

TRANSITION OF POWER IN TURKMENISTAN

Risks and opportunities for foreign investors amid the power transfer within the Berdymukhamedov family

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Although widely seen as neither free nor fair due to the authoritarian rule within the country and an essential lack of opposition forces, the recent snap Presidential elections in Turkmenistan, which were “won” by Serdar Berdymukhamedov, the son of longtime President Gurbanguly Berdymukhamedov, represent a significant step within the ongoing transition of power in the Central Asian country.

While Gurbanguly Berdymukhamedov will continue to stay in supervisory control, the election of his son as Turkmenistan's President could have a significant and positive impact on the operations of foreign businesses, since his Government appears to recognize the need for socio-economic reforms, at least in the long run. At the same time, businesses could still face risks going forward, particularly in the case of a split within the ruling elite.

Below, Aretera provides further insight and analysis into the aftermath of the recent snap Presidential elections, as well as into the political, economic and business landscape in Turkmenistan.

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A FATHER-SON TRANSITION

On 12 March, Turkmenistan held snap Presidential elections that were emphatically won by Serdar Berdymukhamedov, the son of Turkmenistan's second President Gurbanguly Berdymukhamedov, who had been at the country's helm since 2007. Even though another eight candidates ran in the elections alongside Berdymukhamedov Jr. (each representing political forces and organizations loyal to the authorities), the voting was non-alternative. The Central Elections Committee reported a voter turnout of 97%, with 72.97% voting for Berdymukhamedov Jr.

The OSCE Office for Democratic Institutions and Human Rights, the most important election monitoring organization across Europe and Central Asia, did not send observers to the elections. With an almost total lack of opposition forces and country's ruling elite authoritarian control, the elections were neither free nor fair.

Serdar Berdymukhamedov received official congratulations upon his election from the leaders of Russia and Belarus and the heads of Central Asian states. US President Joe Biden wished Berdymukhamedov Jr. Happy Novruz (Spring New Year) via the US Embassy in Ashgabat and addressed him as Turkmenistan's third President (without actually congratulating him on his election), de facto acknowledging the transition of power.

On 28 March 2022, Berdymukhamedov Jr. confirmed the Republic's government in office¹, with the make-up of the Cabinet of Ministers having remained virtually the same. The only new person within the ranks of government is Mukhametguly Mukhamedov, appointed Deputy Prime Minister for the Economy, Banking, and International Financial Organizations. This office was previously held by Serdar Berdymukhamedov himself until elected President. Turkmenistan has no office of PM, the Cabinet is led directly by the President.

PREREQUISITES FOR THE POWER TRANSIT

Turkmenistan is one of the most geographically, economically and informationally² isolated countries in the world, largely due to its historic heritage, but also its authoritarian system of governance, with the recent snap Presidential elections³ serving as a means for the country's ruling elite to ceremonially confirm their control over the country.

Based on the recent political and socio-economic trends shaping the country, we can outline the following possible reasons behind the recent transition of power:

- **The political crisis in Kazakhstan in January 2022**, resulting in Kassym-Jomart Tokayev essentially "grabbing" power from the family of former President Nursultan Nazarbayev. Previously, Tokayev had been seen as a figurehead president, essentially controlled by Nazarbayev. Under these circumstances, the ruling elite in Turkmenistan might have played a factor in prompting Gurbanguly Berdymukhamedov to take immediate action to consolidate power. Of the five

¹ Under Turkmenistan's Constitution, the government resigns before the elected President

² The authorities fully control the country's information field (the media, social networks) and foreign citizens' activities in the country.

³ Gurbanguly Berdymukhamedov was elected President last time in 2017 so his seven-year presidential term would have allowed him to remain in power until 2024.

Central Asian autocracies, Turkmenistan is perceived as the most authoritarian nation in the region, leaving Ashgabat able to implement such a smooth power transfer.

➤ **Berdymukhamedov Sr.'s health might be deteriorating.** Even though Berdymukhamedov Sr. is younger than the leaders of most states in the region (the former president is 64 years old, while Kassym-Jomart Tokayev is 68 and Russian President Vladimir Putin is 69), health issues could also have influenced the decision to hold snap elections. Unverified reports claim that Berdymukhamedov Sr. has diabetes.

➤ **Factors lying outside the political and economic context** might also have triggered the acceleration of the active phase of the transition. Known for being superstitious and his interest in numerology and astrology, Berdymukhamedov Sr. said he had reached “the Prophet Muhammad's age two years ago (Turkmenistan is a mostly Sunni state) and therefore stood ready to transfer power to younger leaders. At the same time, Turkmenistan's first President Saparmurat Niyazov lived for three years after reaching Muhammad's age without transferring power within his family, which might have also affected the decision of the now former President.

The transition has been in the works since 2016, when Berdymukhamedov Jr. was elected to parliament, subsequently holding several key government offices (deputy minister for foreign affairs, minister for industry, deputy prime minister), while heading Turkmenistan's Supreme Control Chamber and joining Turkmenistan's Security Council. In recent years, Berdymukhamedov Jr. has met in person with the Presidents of Iran, Kazakhstan and Uzbekistan, as well as with prominent figures of the Russian government, thereby essentially consolidating his status as the Turkmenistan President's right-hand man. In 2021, Serdar Berdymukhamedov turned 40, which, under the Constitution, is the age at which he can run for President.

In 2019, Gurbanguly Berdymukhamedov launched a constitutional reform, transforming the unicameral parliament (Mejlis) into a bicameral one (Milli Gengesh). Berdymukhamedov Sr. himself became the speaker of the upper chamber (People's Council, Halk Maslakhaty), which was formed in March 2021. The head of the People's Council is Turkmenistan's second most important office holder (after the President). Half of the members of the People's Council are appointed by the President, while the other half is elected through secret ballot. All former Presidents automatically become members of the parliament's upper chamber and, should the current President become legally incompetent, his functions will be discharged by the speaker of the Halk Maslakhaty.

The constitutional reform boosted Gurbanguly Berdymukhamedov's personality cult and his official “arkadag” (protector) status allows the former President to remain in control of the situation in Turkmenistan at this stage of the power transit. The new President's political independence will be limited by the influence of Berdymukhamedov Sr, who, while stepping away from operational control, still retains the key influence over decision-making.

SOCIO-ECONOMIC LANDSCAPE

The fact that Turkmenistan is geographically and informationally closed off from the rest of the world means assessing its political and economic situation remains difficult. Since 2021, the IMF and several other international organizations have lacked confidence in Turkmenistan's official statistics and so have refused to use them. For instance, officially, Turkmenistan's GDP in 2020 reportedly grew by 5.9%, however the IMF said this growth level was, in reality, less than 1%. In 2021, the country reported a growth rate of 6.1%, while the IMF offers no 2021 figures.

Official data on inflation and unemployment and alternative estimates by international experts can differ by factors of ten. Official and real exchange rates for Turkmenistan's currency, the manat, also differ many times over. In 2021, the dollar-to-manat exchange rate was over 40, while the official exchange rate was 3.5. Official data on Turkmenistan's birth rates, labor migration and even its population also trigger mistrust.⁴

Even though Turkmenistan's domestic policy is closely monitored by the power ministries and secret services, the media have reported spontaneous protests⁵ in the country over the last two years, the first ever. Protests could suggest a critical deterioration in Turkmenistan's socio-economic situation, meaning that, with the country being closed off from the outside world, domestic tension could become a principal source of destabilization. At the same time, despite the power transit (from father to son) being rigidly controlled, the state's shrinking ability to neutralize the consequences of the economic crisis could, in the medium- and long-term, trigger a split within the country's elites.

POSSIBLE DESTABILIZING FACTORS

Given Turkmenistan's unique features, a split within the ruling elite could have all the hallmarks of an intra-family conflict. The Berdymukhamedov family controls all the key economic processes in the country.⁶ Possible attempts by Serdar Berdymukhamedov to introduce political democratization and economic liberalization with a view to bolstering his own standing might run into opposition from other family members and from part of the government machine. For instance, Turkmenistan's only political Methuselah (government offices traditionally have very high staff turnover) is Minister for Foreign Affairs Rashid Meredov, who has been a cabinet member since the 1990s (he is called the Presidents' *eminence grise*).

Before the elections, Berdymukhamedov Jr. announced several reforms for improving the economic situation, including state governance, modernization of both the public and private economic sectors, ways to achieve higher employment, a better business climate, etc. Currently, however, the announcements remain vague and lack any implementation timeframe. At the same time, the new President's excellent education (Berdymukhamedov Jr. graduated from the Diplomatic Academy of the Russian Ministry of Foreign Affairs and from the Geneva Centre for Security Policy) could, under certain circumstances, be a factor advancing more dynamic reforms.

In December 2021, Berdymukhamedov Jr, in his capacity as Deputy PM, supervised the development of an anti-crisis project, a program for mitigating the effects of negative global economic trends on Turkmenistan. The program indirectly suggests that the authorities recognize the severity of the country's economic challenges. In February 2022, Turkmenistan's parliament approved the program for Turkmenistan's socio-economic development for the next 30 years, suggesting a possible shift toward economic reforms.

While the transition appears to be going smoothly and without any radical shifts in the country's domestic and foreign policy, the new President made a number of personnel changes on 7 April,

⁴ Official statistics put the Republic's population at six million, while the data from the latest census (2012) are classified.

⁵ In particular, owing to the authorities' actions intended to eliminate the consequences of the 2021 hurricane in Turkmenabad and to a price hike for state-subsidized foods in January 2022 in the cities of Turkmenistan's Lebap Velayat (region).

⁶ In addition to the former president's only son Serdar Berdymukhamedov, the family includes his grandson Kerimguly (he is Serdar's son and is already of age), his two daughters (Serdar's sisters), his sons-in-law, etc.

including at the country's Security Council, the top of the Interior Ministry, as well as confirming new heads at the country's central bank and Turkmen energy giant Turkmenneft.

IMPLICATIONS FOR FOREIGN BUSINESSES

The oil and gas sector forms the backbone of Turkmenistan's economy, with the country having the world's fourth-largest natural gas reserves. Foreign companies in Turkmenistan work mostly as contractors (construction and service companies), suppliers of luxury goods (cars, foodstuffs) and lenders. The principal condition for foreign companies' activities in Turkmenistan is for them to collaborate closely with the members of the Berdymukhamedov family.

China, Japan and the European Union are Turkmenistan's key foreign economic partners, while the UK, the UAE and Russia also have significant economic influence. China is the main market for Turkmenistan's gas and Beijing the country's main creditor. In particular, as part of its "One Belt – One Road" project, China provides considerable financing and is doing some work on developing gas deposits and on constructing gas pipelines (the pipeline network connecting Central Asia and China). Japan [tops](#) the list of Ashgabat's biggest investors, which also includes China, South Korea, Germany and the US.

The UK's Council for Trade and Industry, financed among others by Shell, BP, Rolls Royce, Petrofac, etc., has been operating in Turkmenistan since 2010. The European Union might theoretically be interested in constructing a Trans-Caspian gas transportation route (considering the increased demand for natural gas from sources other than Russia). Several projects in Turkmenistan are being implemented by the EBRD (in particular, the bank lent money to a local Coca Cola plant, to Berk and Yager breweries and to Turkmen Penjire, a window manufacturer).

Russia is also a major market for Turkmen gas, but most of the imported fuel is re-exported to Europe as Ashgabat has no direct access to European markets. Additionally, Russia is important to Ashgabat for ensuring regional security. The United Arab Emirates is also a close ally to Turkmenistan; the UAE's Dragon Oil is an important player on Turkmenistan's energy market. Furthermore, Dubai is one of the principal directions for labor migration from Turkmenistan.

Serdar Berdymukhamedov's election as Turkmenistan's President could have a significant impact on the operations of foreign business in both the medium-term and the long-term. The ongoing implementation of the power transit is intended to solidify, over time, the new President's standing (government rotations in favor of Berdymukhamedov Jr.'s closest circle). The exacerbation of the socio-economic crisis could mandate the new President to take certain steps toward liberalizing the economy, such as improving the business climate and weakening state control over the manat exchange rate to increase liquidity on the market, possibly followed by steps that could make it easier for foreign investment to enter Turkmenistan.

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Further discussion: Natalia Malyarchuk, Director for Central Asia, n.malyarchuk@areterapa.com



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