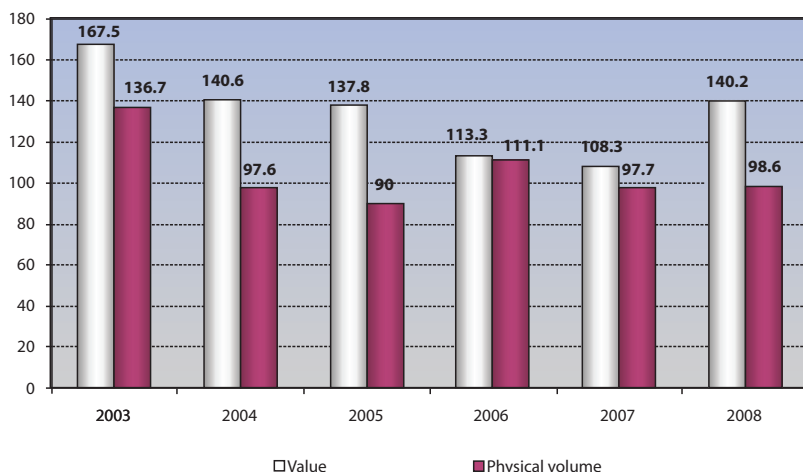


Figure 3.3.3.c): Dynamics of growth of petroleum product exports*, %



The trade surplus reached maximum levels in 2008 due to high prices for hydrocarbons. High prices for energy resources led to an increase of export sales, which raised state budget revenues. The state budget's surplus amounted to 10% of GDP in 2008.

The annual growth of exports in 2005-2008 was over 34%, compared with 11% annual growth of GDP.

As can be seen from Table 3.3.2. below, the share of other goods in the country's exports remains insignificant. There has been a reduction in the export share of traditional export goods, such as cotton fibre, about 50% of which is sold abroad: the share of cotton fibre in total Turkmen exports declined from 19.7% in 1996 to 1.8% in 2008. This is due in large part to the development of textile production with greater value-added (production of cotton fabrics). The construction of textile and knitwear plants inside the country has met domestic demand for textiles and articles made from textiles. The structure and level of development of the domestic textile industry now enables the export of cloth, spun cotton, threads (3.3% of export volumes), knitted fabric, and finished textile and knitwear articles (1.5% of export volumes). However, textile production represented only 5-6% of total exports in 2005-2007.

Turkmenistan continues to export traditional outputs of its processing industries: technical iodine, technical carbon, sodium sulphate, raw silk, washed silk, carpets and carpet articles, etc. Technical iodine, raw silk and washed silk have been the fastest growing processing exports in recent years, thanks to the expansion and modernization of production capacities, and increase in available amounts of raw materials. Secondary product types represented an average of 24% of total processing industry exports in 2005-2008.

Table 3.3.2.: Turkmenistan's main exports, USD thousand

	2005		2006		2007		2008	
	value	share, %	value	share, %	value	share, %	value	share, %
Total	4939.0	100.0	6724.1	100.0	8932.1	100.0	11944.7	100.0
<i>of which:</i>								
Natural gas	2208.7	44.7	3402.3	50.6	4880.6	54.6	6677.2	55.9
Crude oil	535.3	10.8	431.6	6.4	587.0	6.6	1534.8	12.8
Petroleum products	1318.9	26.7	1756.3	26.1	1909.7	21.4	2678.3	22.4
Electricity	33.4	0.7	41.6	0.6	50.2	0.6	58.7	0.5
Cotton fibre	94.7	1.9	142.7	2.1	208.7	2.3	212.9	1.8
Silk	10.4	0.2	11.1	0.2	15.4	0.2	-	-
Textiles	298.5	6.0	330.5	4.9	431.5	4.8	-	-
<i>of which:</i>								
Cotton yarn	107.4	2.2	108.0	1.6	162.7	1.8	100.6	0.8
Cotton fabrics	65.8	1.3	89.3	1.3	136.2	1.5	59.0	0.5
Knitwear	69.1	1.4	57.3	0.9	25.4	0.3	13.3	0.1
Knitted fabrics	6.2	0.1	2.4	0.0	5.6	0.1		
Woven clothing	27.1	0.5	34.7	0.5	45.8	0.5		
Other finished textile products	229	0.5	38.7	0.6	55.8	0.6		
Carpets and carpet articles	11.7	0.2	6.5	0.1	4.5	0.1		
Polypropylene	68.8	1.4	101.7	1.5	115.0	1.3		
Liquefied gas	128.5	2.6	136.8	2.0	209.5	2.3		

Source: Turkmenistan State Committee for Statistics

Turkmenistan's chemical industry does not have a strong export orientation. Chemicals represent only 1.5% of the country's exports. They include sulphur and various inorganic chemicals (iodine, technical carbon, argon, technical ammonia, bischofite and sodium sulphate). However, the largest component of Turkmen chemical exports is polypropylene (1.3% of the country's total exports).

Agricultural production represents 3.5% of total exports and 3% of exports are non-food agricultural outputs. Handmade carpets are a traditional Turkmen export, and enjoy a strong international demand. Turkmen carpets are valued 2-2.5 times more highly than their nearest analogues, which are carpets made in Afghanistan. However, only a small share of Turkmen carpets is exported: carpets and items made of carpet material represent only 0.1% of total exports and less than 2% of annual domestic carpet output. Output and export of carpets could be increased by an intensive development of wool yarn production (as part of the production cycle, which leads from raw wool to yarn and then to carpets).

Small quantities of astrakhan fur and leather are exported. An increase of these exports depends on expanding flocks of karakul sheep (from which astrakhan fur is obtained) and cattle.

There is a strong international demand for liquorice root and liquorice extract, which are produced in Turkmenistan, but their share in exports are minute (1% of agricultural exports). Greater private sector involvement could help to develop liquorice production.

In general, Turkmen exports are dominated by raw materials, entailing heavy dependence on the international price environment. The large share of gas, oil and petroleum products in exports means that the country has very little manoeuvring space in export policy.

The dominance of raw materials and energy in Turkmen exports reflects the under-development of processing industries and an insufficient competitiveness of finished products, made in Turkmenistan. The geographical orientation of exports (except for gas exports) is varied, and has traditionally included such countries as Iran, Turkey and Italy.

Turkmenistan's exports are consistently greater than its imports, which has resulted in a permanently positive balance of trade. This is a clear and important advantage, but there are a number of problems in the trade sector. Turkmenistan's exports have remained insufficiently diverse. Exports of gas (the country's main export item) are geographically limited by the existing pipeline system, which means that all gas exports must be supplied to Russia and Iran. Some positive steps in the gas export policy are being taken at present, most notably the construction of a pipeline from Turkmenistan to China, which could make Turkmenistan the main gas supplier to the eastern regions of China. However, significant investments are required in order to increase the diversity of natural gas exports, especially in view of that their present geographical structure cannot be quickly

changed.

Secondly, so long as the economy remains dependent on the fuel and energy industry (mainly natural gas) it will not be possible to ensure strong and sustainable economic growth in Turkmenistan. Much attention is therefore being paid at present to improving the structure of Turkmen exports, which must be diversified through the expansion of the country's export potential and exports of finished goods.

3.4. Main imports

Until 1991, Turkmenistan's imports consisted mainly of light-industry and food industry products. Machinery and equipment represented only 5% of imports. However, large-scale import of consumer goods did not lead to a proper balancing of the domestic market. Therefore, after independence it was decided to adjust the country's import structure towards capital goods in order to develop the production of consumer goods inside the country, which could meet the needs of domestic consumers and help to develop the country's export potential. As a result, the structure of imports has changed significantly since independence.

Turkmen imports in 2005-2008 consisted mainly of capital goods, which represented up to 78% of total imports. The share of machines and equipments was 27-30%, while raw materials and semi-products were 25-35% (Table 3.4.1.). This has enabled higher rates of production of goods intended for export, and created conditions for increasing exports of finished products.

Table 3.4.1.: Turkmenistan's main imports, USD thousand

	2005		2006		2007		2008	
	value	share, %	value	share, %	value	share, %	value	share, %
Total	3638.4	100.0	3290.0	100.0	4442.0	100.0	5707.2	100.0
<i>of which:</i>								
Capital goods and inputs	2636.7	72.5	2143.7	65.2	3470.7	78.1	4241.5	74.3
<i>of which:</i>								
Equipment, electrical machines, mechanisms	1124.7	30.9	870.8	26.5	1328.4	29.9	1584.0	27.8
Vehicles	487.9	13.4	396.1	12.0	750.7	16.9	452.8	7.9
Fertilizers	6.4	0.2	5.0	0.2	13.0	0.3	30.8	0.5
Raw materials and semi-products	998.2	27.4	833.4	25.3	1291.5	29.1	2015.7	35.3
Consumer goods	1001.7	27.5	1146.3	34.8	971.2	21.9	1465.7	25.7
<i>of which:</i>								
Food goods	194.8	5.3	178.3	5.4	222.0	5.0	493.9	8.7
Non-food goods	806.9	22.2	968.0	29.4	749.2	16.9	971.8	17.0

Source: Turkmenistan State Committee for Statistics

Consumer goods account for about a third of imported goods. The share of food products in total consumer goods imports has risen in recent years, from 15.5% in 2006 to 33.7% in 2008. Food remains a small share of total imports, giving domestic agricultural producers more opportunity to sell their products on the domestic market. However, imports of some staple products (flour, meat, fruit and sugar) remain high.

Imports of industrial consumer goods are at high levels. Domestic demand for household appliances and other electrical goods (televisions, washing machines, fridges, freezers, etc.) is entirely met by imports, and these articles account for 8-11% of total imports. The demand for other household goods (cleaning fluids, perfumery, glass, furniture, tools, sports goods, etc.) is also largely met by imports. Turkmenistan also depends on imports of pharmaceuticals, which are 2.5-3% of total imports.

Although most of Turkmenistan's chemical production is exported, the needs of all sectors of the economy for chemicals are largely met by imports. Imports of chemicals exceed exports by 6-8%.

Intra-sectoral proportions in Turkmenistan's light industry mean that large shares of domestically produced commodities, such as cotton fibre, wool and leather, are exported. More than 50% of the cotton fibre output is exported, while knitted and textile products are sold abroad as well. The value of knitted and textile exports exceeds value of their import 1.8 times.

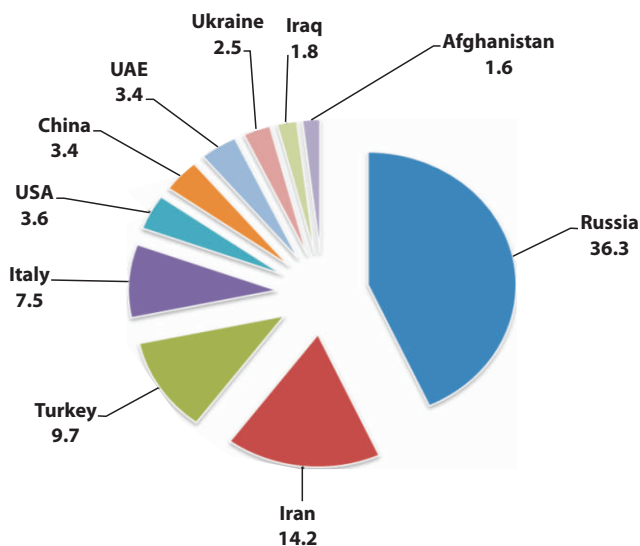
3.5. Trade partners

Turkmenistan traded with 96 countries in 2008. Countries in Europe accounted for 65.5% of exports and Asian countries for 33.9%. The share of CIS countries was 57.2%. Asian countries provided 51.7% of imports, while 40% came from European countries. Imports from the CIS were 29.5% of the total.

Turkmenistan trades with nearly all CIS countries. Volumes and geography of trade ties are a function of economic profile and production structure. CIS countries account for more than 48% of total trade turnover, and 82% of the trade surplus. Turkmenistan's main trade partner (37% of all trade) is Russia, which is the traditional supplier of sawn timber (approaching 100%), metals, other capital goods and industrial inputs, and consumer goods.

However, the geographical structure of Turkmenistan's foreign trade is gradually changing. The share of CIS countries is declining (from 59% in 1995 to 43% in 2008), as Turkmenistan becomes increasingly integrated within global trade. Figure 3.5.1. shows the shares of Turkmenistan's main trading partners in the country's total trade turnover.

Figure 3.5.1.: Shares of main trading partners in total trade volumes (2007), %



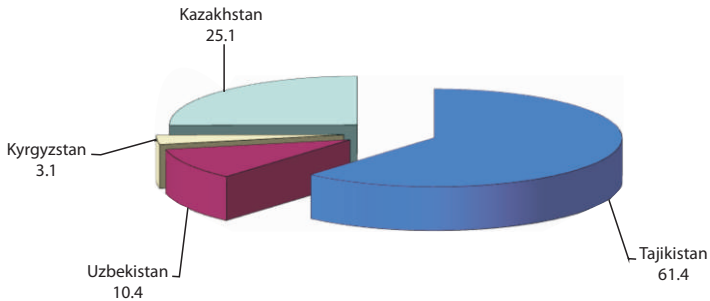
Source: Turkmenistan State Committee for Statistics

Turkmenistan has close economic ties with other countries in Central Asia, which is natural, in view of their proximity. Trade turnover with Central Asian countries increased 3.8 times in 2000-2008 (exports 2.4 times and imports 5.1 times). Turkmenistan's imports from these countries are twice greater than its exports to them. Imports from Kazakhstan consist mainly of grain, flour, meat and meat products, machines and metals. Turkmenistan supplies petroleum products, gas and chemicals to Kazakhstan.

Main imports from Uzbekistan consists of agricultural machinery and spare parts, and equipment for light industry as well as fruit and vegetables. Main Turkmen exports to Uzbekistan consists of petroleum products, glass and light industry outputs, and construction materials.

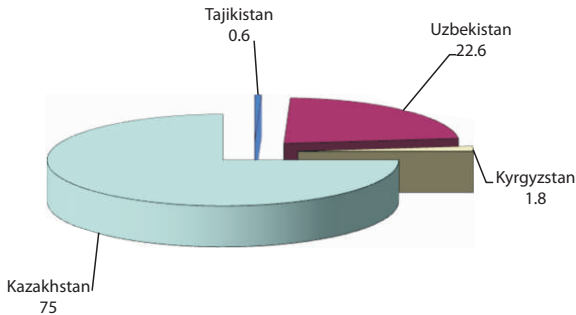
Turkmenistan's main trading partners in Central Asia are shown in Figures 3.5.2.a) and 3.5.2.b).

Figure 3.5.2a): Turkmenistan's exports to Central Asian countries, %



Source: Turkmenistan State Committee for Statistics

Figure 3.5.2.b): Turkmenistan's imports from Central Asian countries*, %



Source: Turkmenistan State Committee for Statistics

Main conclusions

1. Turkmenistan's exports exceed its imports, making the balance of trade consistently positive.
2. Although the state of Turkmenistan's foreign trade appears to be highly favorable, the situation in this sphere of the economy is problematic due to insufficient diversification of exports.
3. The geographical orientation of natural gas exports (Turkmenistan's main export commodity) is determined by the existing pipeline system, which carries

gas to Russia and Iran. Structural changes in the gas export policy are now taking place. Construction work is being completed on a pipeline from Turkmenistan to China, which should enable Turkmenistan to take a dominant position in supplying of gas to the eastern regions of China. However, geographical expansion of natural gas exports requires large investments and will take a considerable time to achieve.

4. Economic development, which relies on the energy industry, and specifically on natural gas, will not be capable of ensuring strong and sustainable long run growth.

IV. POSSIBLE IMPLICATIONS OF COMMODITY DEPENDENCE

4.1. Environmental impacts of oil and gas sector enterprises

Dozens of chemical substances are emitted into the atmosphere in Turkmenistan. The principal emissions from stationary sources are hydrocarbons, which represent more than 60% of all harmful atmospheric emissions and derive mainly from enterprises in the oil and gas production and refining sectors.

The oil and gas sector produces the largest part of export revenues, and the oil and gas sector is bound to remain central to the Turkmen economy and to the country's export structure in the immediate future. Most of environmental impacts of the sector arise during all stages of the production cycle: almost every stage of the cycle is a potential source of harmful emissions. Pollution is mainly due to harmful substances emitted during production, refining and transport of hydrocarbons, or emission of hydrocarbons themselves (methane), due either to inevitable process leakages or to accidental leakages. Oil and gas industry emissions are nearly all at specific locations and are stable. Emissions from natural gas production sites are usually infrequent, while emissions from gas processing facilities are mainly constant. Large quantities of toxic wastewater, with high mineral content, mainly from production sites, are discharged directly into landfills. Waste discharges from oil and gas sites also pollute the Caspian Sea, particularly around the Turkmenbashi Oil Refinery Complex. As a result, environmental impacts exist at all stages of the oil and gas industry cycle, from prospecting and exploration to refining and storage of products.

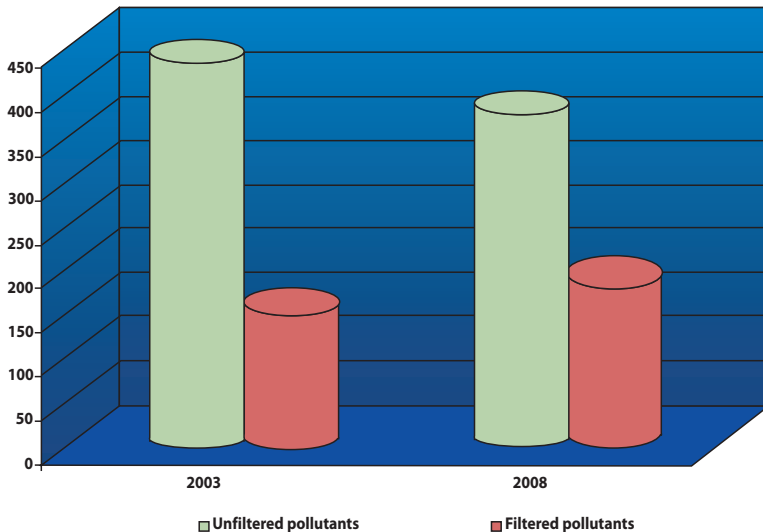
Steps are currently undertaken to reduce the environmental impacts of pollution in Turkmenistan. In its role as an independent and neutral state in the international community, Turkmenistan has declared its commitment to international agreements on environmental protection. Turkmenistan has subscribed to several of the UN's environmental protection conventions, which serve as guarantees to environmental protection and prevention of global ecological catastrophes.

The Turkmen government has taken actions in favour of environmental protection. A National Action Plan for the Protection of the Environment was adopted in 2003, setting out environmental measures for future implementation.

Up to USD 200 million are earmarked each year in the state budget for environmental protection. Legislation has been approved to combat environmental pollution in various sectors of the economy, particularly the oil and gas sector. Relevant documents include the laws “On mineral resources” (1992), “On hydrocarbon resources” (1996), “On the prevention and resolution of emergencies” (1998), “On standardization and metrology” (1993), and “On the certification of products and services” (1993), as well as Rules for the Development of Hydrocarbon Fields (2000), and the National Plan for Prevention and Resolution of Oil Spillages (2001). A number of legislative measures have also been approved for improving the ecology of offshore and coastal districts of the Caspian Sea.

The share of atmospheric pollutants, which are filtered prior to emission, rose from 26% in 2003 to 34% in 2008 thanks to the steps taken to date. However, environmental protection remains one of the key challenges in Turkmenistan at present.

Figure 4.1.1.: Harmful atmospheric emissions, thousand tonnes



Source: Turkmenistan State Committee for Statistics

In August 2009, two laws were passed: “On radiation security” and “On the protection of the ozone layer”. These measures will contribute to the preservation and restoration of the ozone layer in order to help protect human health and the environment from negative impacts due to the destruction of the ozone layer.

4.2. Threat of “Dutch disease” and its consequences

Turkmenistan currently faces a number of difficult problems connected, firstly, with the urgency of reducing the dependency on revenues from oil and gas sector exports and, secondly, with the need to ensure a rational use of oil and gas export revenues in order to avoid the trap of the so-called “Dutch disease”, while at the same time achieving the development of processing industries and improving living standards.

If Turkmenistan cannot prevent Dutch disease from taking root and developing, the country could face the following consequences:

- Intensive production of energy resources and their sale at maximum prices will lead to a situation where all investments are directed to the energy sector, and the country's economy could eventually become dependent on a single product. The evident risk associated with such a development is that the demand for energy resources cannot be relied upon (new technologies could lead to a major reduction in demand).

- Increase of export revenues could lead to a strengthening of the national currency (the manat), causing products of the Turkmen economic sectors other than energy resources to lose export competitiveness due to their high prices, which would lead to a shrinkage of the export share of these products. A reduction of non-energy exports could lead to a crisis in the respective economic sectors with a resulting increase in unemployment.

- Growth of export revenues in the energy sector leads to increasing wages in that sector, creating additional demand for goods and services. The consumer goods and services industry will not be able to keep pace with the growth of demand, which could lead to higher prices and inflation;

- The “natural resource curse”, which tends to be associated with a slower development of technology and expertise. This happens because the need for a highly trained workforce, expensive research and complex engineering solutions is limited in an economy, which relies on natural resources;

- Large revenues from energy exports, which are a state monopoly, lead to the expansion of government budget revenues, most of which (over 60%) are spent on social needs. Any reduction of energy prices will lead to a sharp reduction of budget revenues and consequently result in a contraction of spending on social needs and social security. This would have a negative impact on living standards

¹Policy of the President of Turkmenistan, Gurbanguly Berdimukhamedov, for National Revival (Ashgabat, 2007)

and opportunities for developing human potential.

Natural resource wealth gives Turkmenistan an excellent potential for growth. However, natural resources also represent a significant risk, because their presence requires an appropriate economic and social policy, which can avoid the baleful consequences of “Dutch disease” and the “natural resource curse”. It is in the government’s power to ensure the control over all the potential mechanisms, by which the abundance of natural resources can have negative impacts on economic growth.

4.3. Implications of possible WTO accession

Trade liberalization has varied impacts on the growth of the economy and employment. These impacts sometimes lead to contradictory results, depending on the nature of trade barriers in the country and on reform strategy. The policy, which is now being implemented in Turkmenistan, is conducive to growth of production and employment, rise in real wages, growth of exports, etc.

However, the basic rules underlying international markets in conditions of an increasingly globalized economy are determined by countries, which are members of the World Trade Organization, since member countries account for 95% of world trade turnover. The question of Turkmenistan’s membership of the WTO is therefore of the utmost strategic importance.

The main purpose of the WTO is to further liberalize global trade and to ensure fair conditions for competition between countries. The main principles and rules of the WTO are: mutual provision of most-favored-nation status in trade between countries; mutual provision of national regimes for imported goods and services; non-application of quantitative or other limitations and ensuring transparency in trade policy; regulation of trade primarily by tariff measures; etc. As can be seen from these basic principles, Turkmenistan’s national producers stand to gain certain advantages from WTO membership, including more favorable conditions in the access to international markets for goods and services, based on a predictable and stable development of trade relations with countries, which are members of the WTO.

It is clear, however, that WTO membership will not lead automatically to explosive growth of Turkmenistan’s exports. That is because the WTO mainly supports trade in finished articles and goods produced using new technologies, while the Turkmen economy is mainly reliant on energy exports. Processing sectors in Turkmenistan are underdeveloped and agricultural productivity is relatively low. These parts of the country’s economy are not competitive on the world market. Sectors of the Turkmen economy such as insurances, financial services, and retail trade are currently unable to compete on the global markets.

Membership to the WTO will certainly lead to growth of consumer and capital

goods imports, and to a certain scope for the involvement of domestic small and medium-size businesses in foreign trade. However, these processes need to aim at creating efficient, healthy and fair domestic competition between goods producers. The country also needs to improve its legislation, taking into account WTO requirements.

Socio-economic consequences of Turkmenistan's accession to the WTO have not been sufficiently studied. In addition to an impact assessment of trade liberalization on production, an analysis of the consequences of WTO accession also needs to examine the social aspects. Furthermore, consideration must be given to the harmonization of legislation in social sector and, most importantly, application of international principles for regulation of wages and social insurance of employees. It is especially important to study possible improvements in labor legislation and its implementation. If Turkmenistan wants to avoid being among countries, which become poorer as a result of globalization, new priorities in socio-economic policy and the development of the domestic market should be elaborated.

We believe that Turkmenistan's accession to the WTO will have a major impact on the labour market, altering demand for labour across sectors and professions, and will force improvements in labour productivity and wage levels.

For this reason adjustments to employment and labour policy, which take into account the changes in foreign trade, should be given priority in the design of a system of social policy measures for possible WTO accession.

It is important to bear in mind that Turkmenistan, like other Central Asian countries, does not have direct access to the sea. This implies a measure of dependence in accessing international markets, and makes integration into the system of world trade a particularly important issue. The country has to design an efficient trade policy, create transport routes, and to simplify trans-border transit with neighbouring countries.

Accession to the WTO has both possible positive and negative outlooks for Turkmenistan. At the present state of national development, the short-term costs of membership appear to outweigh the gains, since the country is not properly prepared for accession. However, from a strategic perspective, WTO membership is one of the most important factors for the country's increased integration in the global economy.

V. IMPACT OF THE GLOBAL FINANCIAL CRISIS ON THE ECONOMY AND REGULATORY MEASURES TO MINIMIZE NEGATIVE TRENDS IN TRADE POLICY

5.1 Turkmenistan and the global economic crisis

In August 2008, the global economy entered the most serious financial and economic crisis of recent decades. Strong global growth gave way to a rapid decline of the world economy, as the double impact of sudden financial shock and high prices for energy and other commodities rapidly decreased levels of business activity, production and demand. Despite large-scale policy measures of the main participants in the world economy, and despite unprecedented support for the financial system, stress on global markets has remained high, weakening any recovery in the real economy.

The Turkmen economy was only modestly impacted by the negative trends associated with the global financial crisis, mainly because the national banking system is not integrated within global financial markets. Due to the long-term growth trend in the Turkmen economy, as well as cautious external borrowing policies, the socio-economic sphere in Turkmenistan has been protected from the negative impacts of the global economic crisis.

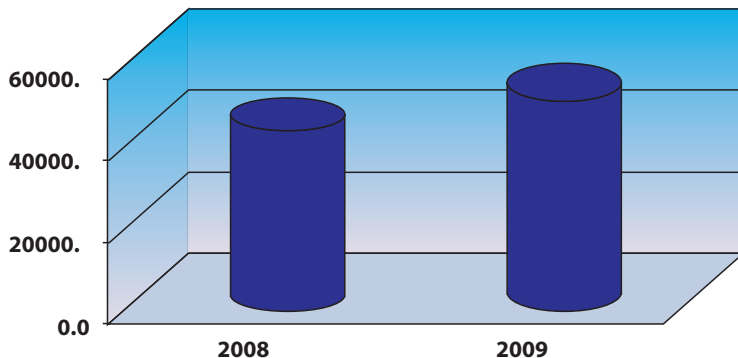
Economic stability in the country enabled an efficient implementation of anti-crisis measures and ensuring a maximum economic effect. Anti-crisis measures in Turkmenistan have been directed to ensuring more rapid development of the country in the long-term.

The Turkmen government carried out important reforms during 2008-2009 to obtain a greater balance and a stronger development in the economy. These reforms have done much to secure sustainable development in the post-crisis period.

A system of anti-crisis measures to minimize the impact of the global crisis on the country's socio-economic development has been developed and successfully implemented. These measures can be grouped as follows:

- a) a high level of investment activity, directed at the diversification of the economy and increasing competitiveness, the creation of new businesses and jobs, and the expansion of domestic demand;
- b) increased development of infrastructure;
- c) fundamental measures to improve monetary and credit policy, strengthening of the banking system, and efficient financial policy;
- d) high rates of wage growth, measures to reinforce social guarantees;
- e) ensuring that sufficient resources are in place to support key economic processes.

Figure 5.1.1: GDP in Turkmenistan, million manats

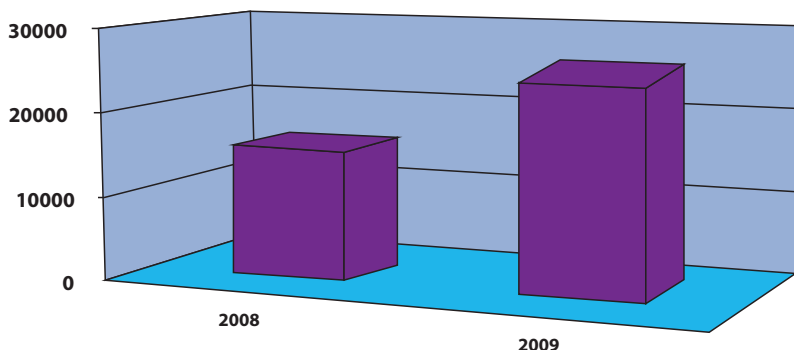


The implementation of anti-crisis measures and other steps of a general nature have enabled a major breakthrough in macroeconomic indicators. The Turkmen economy has shown that it can maintain sustainable development even during the global crisis. The growth of GDP in 2009 was 6.1% in comparable prices against 2008 (the figure in 2008 against 2007 was 10.5%).

This was mainly due to large investments in production facilities and in facilities with a social and cultural purpose, combined with strong growth of domestic consumption.

Investments in fixed assets saw a major growth during the period: they increased 1.6 times in 2009 compared with 3.4 times in 2008, and 2/3 of total investment was spent on production: construction of new capacities, and modernization and refitting of existing enterprises. Investments in the non-production sphere also grew rapidly, enabling large-scale construction of social facilities throughout the country.

Figure 5.1.2: Capital investments in Turkmenistan, million manats



Foreign investments represented 27% of total investments in the country during 2009 (38% in 2008). The high level of investments in the economy, particularly by foreign investors, is evidence of sustained levels of activity throughout the international financial crisis.

The proportional ratio of investments in Turkmenistan reached a level above 47% of GDP in 2009. The impact of substantial investments contributing to sustainable economic development is visible in the progress of the construction sector. Added value of the sector grew 2.9 times compared with 2008, raising the share of construction businesses in GDP to 17%.

Contracting businesses in the construction sector have seen a rapid development, expanding 2.3 times in 2009. A large part of contracting work (about 75%) is carried out by foreign construction companies and firms. This is further evidence of the success in limiting the impact of the global financial crisis on the Turkmen economy.

As of January 1, 2010, a total of 125 foreign construction firms from 28 countries were carrying out 865 large projects in Turkmenistan with a total value of USD 15.2 billion. The majority of these projects is due for completion before the 20th anniversary of the country's independence in October 2011.

Special attention has been paid throughout the financial crisis period to increasing the order portfolio of private construction firms, which demonstrates the country's commitment to the establishment of a competitive domestic construction sector. A presidential decree, "On increasing rates of construction work in villages, towns, etrap towns and etrap centers" was passed in May 2009, and permits local construction firms with appropriate licences to be hired as general contractors for construction and assembly work. The decree lays the foundations for increasing the share of contracting work carried out by privately owned domestic firms.

The rapid development of the construction sector throughout the crisis period has significantly increased demand for labour. As it creates new sites and facilities, the construction sector operates as a multiplier: in addition to creating new jobs in the construction and construction materials businesses, it also creates jobs in the sectors, which use new buildings. A large part of capital investments are channelled to new constructions, which include new industrial enterprises, food-processing facilities, and various complexes in the trade, infrastructure and service sectors. The construction of new cultural facilities also supports employment creation, enabling steady growth of personal income and expansion of domestic demand.

New industrial facilities commissioned in the last two years include the Cotton Preparation Plant in Rukhabat etrap, a Steel Plant in the town of Ovadandepa, a number of textile plants, including the country's first Medical and Cosmetic Wool

Plant in Ashgabat, the Gushtoplumy Poultry Complex in Bakharly etrap, a Cotton Spinning Plant in the town of Ovadandep, and a number of other new businesses.

Work continued or was completed in 2008-2009 on several large national and international infrastructure projects. These included the diversification of transport routes for delivery of natural gas to international markets (commissioning of the 7000-km Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline and a new pipeline from Turkmenistan to Iran). Work is also underway on infrastructure to enable the rapid development of large fields that can ensure maintenance of hydrocarbon deliveries to external markets via all main routes.

Intensive work is also continuing on the construction of the North-South and East-West transport corridors, the modernization of the country's airports and Turkmenbashi seaport, and the renewal of vehicles, vessels and rail fleets. These efforts will help to achieve a qualitatively new level of operation for the country's transport infrastructure, ensuring intensification, optimization and logistical efficiency of the country's transport resources.

The Avaza tourist resort zone has been made a national development priority. A number of high-class hotel complexes and a significant part of the resort infrastructure were commissioned in 2008-2009. The Avaza project will enable a major expansion of tourist businesses in Turkmenistan, with an expected multiplier effect for tourism related sectors.

Another important aspect of national infrastructure development is a large-scale programme for upgrading social amenities in the countryside.

A total of 23 new hospitals, 19 health centres, 14 pre-school facilities and 17 schools were built in rural areas during 2008-2009. Other construction in rural areas included 4 new cultural centres, 11 sport schools, and 7 sport centres.

Other achievements during the same period include the installation of about 1000 km of water and drainage pipes, and 840 km of new roads. A total of 3300 km of gas pipelines were built, as well as more than 750 km of power transmission lines, and more than 4300 km of telephone lines. New residential buildings with total floor space in excess of one million square meters were built in 2008-2009.

The improvement of rural infrastructure will support rural development by increasing the contribution of rural districts to gross regional products and hence to GDP. Programmes to be undertaken in 2011 will enable Turkmenistan to grow organic produce, increasing production volumes and outlets for the country's agriculture.

Large-scale investments in 2008-2009 have enabled the creation of new capacities that raise the volumes of industrial output in various sectors of the national economy. This has led to the creation of many thousands of new jobs, with a strong positive effect on the social environment in Turkmenistan.

A balanced socio-economic development of the country's regions is an important element of Turkmenistan's anti-crisis policy. The main tasks in this

direction are the creation of efficient infrastructure, increasing competitiveness of the country's goods, and expanding the range of exports. The goals of the regional policy are to be achieved using an approach based on programmes and targets, which enables specialists to obtain a deeper understanding of the role and significance of regional factors for overall social development, and to acquire a solid theoretical and practical knowledge that allows them to analyze regional problems and take scientifically based management decisions for the resolution of those problems.

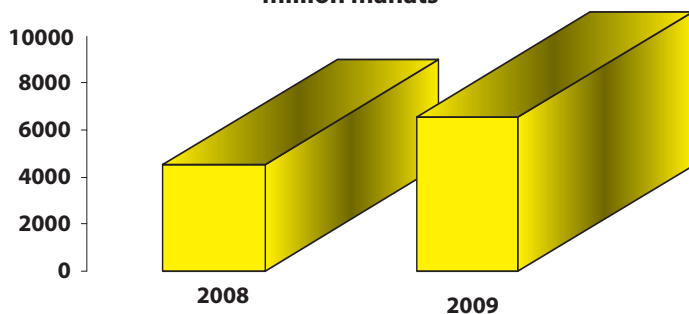
A number of concepts for the socio-economic development of velayats and the city of Ashgabat were approved in 2008 for the period up to 2012. The main objective of these concepts is to increase the contribution made by the country's regions to the modernization of the national economy.

Regulatory measures in the financial sphere play a large role in the functional stability of the national system. A surplus in the state budget during the crisis period of 2008-2009, reflects the stability of the national economy. In November 2008, funds from the budget surplus were used to create the Stabilization Fund of Turkmenistan, intended to finance anti-crisis measures and to ensure the achievement of the country's main priorities in the future. Since then money from the Fund has been used as intended, in accordance with decisions made by the Government, to finance projects and to ensure price stability on the domestic market.

Reforms of the monetary and credit policy, carried out during the same time, were essential to achieve a balanced development in Turkmenistan. Exchange rates of the national currency were unified in 2008, which supported the stabilization of purchasing power of the manat. Bureaux de change were opened nationwide, at which manats could be freely converted. The exchange rate of the national currency remained stable throughout the crisis at 2.85 manats per USD.

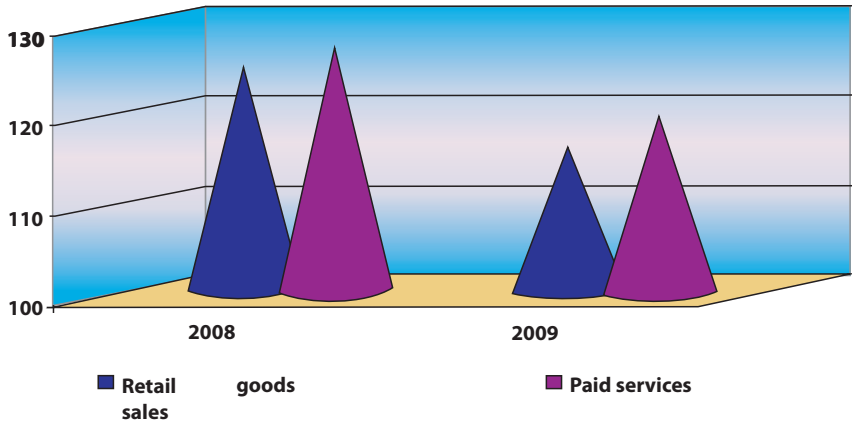
Despite negative trends on global financial markets, annual volumes of credit provided by Turkmen commercial banks grew by nearly 1.5 times in 2009 (growth in 2008 was 1.7 times).

Figure 5.1.3: Volumes of credit extended by commercial banks, million manats



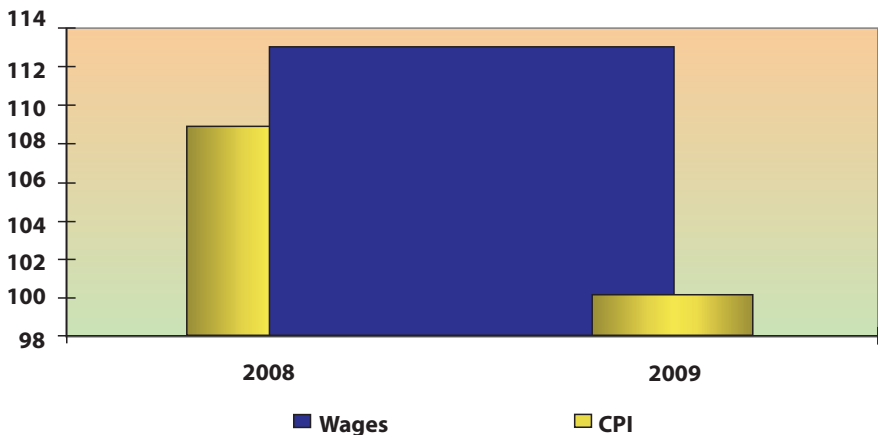
Within the context of the crisis, special attention has been paid to increasing personal income levels and decreasing domestic prices for consumer goods. The resulting growth of demand has led to a rapid expansion of retail and services. The volume of retail goods turnover grew by 16% in 2009 (paid services to individuals grew by 19%, compared with 27% in 2008).

Figure 5.1.4: Dynamics of growth in sales of retail goods and paid services, %



Annual growth of average wages during the same period was 11% and large-scale projects supported job creation, raising the employment rate. The exchange rate unification in 2008 led to the strengthening of the national currency by 40% relative to the unofficial market rate.

Figure 5.1.5: Dynamics of growth of wages and CPI, %



These developments show that real personal income levels have risen. Steady growth of personal incomes, strengthening of the purchasing power of the manat and stability in price formation helped to expand domestic demand in Turkmenistan despite the context of global economic crisis.

A package of social services for the public has been kept intact. Social policy also includes investment of large sums in education and healthcare systems.

Faster development of residential construction and housing utilities is an important aspect of social policy in Turkmenistan. The volume of capital investments in this sector doubled in 2008-2009. This has enabled for the rapid provision of new housing, made affordable by mortgage lending on favorable terms. Mortgage loans are issued at an interest rate of 1% per annum for a period of 30 years, with a five-year grace period in which only interest is payable. Furthermore, 50% of the total loan sum is paid by the organization, at which the borrower is employed. As a result, Turkmenistan has been immune to the effects of the global financial crisis even in the sphere where the crisis began – the mortgage lending business. In recent years, new housing has been built in rural areas and in small and medium-sized towns, and mortgage lending has been extended to buyers in these locations.

The reforms undertaken during the crisis period were financed from a variety of sources including borrowings, budget funds, as well as foreign investments and payments by households.

The overall conclusion of the annual IMF missions in 2008-2009 was that the Government of Turkmenistan has achieved significant progress in economic reforms during recent periods, particularly with the unification of exchange rates, which was facilitated by the currency reform, lowering of tariffs and price adjustments. Experts noted that the cautious financial policy of the Government and the diversification of the export markets for natural gas have enabled Turkmenistan to avoid a major negative impact from the most serious international financial crisis of recent decades. In this respect, the tax and budget reforms, the creation of the Stabilization Fund, and essential reforms in the monetary and credit sphere represent important steps for the progressive improvement of financial management mechanisms in order to further strengthen the country's financial positions.

During the crisis period, it is particularly important to maintain stability in Turkmenistan's economic development and a proactive price policy by the Government. Main elements of this price policy are:

- ensuring the stability of food supplies to the domestic market;
- strict government price control policy, preventing an increase of prices for goods on the domestic market, and state procurement of some mass consumption goods, which have a determining role in price formation. Mechanisms have been put in place for lowering excise and import duties on main consumption goods;

- ensuring sustained purchasing power of the national currency, increasing volumes of credit resources, supporting the liquidity of assets in the banking system, financial support for priority aspects of the real sector of the economy;

- rapid implementation of the National Programme of the President of Turkmenistan for the transformation of living conditions in villages, settlements, etrap towns and etrap centres in the period up to 2020. The Programme includes: construction in rural areas of: new settlements and residential buildings with good provision of social facilities, shops and service outlets; good roads; reliable water, gas and electricity supply systems; hospitals, polyclinics and sanatoria; pre-school facilities, schools, sports schools and properly equipped sports centres; telecommunications and other facilities that serve to improve infrastructure quality.

- full implementation of scheduled social programmes, preservation of benefits for households, including free provision of gas, electricity, water, salt and gasoline, as well as discounts on most services provided by the state;

- steady increase of real wages, pensions, benefits and stipends, their adjustment to take into account crisis trends and annual indexation in line with inflation, in order to ensure solvency of households. Timely payment of wages, particularly to agricultural workers, has special importance;

- full support for employment preservation and job creation, and government support for the development of the service sector.

The global financial crisis has a systemic character, affecting most economic sectors and the social sphere in every country, and affecting the structure of the global economy and the principles of international economic relations. The Government of Turkmenistan is taking into account these factors in the development and implementation of its anti-crisis measures, basing its action on the need to ensure that accrued financial resources are sufficient both for anti-crisis tasks and for tasks important for the future development of the country.

VI. PROSPECTS AND POTENTIAL FOR THE DEVELOPMENT OF TRADE RELATIONS AND THEIR IMPACT ON WELFARE

6.1. Current state of export-oriented and import substitution industries in Turkmenistan

Economic reform measures implemented since independence have led to a steady growth of GDP, a government budget surplus, the saturation of the consumer market, lowering of inflation rates, etc.

Not only macroeconomic indicators have improved, but also commodity-money relations have been enhanced. However, this development has been the result of a favourable trade environment, which is a very variable factor and cannot guarantee sustainable long run economic growth. If the national economy remains heavily dependent on world energy prices, the period of rapid growth could be followed by a period of recession, even if domestic production is efficient and competitive.

Growth rates in the energy sector are higher than in processing sectors, which negatively impacts on the structure of the economy. Investments in extraction industries are also growing faster than investments in other sectors.

In this context, diversification of the economy is an important condition for sustainable growth and, as a consequence, for the improvement of living standards. There is a need for a faster development of the processing industries (particularly in sectors, which use advanced technologies) and the services sector, accompanied by a reduction in the share of extraction industries in overall production and exports.

The structure of industrial production is dominated by the extraction sector to the detriment of processing (at the level of medium-sized and large enterprises, in which most productive and technological potential is concentrated). This reflects Turkmenistan's unique hydrocarbon potential. Turkmen and foreign experts have estimated the country's initial hydrocarbon resources at 45.4 billion tonnes of reference fuel, making Turkmenistan one of the five leading countries in the world by this indicator.

The extraction industry accounts for a large share of export revenues of the Turkmen industry. Its share, in 2008, was 69%, up from 61% and 57% in 2007 and 2006, respectively. The volume of export revenues of the extraction industry rose 5.5 times between 2000 and 2008.

Foreign-currency revenues from gas export are currently the main source of financing for large-scale construction projects in the public sector, state support for structural reorganization of the industry, equipment and materials for the agricultural sector, land reclamation, and improvement of transport infrastructure to assist the integration of the country within the global economy.

The processing industry in Turkmenistan is currently dominated by export-

oriented sectors, producing energy and fuels: power engineering and oil refining. On average 13% of electrical energy generated in the country and 55% of petroleum products were exported in 2005-2008. Oil refining alone accounted for more than 60% of total export revenue of Turkmen processing industries in 2005-2008.

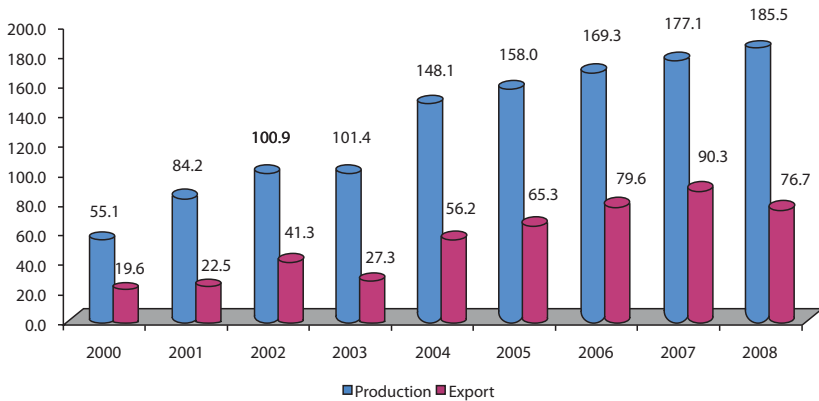
High levels of exports by the oil-refining sector reflect the recent large-scale modernization of the Turkmenbashi Oil Refinery, which has started to produce light products using European standards of quality. The oil-refining sector accounted for over 11% of total industrial investments in Turkmenistan between 1993 and 2007.

The oil-refining sector accounted for 46% of gross output in the processing industry in 2005, this share increased to 51% in 2006, and to 61% in 2008. This development reflects growth of output, but also reflects a considerable increase of export prices for gasoline, diesel fuel, liquefied hydrocarbon gas, etc. The average price for petroleum products rose 3.8 times between 2005 and 2008 to USD 1420 per tonne.

Output of cotton yarn, which is the main product of Turkmenistan's textile industry, rose 1.8 times in the period from 2000 to 2008.

The priority product for Turkmenistan's textile industry is cotton fabric, production of which had risen to 185.5 million sq m 2008, compared with 55.1 million sq m in 2000.

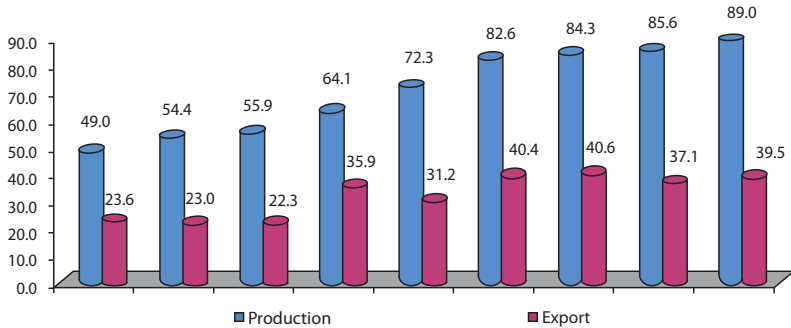
Figure 6.1.1.: Production and export of cotton fabrics, 2000-2008, million sq m



Source: Turkmenistan State Committee for Statistics

The manufacture of cotton yarn, cotton fabric, and knitwear is geared towards exporting. Turkmen producers of cotton yarn and cotton fabric exported 44% and 41% of their output, respectively, in 2008.

Figure 6.1.2.: Production and export of cotton yarn in 2000-2008, thousand tonnes



Source: Turkmenistan State Committee for Statistics

Large and steadily increasing hydrocarbon exports enable increasing investments in human capital through the development of health, education and science. Furthermore, these increased exports also support overcoming territorial imbalances in levels of infrastructure so to achieve a balanced socio-economic development in the different regions of Turkmenistan. However, investments in human capital will only yield good results and regional infrastructure will be beneficial, if they are linked to the diversification of export and development of the capacity of the manufacturing sector. Expansion of export potential in the manufacturing sector helps to enhance the development of all these processes. However, it is economic agents in the industrial processing sectors, making finished products, who experience the greatest competitive pressure on foreign markets, and this pressure is steadily increasing in the context of globalization. For this reason, export-oriented manufacturing sectors are usually at the forefront of technological innovation and require educated staff and highly qualified managers as well as specially trained production and technical personnel. As the innovative developments of the processing sectors gather pace, there is less need for unqualified production labour and a steady growth of demand for highly qualified technical staff.

Consequently, import substitution policy in the context of developing processing sectors, as well as policies aiming to develop export-oriented sectors need to be selective in their objects and aims.

The most important component of the country's import substitution policy in the initial stages of national independence was grain processing. The importance

of raising Turkmenistan's self-sufficiency in food, combined with favourable climatic conditions for wheat growing, made it natural to increase the amount of arable land sown with wheat in order to fully cover domestic demand for flour. In 1991, Turkmenistan produced only 0.1 million tonnes of flour. The harvest increased to 1.1 million tonnes by 1995 and 1.7 million tonnes by 2000. Grain processing capacity was also developed at a rapid rate. With the support of foreign firms, intensive work was carried out to build and commission milling and cereal facilities in all of the country's velayats, together with grain elevators and storage. These efforts have enabled Turkmenistan to save up to USD 1 billion during favourable harvests.

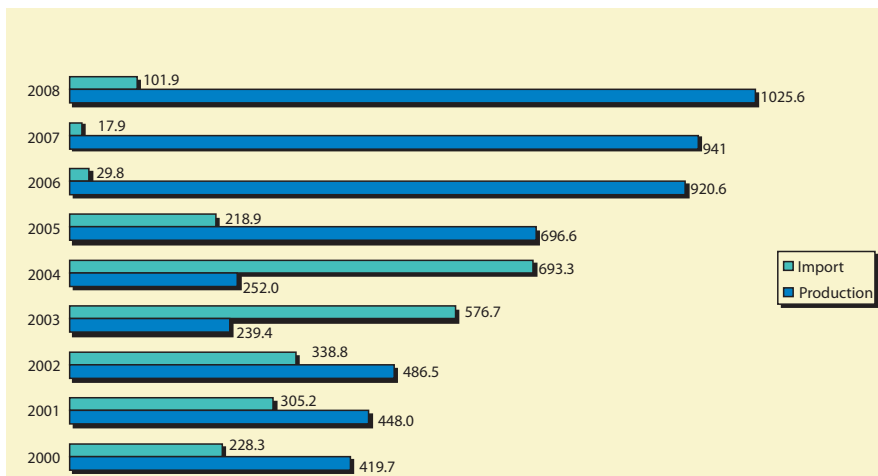
Another aspect of the drive towards food self-sufficiency has been the implementation of numerous projects to reconstruct and re-equip food-industry facilities, and install new facilities. Projects include dairies, meat plants and facilities for the preparation of dried fruits and vegetables, as well as plants producing non-alcoholic beverages and mineral water, and confectionary. These efforts have enabled Turkmenistan to raise its self-sufficiency to over 70% of food retail turnover.

The development of the textile industry (increased manufacture of semi-products and finished articles) has been mainly aimed at the domestic market, serving both end-consumers and production chains. For example, the use of domestically produced cotton yarn enabled the development of a cotton fabric and knitwear industry. According to expert estimates, the domestic textile market is now supplied by products made at plants of the Turkmen Textile Industry Ministry by 40-50%. The volume of cotton semi-products and finished articles supplied to the domestic market rose 1.5 times from 2000 to 2008.

Import-substitution has also been the goal in the expansion of cement production inside Turkmenistan.

The launch of new capacities has led to a substantial reduction in imports of cement for construction projects. In 2004, about 700,000 tonnes of cement were imported, but that figure declined to 220,000 tonnes by 2005 and to 17,800 tonnes by 2007. Cement imports rose to 102,000 tonnes in 2008, but that was due to the implementation of large-scale projects as part of the National Programme of the President of Turkmenistan in the period up to 2020 for the transformation of social and living conditions of people in rural areas, villages and towns at etrap (district) level and in urban centres of etraps. The cement import increase in 2008 was also due to the construction of the Avaza National Tourist Zone.

Figure 6.1.3.: Production and import of cement in 2000-2008, thousand tonnes



Source: Turkmenistan State Committee for Statistics

As a result, steps are being taken for the development of import-substituting and export-oriented sectors. These steps have enabled the expansion of the range of exported goods, and have helped to ensure social stability and maintain low unemployment, as prescribed by government employment policy. As a result, the share of those employed is currently at about 90%. Annual average growth of disposable household incomes between 2000 and 2007 was 28.5%.

It should be noted that the expansion of foreign trade could lead to significant changes in the structure of female employment, in both urban and rural areas, mainly due to the creation of production facilities where female labour is predominant.

6.2. Promising directions for the development of export-oriented and import-substituting production in the processing industry

The development of new export-oriented and import-substituting industrial production will be based on the availability of local raw materials and progressive technologies, helping to develop the competitive sectors of Turkmenistan's industry. The development of import-substituting sectors will also increase export potential.

Chemical industry. In addition to investment projects in support of power engineering and oil refining (expansion in the range of petrochemical products,

improvement in the quality of products made from hydrocarbons), projects in support of the chemical industry also offer much potential, since Turkmenistan has extensive sub-soil resources, which can be processed into a variety of chemicals.

The country's large reserves of natural gas will enable the expansion of the domestic chemical industry through the installation of modern facilities to process natural gas into high-quality chemical products.

There are plans to build plants for the production of carbamide, in order to meet the domestic demand for mineral fertilizers. A carbamide production facility is to be installed at the Maryazot Plant in the coming years, with an annual capacity of 400,000 tonnes, and a second similar facility with 640,000 tonnes capacity will be built at Tejen Carbamide. A new plant is planned in Mary velayat to produce 100,000 tonnes per year of a new type of liquid nitrogen fertilizer, thiosulphate of ammonia. Two further carbamide plants are to be built in Balkan and Lebap velayats in 2010-2019, with respective capacities of 1 million tonnes and 640,000 tonnes.

Natural gas is also be used as input at future plants producing methanol, formaldehyde, and carbamide-formaldehyde resin. These expensive chemicals are widely used in organic synthesis, the plastics industry, etc. (Turkmenistan currently imports carbamide-formaldehyde concentrate at a price of USD 980 per tonne for use as an additive to carbamide).

In Lebap velayat there are plans to process natural gas into polyvinylchloride, which is one of the inputs in production of thermo-plastic materials for various uses.

Another promising way of using hydrocarbon resources is in the production of sulphur, which is obtained during the purification of natural gas. Sulphur can be used for the production of sulphuric acid, which is used for the production of phosphate fertilizers, as well as in other industrial sectors, including in the textiles and food industry and the fuel & energy sector.

It is particularly important for Turkmenistan to install its own production of potassium fertilizers, which are highly important in agriculture. Potassium salts are found at a number of sites (the Garlykskoye, Karabilskoye, and Tyubegatanskoye fields) in Koytendag etrap, which is a part of Lebap velayat. There are plans to build the biggest mining and processing complex for potassium fertiliser production in the whole of Central Asia at the Garlykskoye field. The facility will have an initial annual capacity of 1-1.5 million tonnes, increasing later to 4-4.5 million tonnes. The creation of new chemicals sub-sector producing potassium fertilizers will create a balance between domestic productions of the various types of fertilizer, offering scope for exporting sur-plus production. The construction of the new facilities will substantially increase output of nitrogen, phosphate and potassium fertilizers. It is expected that revenues from the export of mineral fertilizers will reach USD 900-950 million in the next 7-10 years.

Sub-surface waters containing iodine-bromine represent another valuable mineral resource in Turkmenistan. The country already has an industry using these waters to make technical iodine. This production is to be expanded in the future through the development of iodine-bromine resources at other sites (the Guyular and Chukurguyu areas, and others) as well as more efficient use of all valuable components in the sub-surface waters (addition of iodine and bromine salts to the current range of products). Exports of iodine should increase by 2-2.5 times in 10 years time.

There are also plans to launch the production of ferric chloride (a coagulant) and ozocerite (used in spa medicine) at the iodine bromine plants.

Other valuable chemicals occurring naturally in Turkmenistan include intercrystalline brines and surface salts in the Gulf of Kara Bogaz Gol. The production enterprise, Kara Bogaz Sulphate, now produces monosulphate, and new facilities are to be set up for the production of magnesium oxide, metallic magnesium, and potassium sulphate, in order to make best use of this unique natural resource. Output of high-quality, A-type sodium sulphate should be increased by several dozen times before 2020, and export potential will be 330,000 tonnes, which is 4125% more than at present. Metallic magnesium will also represent a major export resource, since it is in high demand on international markets mainly for the use in the aerospace and car manufacturing industries.

Turkmenistan has almost unlimited quantities of sodium chloride (common salt) in the lake Kuuli (Gaurdaksy region), offering scope for the development of caustic and calcified soda production. There are plans to build plants for the production of caustic soda, chloride and chlorine products in Balkan and Lebap velayats. The availability of limestone in the Gaurdak-Karlyuksy region will also enable the construction of a soda ash plant. Industrial processing of local phosphorite ores is also a target, enabling creation of a phosphate fertilizer production facility in the town of Magdanly.

Turkmenistan's import substitution program also envisages a greater output of **construction materials**, which will be needed for the construction of new enterprises and for the refitting and modernization of existing enterprises.

The development of the cement production also has priority in Turkmenistan's import-substitution program, and will make the best use of the country's large deposits of limestones, clay sands, gypsum and argillite.

Two cement plants are currently being constructed, one in Balkan and one in Lebap velayats, each with an annual capacity of 1 million tonnes. The opening of the plants is scheduled for 2011. Reconstruction of existing cement plants is also in progress. Output from these plants will fully meet the cement needs of the country's developing market for construction contracting.

All of the country's velayats have large deposits of sand and gravel, which can be used for domestic production of non-metallic construction materials, helping

to achieve import substitution in the country's construction industry. There are plans to increase output of non-metallic materials through the creation of new enrichment plants in three of the country's velayats.

A new glass factory will be built with an annual capacity of 5.8 million sq m of 4 mm glass. The factory will use up-to-date float glass technology.

The availability of raw materials in Turkmenistan means that prospects are good for developing a large range of finished goods production for use in the construction industry. Plans, for the coming 10 years, include the construction of plants for the production of slates, natural facing materials, ceramic tiles, rolled hydro-insulation material (isogons), paints and varnishes, dry mixes for use in construction, thermal insulation (rock wool), bathroom ceramics, etc.

It is expected that the export potential of the **textile industry** will further grow in the future.

Plans include the expansion of a range of finished products by setting up production lines for fabrics for clothing, jacquard fabrics, cambric, calico, etc., all of which are in constant demand. Broadening the range of textiles made in Turkmenistan is vital for improving the potential of the country's cotton industry for import-substitution, especially in view to improve the sector's capability to compete with international markets. Knitwear production will be further expanded, particularly through the use of circular knitting machines, which make it easier to produce high-quality knitwear.

New textile complexes will be built in all regions of the country, supporting rapid development of cotton yarn and fabric production, and supporting job creation.

The expansion of the textile industries will also result in an expansion of export potential. Currently, the 2020 target for yarn and cotton fabric export revenues is to reach USD 600 million. Annual export sales by the entire Turkmen cotton industry is expected to exceed USD 1 billion by 2020.

The food industry is already one of the most technically advanced industrial sectors in Turkmenistan. A strong import-substitution effect has already been achieved on the food market and opportunities for exports are appearing.

The development of the food industry is geared towards a rapid increase in output of main products in order to achieve self-sufficiency in foodstuffs. This is achieved by expanding output volumes both through re-equipment of existing food production facilities and creation of new ones.

Plans include the reconstruction of meat and dairy plants, and the provision of new equipment for cattle-rearing facilities in Ahal, Balkan, Mary and Dashoguz velayats. Modernization work is planned at the Turkmenabad Edible Oils Plant and the Bairamaliisky Meat and Oils Plant. These projects will enable significant improvement of output quality. The use of modern technologies for cleaning cotton seeds will make it possible to obtain odor-free plant oil for the production of

various types of margarine and mayonnaise. In the future, plant oil will become an important Turkmen export and will include oils made from soya, sunflower and melon seeds as well as from cotton seeds.

Steps to develop the fruit and vegetables industry will include the modernization of tomato canning plants in Dashoguz, Turkmenabad, Sakarsk and Serdarab, as well as the construction of a number of mini-plants, each with 3000 tonnes annual production capacity, and the construction of a mini-plant in Balkan velayat for olive canning and production of olive oil. There are plans to export a part of the fruit and vegetable production, together with plant oils, to nearby countries, where climatic conditions for fruit and vegetable cultivation are less favorable than in Turkmenistan.

The production of drinking water, mineral water and other non-alcoholic beverages will be further developed at plants in Ahal, Dashoguz, Mary and Lebap velayats. Turkmenistan has long-established exports of mineral water and non-alcoholic drinks, and the planned expansion of production will lead to increases of export volumes.

Domestic output of confectionary products will be much increased through the construction of two confectionary plants in Ahal and Mary velayats, which will focus on specific Turkmen confectionary. An expansion of total output should lead to a major reduction of import volumes: in the future confectionery imports will be mainly on an exchange basis (Turkmen specialities will be exported, and foreign specialities will be imported).

A number of elevators, with a total capacity of 500,000 tonnes of grains, will be built in all velayats in order to develop the milling and cereal industry. These new facilities will ensure that production and storage needs of the milling and cereal sector are fully covered, enabling timely production and storage of grain in the future.

Fisheries and the fish processing industry will also be further developed. A new facility with an annual capacity of 80,000 tonnes of dried and smoked fish and 10,000 tonnes of filleted fish is currently under construction in Balkan velayat, and several other projects are also in progress.

Government support to private enterprises should encourage the involvement of private businesses in exporting Turkmen food products to international markets in the future. Export businesses should focus on tanned leather production, various types of clothing, hand-made carpets, leather goods, household goods made from plastic, various foodstuffs, jewellery, etc.

Turkmenistan has the capacity to create favorable conditions to develop modern and competitive production lines and other economic activities, to change the structure of production and its geographical distribution, to improve the quality of outputs, and efficiency of production, and to create employment.

These efforts will enhance the economic foundations for raising levels of

employment and household incomes, expanding internal and foreign trade, and increasing financing for social needs and the development of the social sector.

Greater use of social factors and planned measures for improving standards of living, raising household incomes, rationalising employment, and increasing the quality and competitiveness of the workforce will help to create favorable conditions for sustainable economic development, broadening of output and growth of demand for goods and services.

6.3. Development of the agro-industrial sector

The success of economic diversification in Turkmenistan is dependent on developments in agriculture. Major steps have already been taken towards improving the quality of Turkmenistan's agricultural sector, which accounts for a significant part of GDP. Currently, the agricultural policy is based on ensuring competitiveness of domestic agricultural production. There has been some progress towards greater use of land leasing and private farming, which have created favorable conditions for increasing volumes of agricultural output. However, the sector remains in serious need of investments in order to renew and modernize its production base and equipment. Turkmenistan still faces challenges in the privatization of agricultural land, ensuring that food is available and fit for consumption.

The range of processed food goods of acceptable quality, produced in Turkmenistan, remains very limited. There is large-scale wastage of fresh fruit and vegetables due to inadequate processing facilities and lack of storage capacity. Potential for development of the goods processing industry is significant, due to the large variety of crops, which can be grown in Turkmenistan. However, the country's geographical location and existence of similar climatic conditions in other Central Asian countries make it important to carefully consider new investments, in order to ensure that outputs meet a demand in export markets.

Agriculture is essentially a raw material sector, however, unlike the fuel and energy sector, it deals with renewable resources. Growth of the agricultural sector through increasing its business efficiency, expanding its markets, and improving the production quality are especially important in order to achieve a greater diversification of the Turkmen economy. The application of new technologies in the agricultural sector improved the efficiency of the sector, in addition to favouring the development of technologies in related sectors, such as fertilizer production, machine-building, and several others, as well as raising national R&D levels. The main objectives in the development of the agro-industry are to increase the competitiveness of the outputs and to develop markets for foodstuffs. This will support job creation in rural areas, countering the present trend of migration towards urban centres, which reflects lack of employment opportunities in rural

areas. Most of those leaving rural areas at present are young people, which is a worrying trend for the future. Despite such migration, the share of Turkmenistan's population living in rural areas is on the increase (due to higher birth rates in the countryside) and now stands at 53%. The Turkmen government is taking steps to improve the living conditions of rural inhabitants, and the Programme for Social Development in Rural Areas was approved in 2007. As well as supporting the improvement of employment levels in rural areas, the development of markets for agricultural goods will help to reduce the dependence on imports of agricultural goods.

Reforms carried out since independence have led to significant changes both in the structure of agricultural production and the forms of participation of citizens and the state in the agricultural sector. Government-control and market mechanisms now exist side-by-side in agriculture. At present, the state adjusts price differences between agricultural sectors. In the long term, there exists a risk that this could lead to a decrease in the quality and competitiveness of the sector's outputs.

One of the reasons for the poor development of daihan (peasant farmer) unions is the imbalance in the structure of irrigated land. Since most arable land is used for either wheat or cotton growing, the same fields tend to be used for the same crop year after year, leading to lower yields and the development of various crop diseases.

The main problem, however, is the fact that daihan unions and tenant farmers do not have land ownership rights. The tenant does not have a permanent plot, but must sow the crops he is instructed to sow and sell them at pre-set procurement prices. As a result, the costs incurred by the tenant farmer always exceed his revenues, and the provision of equipment, good-quality seed and fertilizers is far from guaranteed.

Tenants should be able to obtain long-term rights to land plots and to sow crops, which they know to be efficient. Procurement prices need to be linked to market prices in order to create more competition between buyers.

Problems associated with irrigation systems are among the most intractable problems for Turkmen agriculture. There is still no definite system for pricing of water: realistic valuation of water resources is of primary importance.

Policy in the agro-industrial sector is focused on the development of import substitution, but it is also highly important to support efficiency in the sector and achieve a gradual transformation towards exports. At present, Turkmenistan's agricultural exports are dominated by cotton. Expansion of export potential to other crops and outputs depends on the improvement of rural infrastructure and better equipment provision for agricultural producers.

The main objectives for the development of the agro-industrial sector should be:

- the development of competitive production;
- the creation of developed markets for agricultural produce;
- improving financial stability of agricultural producers;
- the conservation and renewal of natural resources, which are consumed in the process of agricultural production.

In order to attain these objectives and consolidate positive trends in the development of the agro-industrial sector in the medium term, the following challenges need to be met:

- further implementation of institutional transformation and development of a legal framework for the organization of land ownership;
- development of markets for agricultural produce and foodstuffs, improvement of the competitive environment;
- support for the development of market infrastructure and increasing exports of agricultural produce.

Steps that can facilitate these outcomes are as follows:

1) state policy in the agro-industrial sector should create the conditions for the efficient use of agricultural land and for bringing it into the market economy. The state should also facilitate the creation of unions of producers in various agricultural sub-sectors and should broaden the system of consultation for goods producers in agriculture;

2) diversification in the agro-industrial sector should be supported through the promotion of different types of business organization in agriculture with equal conditions of competition;

3) the financial and credit policy in the agro-industrial sector needs to be improved, including through the development of a system of insurance (insurance of harvest volumes, etc.), the creation of a system of lending against security on the market for agricultural produce, possibility of financial rehabilitation of agricultural enterprises, enabling agricultural producers to acquire equipment through leasing arrangements, and optimizing levels of taxation in agriculture;

4) the creation of an efficient system for the sale of agricultural produce by supporting the creation of modern infrastructure in the food market, creating more outlets for sales, developing the export potential of the agricultural sector, improving legal mechanisms to protect consumers and ensure adequate food standards, and creating a system, on the basis of international standards, for the certification of production;

5) sustainable development of rural districts in order to support growth of agricultural output. Solving the problems of rural development and ensuring an increase in living standards in the countryside requires the coordination between different branches of the government so to create new sources of employment, improve the skills of people working in the agricultural sector, support business

development among rural populations, and help people in the countryside to build social infrastructure.

The implementation of these measures will support the development of markets for agricultural produce, improve the financial state of agro-industrial enterprises, and create more jobs in agriculture and, as a consequence, in the trade sector.

6.4. Development of small and medium-sized business

Small and medium-sized businesses (SMEs) have an important role to play in ensuring the stability of economic development, and increasing the flexibility and adaptability of the national economy to changes in domestic and foreign markets. There exists a large interest to improve the business environment for SMEs, so to support the country in reducing its dependence on raw material and energy exports, as well as in broadening the range of national exports and in creating employment.

The appearance of a large number of producers offering similar products on the domestic and export markets will support the establishment of market price levels, which can stimulate growth of both production and consumption. Several important steps have recently been taken to encourage the growth of the SME sector. Reforms ended the monopoly of sectoral ministries and departments with regards to business licensing. Changes in the customs legislation are also intended to assist the development of domestic business. The new measures have done much for the expansion of the SME sector, which is particularly active in the consumer retail sector. The list of goods, which are subject to customs duties when imported by sole traders, has been halved. A minimum fixed payment has been introduced for all articles of clothing and related products, and customs duty on men's and women's footwear has been reduced.

The national law "On state support for small and medium-sized business", which was passed in August 2009, is intended to provide a firm basis for promoting the growth of employment levels and personal incomes in the medium and long term through the development of the SME sector.

The new law should overcome the lack of support for small and medium-sized business from ministries and government departments, which are responsible for implementing state policy. Ministries and government departments are now required to have their own programmes for the involvement of the SME sector. Support will be provided at the regional level to overcome differences between levels of development of the SME sector in various regions of the country, helping to raise levels of production, employment and personal incomes.

The stimulation of foreign trade activity is an important aspect of the law "On state support for small and medium-sized business". SMEs will have full rights to

engage in foreign trade and will be able to make an important contribution to the development of this sector of the economy. Provisions of the new law permit SMEs to engage in foreign trade without requiring a special registration as “foreign trade agents”.

Despite recent progress, several aspects of the current state policy towards the SME sector require further adjustment in the immediate future.

Small firms often find it difficult to obtain credits (particularly at the early stages of their development), and are unable to provide liquid forms of collateral for loans. Measures are needed to enable the development of insurance, credit and other institutions, which will help to ensure that SMEs have access to financing.

Microfinancing is one of the most promising ways of simplifying access to financing for small business. The development of microfinancing institutions, which can provide cash on a repayment basis for SME development, merits special attention.

Information services, legal services and other business related services are also extremely important for small business, particularly when starting a firm and during the early stages of its development. Moreover, there is a need for new infrastructures, including centres that can provide legal and information services to businesses.

Efforts by the state to support small business must be carefully planned and should consider proposals made by the business community.

6.5. Customs regulations

Customs procedures and customs control are currently regulated mainly by the Customs Code of Turkmenistan and the Statute on Payment of Customs Duties. The Statute orders use of *ad valorem*, special and combined customs tariffs. Customs clearance, include formalities and payment of duties, is governed both by the Customs Code and the Statute on Payment.

Customs tariffs have been changed three times in the last 10 years. The latest set of tariffs, created by presidential decree № 9925 (July 27, 2008), offers the most substantial incentives to industries that are oriented towards export markets, even though direct export subsidies do not exist in Turkmenistan. The intention is to support domestic private businesses. The new procedure for making customs payments includes simpler and faster completion of customs declarations, as well as allowing legal persons, individuals and the self-employed to import some essential goods to Turkmenistan, unhindered and customs-free.

The current legislation in Turkmenistan sets customs tariffs for imports of 49 groups of goods in the official list of external economic activities. A third of these are agricultural products and food goods, which are subject to special duty rates that are levied per unit in accordance with the rules. The average-weighted duty

rate is USD 0.83 per kilogram. Only 10 groups of goods are subject to export duties. These are goods, which have strategic importance for Turkmenistan.

The following export goods, in whatever quantity, are exempt from payment of customs duties: clothing, knitwear, footwear, fabrics, alcoholic and non-alcoholic drinks, and television, video, audio and radio equipment, cars, mineral water, carpets and carpet goods, vegetables, and melons.

The following goods, in whatever quantity, are exempt from payment of customs duties when they are imported into Turkmenistan: all kinds of meat, edible oils, butter, sugar, eggs, matches, flour, and grain. State revenues from customs duties are limited at present, representing only 5% of total budget revenues. Customs payments will decline further with the introduction of the law "On state support for small and medium-sized business". The law exempts SMEs from customs duties.

Turkmenistan has a unified system for duties and payments for vehicles, which are registered in other countries. Duties of between USD 15 and USD 150 are payable, depending on vehicle type and load capacity, for rights of entry to Turkmenistan and transit across its territory. Foreign vehicles must also pay between USD 15 and USD 150, depending on the vehicle type, for third-party insurance if they remain in Turkmenistan for less than 15 days. Payments of USD 10-15 are collected for customs formalities when Turkmenistan is the first country to be entered. A sum between USD 1 and USD 5 (depending on the type of vehicle) is payable for disinfection, and there is a charge of USD 5 for the inspection of transit cargos, which are in quarantine. A charge of USD 5 per vehicle is payable for the issue of an entry and transit visa. Payments for use of pontoon bridges and ferry services vary from USD 10 to USD 80 depending on the vehicle type.

Customs tariffs in Turkmenistan do not have a protectionist nature. This has encouraged dominance of goods with a foreign origin in tariff supply (they account for more than 80%).

Turkmenistan's customs policy does not pose any serious obstacles to the development of the country's foreign trade. This is mainly due to the fact that the structure of the county's exports is dominated by energy goods.

6.6. Trade regulation

Turkmenistan is now undertaking specific steps to further the development of its trade policy. There is an increasing awareness in the country that the best way out of the crisis situation is to increase the demand at home and abroad. The Turkmen government is therefore taking a number of substantial measures to strengthen and diversify the country's export potential. For this purpose, a number of inter-governmental cooperation agreements have been signed with the main partner countries, both in the field of trade and economics, and of science and technology. Turkmenistan currently has more than 20 inter-governmental commissions, which are supporting the diversification of the external trade

turnover with the respective countries.

Trade activity in Turkmenistan is currently regulated by a number of laws: "On state regulation of external economic activity", "On the Chamber of Trade & Industry", "On trade", "On trademarks indicating service and origin of goods", "On quality and safety of food products", "On certification of products and services", "On standardization and metrology", the Tax Code, the Customs Code, the Code of Sanitary Standards, and other legal and regulatory documents.

There has also been much work undertaken in recent years to improve the legislation in the trade sphere. New national laws came into force in November 2008: "On inventions and industrial samples", "On trademarks, service marks, and marks of origin of products", and the Code of Seaborne Trade. These new legislations are supporting Turkmen goods and services to gain access in the global markets.

A number of amendments and changes have been approved in recent periods, which simplify administrative procedures for obtaining permits and licences. Amendments were made in May 2008 to the law, "On licensing of various types of activities". A presidential decree, "On issues concerning the organization of licensing activity in Turkmenistan" was issued in February 2009 to ensure the efficient implementation of the licensing law and the reinforcement of its legal and organizational base. The decree specifies a list of ministries and government departments that issue licences, and the types of activity, for which they provide licences, as well as the size of the state duty, which is payable in order to obtain a licence. The Ministry of the Economy and Development was made responsible for controlling the licensing process.

A new "Resolution on licensing for the sale of petroleum products and fuels & lubricants" came into force in August 2009. New conditions for licensing in this sphere are intended to ensure the protection of the legal rights and interests of the state, of individuals and of legal persons. The resolution ensures favorable conditions for the sale of petroleum products on the domestic market, offering a detailed list of petroleum products, which can be sold via retail and wholesale trade.

Another important contribution to trade development and the quality of the goods produced is the law, "On quality and safety of food products", passed in April 2009, which encourages the use of new technologies and compliance with international standards, as well as establishing a strict system of control.

International exhibitions, congresses, forums, conferences and fairs represent another important means of diversifying exports, in addition to the improvements that have been undertaken in the legal framework of trade policy. Such events have been dedicated to a wide range of industries and sectors, including to priority areas such as the fuel and energy complex, agriculture, the construction sector, and textiles. The events may deal specifically with telecommunications, tourism, scientific achievement and innovation. They are all concerned with development of business activity in these spheres.

A number of such exhibitions have recently been held outside the country. A special focus is the opening of trade centres in major cities of Turkmenistan's main trading partners.

Turkmenistan is also supporting the development of import-substitution of the domestic industry, using local commodities and materials. Priority sectors for these efforts are the construction and agro-industrial sectors, some processing and chemical industries, as well as other areas of the economy. Special financial incentives to the private sector also take into account import-substitution priorities. These efforts are justified by a number of considerations, including the diversification of the economy, greater use of local commodities, sufficient supply of good-quality domestic products to the local market, saving foreign currency, supporting employment levels, ensuring price stability, and thereby ensuring adequate food supplies and economic security in Turkmenistan.

The main goal of the domestic trade policy is to achieve macroeconomic stability: keeping inflation at a low level, and coordinating monetary and budget policy to prevent uncontrolled growth of money supply. The goal, in terms of monetary policy, is to transform the manat into a hard currency.

Main conclusions

1. Although the Turkmen economy lacks diversity at present, the country has a very large export potential. The long-run policy goal should therefore be to create competitive goods inside the country.

2. The highest rates of growth among export-oriented sectors are expected to be in the chemicals sector. Exports of chemicals could be as high as USD 1300 million by 2020, and the share of chemicals in total exports will rise to 4.1% (from 0.2% in 2008).

3. The share of the textile industry in industrial exports will decline as a result of the rapid rise of the chemical industry. However, exports of finished products and semi-products will grow.

4. Other industrial sectors will also make significant contributions to the growth of export sales. Products of other sectors with high export potential include liquefied gas, polypropylene, construction materials, plastics, outputs of the light industry and the food industry, and several others.

5. Small and medium-sized businesses will make a major contribution to the reduction of the country's dependence on raw material and energy exports in the near term, and will help to expand overall exports.

6. Foreign-currency revenues from gas export are currently the main source of financing for large-scale construction projects in the public sector, state subsidization of the structural reorganization of the industry, and of equipment and material purchases for the agricultural sector, land reclamation, and improvement of transport infrastructure support the integration of the country within the global economy.

APPENDIX

Matrix of Actions for Further Development of Trade

	Action	Goal indicator and expected results	Time scale	Responsibility
1.	Faster implementation of existing national projects	Further development and modernization of the fuel & energy sector, processing industries, agro-industry, construction, transport & communications, and services	Short and medium term	Ministry of Economy and Development, relevant ministries and government departments
2.	Diversification of the economy through the development of priority sectors	Decrease in goods import. Expansion of manufacturing exports.	Short and medium term	Ministry of Economy and Development, Ministry of Trade and External Economic Ties, relevant ministries and government departments
3.	Stimulating and prioritizing development of the non-state sector	Increasing the contribution of the non-state sector to national production. Development of market infrastructure and institutions. Use of public-private partnership mechanisms in priority sectors and regions of the country	Short and medium term	Ministry of Economy and Development, Union of Industrialists and Entrepreneurs, relevant ministries and government departments
	Action	Goal indicator and expected results	Time scale	Responsibility
4.	Development of industries that process the country's natural resource wealth. Raising levels of	Increasing output of products with a high share of value-added. Expanding competitive sectors of	Short and medium term	Ministry of Economy and Development, relevant ministries and

4.1.	processing of raw materials Expanding production of construction materials	industry. Turkmenistan has much potential for the production of glass, ceramic tiles, ceramic bricks, etc. Production of competitive products and their export to foreign markets	Short and medium term	government departments Ministry of Economy and Development, Ministry of Construction and the Materials Industry
4.2.	Development of the oil & gas sector	Development of existing refining technologies and the range of petrochemical outputs, improving the quality of products made from hydrocarbons. Further modernization of oil refineries	Short and medium term	Turkmenbashi Refining Complex, Seidi Oil Refinery
4.3.	Further development of the chemicals industry	Achieving broad diversity of outputs by complex processing of mineral raw materials for supplies to the domestic market and to international markets. - implementation of modern technologies for processing of natural gas and its synthesis into	Short and medium term	Turkmenkhimiya (State Concern)
	Action	Goal indicator and expected results	Time scale	Responsibility

		<p>high-quality chemical products;</p> <ul style="list-style-type: none"> - production of mineral fertilizers, iodine, sulphur, bromide, technical carbon, sodium sulphate, polyethylene and polyethylene products, etc.; - production of sulphuric acid 	<p>Long term</p> <p>Short and medium term</p>	<p>Ministry of Economy and Development, Ministry of the Textile Industry</p>	
4.4.	Further development of the textile industry	<p>Improving the quality and increasing the range of products. Increasing the volume of export sales of textile products.</p>		<p>Time scale</p>	<p>Responsibility</p>
4.5.	Development of the agro-industrial sector, which has considerable potential due to the large variety of cultivatable crops	<p>Increasing the quantity of competitive outputs and creating developed markets for food products. In-depth study of potential markets. Reduction of imports in the short term, and increase of exports in the medium term. Harnessing the potential of each region to increase exports of agricultural produce.</p>	<p>Short and medium term</p>	<p>Ministry of Economy and Development, Ministry of Agriculture</p>	

4.6.	Development of the food industry	Increasing production volumes and modernizing production technologies. Building new food production facilities.	Medium term	Ministry of Economy and Development, the Food Industry Association
	Action	Goal indicator and expected results	Time scale	Responsibility
5.	Growth of investments in human potential.	Further development of healthcare, education and science; equalization of infrastructure provision in different regions in order to achieve proportional socio-economic development. This network of regional infrastructure will be fully used by expanding regional labour markets.	Medium term	Respective ministries and government departments (Ministry of Social Security, Ministry of Education, Ministry of Health and the Medical Industry)
6.	Development of a national programme for the development of exports	Improving the structure of exports, increasing the efficiency and scale of business through the expansion of the product range and the improvement of product quality, the improvement of the structure of exports by goods and geography, use of modern forms of international cooperation in trade and economics.	Medium term	Ministry of Economy and Development, Ministry of Trade and Foreign Economic Ties, other relevant ministries and government departments



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