

## SPECIFICS IN THE FORMATION OF ENTREPRENEURIAL POTENTIAL OF TURKMENISTAN IN 1991 – 2011

### ОСОБЕННОСТИ СТАНОВЛЕНИЯ ПРЕДПРИНИМАТЕЛЬСКОГО ПОТЕНЦИАЛА ТУРКМЕНИСТАНА В 1991 – 2011 ГОДАХ

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**Introduction.** Economic development of the states that was emerged from the Soviet Union went different ways because of their head start, economic situation in the complex of the Union and ways what they choose to reform the national economies; also pace of transformation and participation in the international division of labor.

Central Asian region in the Soviet period was the least developed in GDP per capita. Widening disparities of socio-economic development of the Union republics that indicated in the 80-ies of the last century was associated with urbanization, differences in the wage level and proportion of the poor people population. Significant differences in the efficiency of national economies, combined with the cultural and historical traditions and comparative overall technological backwardness of the Soviet economy led to the multivariate approaches and models of reform that based on the principles of market economy.

**The purpose of this article** is to characterise economic development in the post-Soviet period and to determine the features and problems which face to young economies nowadays.

**Analysis of recent studies.** Historiography of the problem is not large, since the topic of the studies belongs to the well-known closed economy of Turkmenistan and there are total absence and ambiguity of official economic indicators, access to which is parted only in recent years. You can highlight the work of A.N. Dzhabieva (1997), and S.V. Zhukova O.B. Reznikovoy (2001), S. Kameneva (2002), Y. Aronskogo (2009), collective work edited by O.L. Marganiya (2007), and several others.

**The main material.** In the 50-80 years of XX century, Turkmenistan has turned into an industrial-agrarian republic. Unlike its neighbors, it was not subsidized subject of the USSR, but instead Turkmenistan subsidizes the union budget due to revenue from deliveries of natural gas to USSR countries and to the world market. The leading sectors of the economy were oil, gas and chemical industry. In agriculture dominated the cultivation of cotton, astrakhan and raw silk. Detached to historically traditional industry was production of carpets.

If generally characterized the economy of the country, striking its raw materials export orientation. Enormous reserves of natural oil and gas determine the course of development and the impact of this sector to economy and everyday life. Oil and gas industry has become a sort of "magic wand", bringing huge profits to the new state, which provided a relatively painless policy reforms under the slogan (in 1992): "10 years of stability." This allowed to do soften and stretch reform process in time, flatly refusing of the shock therapy (for example, Uzbekistan), as very dangerous for politics. At first it supposed to keep a system of planned economy management with the gradual liberalization of the economy and the possibility of direct government control and regulation [1]. Proceeds from the sale of oil and gas in particular have been so great that in 1993 the population was exempted from fees for the use of gas, electricity, and water, salt, housing and motor fuel. Large reserves of oil and gas, opening new promising fields (of which today only a third is under construction) and relatively high world energy costs on these energy resources can eliminate possible risks of economic policy, raise incomes and welfare of people that live in the country. However, this same situation (90% of all exports are gas supply) makes the Turkmenistan economy dangerously dependent on market fluctuations and foreign political factors in the region and the world.

Another feature of Turkmenistan is the geographical position, which lost in the deserts and mountains of Central Asia. Not having direct access to foreign markets through the seas and oceans,

it is surrounded by the states with regular conflicts and difficult political situation, which prevents delivery of minerals to the world market. Foreign economic problem of Turkmenistan is to provide an uninterrupted supply of its gas to Western Europe and Ukraine. To this end, Turkmenistan even offered UN to establish a system of security that guaranteed freedom of transit of hydrocarbons through the main interstate pipelines. In search of new partners, it was decided to develop the eastern market. The first step in this direction was the opening in 1997 the first export pipeline which connected Turkmenistan with Iran. In December 2009 opening of pipeline length of 8,000 km allowed local supply gas to China. Today, they designed prospective directions of pipeline to Pakistan and India. The main exporter of Turkmenistan gas to the end of 2009 was Russia (as the largest transit provider), and the main consumer - Ukraine, whose economy is highly energy-intensive and according to the World Bank for 2002 it consumed 0,62 tons of oil equivalent per 1,000 \$ GDP [2].

Another feature of Turkmenistan is the self-isolation of the country from the first years of independence, and as a consequence of the uniqueness of the national economy related to the closed type. With its rich natural resources, including proven reserves of solid minerals - coal, kaolin, mineral salts and dyes, sulfur, celestite, etc., foreign investors are only allowed in the case of the development to the most difficult fields.

From the first years of independence, Turkmenistan has significant resources to deploy large-scale construction, although mainly in its capital, and in parallel to continue funding the industries that were previously created. Firstly country encourages only those industries which can replace imported goods. This concerns petroleum refining on the basis of exploitation its own fields, the textile industry through the use of local raw materials, the establishment of the production of potash, caustic soda, chlorine, iodine, and so on. Perhaps the most impressive pace was development of the transport system of the country. Ashgabat built international airport as a transit point on the way from Europe to Asia ("in the middle of the shortest path from London to Bangkok"). Nested construction of three branches railways designed to connect Turkmenistan and Iran (two have already been created), paved highway from Turkmenabat's (Chardjou) to Atamurat (Kerky). The first in 1996, the line was laid Valley - Sarahs (on the border with Iran) - Mashhad, thus restored the famous "Silk Road". By 2006, the construction of the railway from of Ashgabat through the second largest desert in the world Karakum Dashoguz (Tashauz) length of 560 km was complite. Since the mid-90s was created a transport corridor along the coast of the Caspian Sea, by passing the territory of Uzbekistan in order to directly connect the railway lines of Turkmenistan and Kazakhstan. The construction of the railway Uzen (Kazakhstan) - Bereket - Etrek (Turkmenistan) - Gorgan (Iran) with further access to the Persian Gulf and the Indian Ocean was started. Thus, the length of railways of the country has more than doubled, exceeding 2,500 kilometers. The length of paved highways is more than 6,700 kilometers, is carried out reconstruction of 1,800 km of roads. Since the beginning of the XXI century has been created merchant marine, which now have 9 courts (4 and 5 cargo ship tankers of river-sea).

In the 90 years greatly simplified the structure of industrial production due to the displacement of the industrial sector of mechanical engineering and metalworking, production of which has fallen below 5%. By the mid-90s more than 55% of industrial production provided the fuel and energy sector and electricity [3]. Today, building industrial capacity provided at the expense of the absolute priority in the development of oil and gas industry, primarily the development of the Caspian Sea deposits, where were open 10 gas fields (projected reserves are estimated at 12 billion tons of oil and 6 trillion cubic meters of gas). Turkmenistan shelf of land, divided into 32 blocks, actively developed under the terms of sharing production agreement with the largest companies in the world in the field of energy production. In 2011, in the village Kiyany on the shore of the Caspian Sea was put into operation a gas processing plant and ground gas terminal, which gave the signal for the commercial development of natural gas on the Turkmenistan shelf. However, the main gas producing region in the country is Eastern Turkmenistan which is supposed to be a major resource base for development of the gas industry for the next 15-25 years. According to the "National Strategy for the development of oil and gas up to 2020" is planned that

by 2020 the production of oil and gas will reach 100 million tons, gas - up to 240 billion cubic meters [4]. In addition, serious attention is paid not only to the production, but also the processing of the raw materials. In particular, with the help of the Japanese-Turkish investments was renovated and significantly increased the production of high-octane gasoline plant in Turkmenbashi and the second largest Seidi oil plant. Also is planned the construction of new oil refineries and gas (in the Balkan, Akhal and Mary provinces, as well as gas fields in Yashyldepe and Samandeppe).

Foreign investment in the construction of industrial, social and cultural facilities, electricity is willingly attracted. On January 1, 2010 in the development of capital investments in the country involving 117 foreign companies from 25 countries. Of particular interest is the development of projects for modernization of existing power plants and integrated services, as well as the introduction of resource-saving technologies, using solar and wind energy show campaign in Germany, Russia, USA and Turkey.

Another most important branch of industrial production is cotton (textile) industry, which is completely dominated by the joint Turkmen-Turkish firms controlling all textiles production (90%). A total of 36 ginneries factories processed up to 40% of raw cotton. "White gold" - cotton is the main crop of Turkmenistan agriculture and cotton production that ranks second in the export structure of the country, second only to energy resources. In 2012, the state was put about 1 million 110 thousand tons of raw cotton. Since 2011, cotton growers received the right to sell abroad cotton fiber obtained after industrial processing of raw cotton that is produced in excess of the state order.

The reform program launched by the government since independence, as well as in other republics, was for the privatization of various sectors of the economy. According to the law 1992 "On denationalization and privatization of Turkmenistan" transfer to the private sector were to be primarily small service industries, light industry, construction and agricultural sector [5]. By 1 January 2008 in the country 2130 state-owned facilities became private. In rural areas, 70% of arable land is treated tenants privatized arable land, 89% of cattle and poultry, more than 61% of sheep and goats [6].

Another area of reform was announced the formation of the free economic zones, the law which was adopted in 1998 [7]. For several reasons, only in summer 2007 was held a solemn presentation of the first free economic zone for the development of international tourism in ecologically clean area of the Caspian Turkmenbashi (Krasnovodsk), the only major port of the country. One of the features is to provide foreign investors land for the construction of tourism facilities for up to 40 years and without any lease payments during the period of their construction and operation. By 2020 National tourist zone "Avaz" turn into the territory of high-tech spa and wellness facilities.

A key objective of economic policy is to support small and medium-sized enterprises in the "formation of a market economy based on private, state and other forms of property". According to official data, the share of enterprises that sector the country's GDP in 2008 was 40% by 2015 it will increase to 45%, and in the future in 2020 - up to 70%. In the interest of revitalizing the business was mitigated by the tax laws, which the Tax Code in late 2005 made a number of changes by setting a new single tax rate on gross income of 2%. Thus, almost 2 times was reduced the tax burden on small businesses [8]. Presidential decree in 2008 approved the list of goods that are significantly decreased or even abolished customs duties for private businesses and individuals. The practice of lending business for 10 years at 5% per annum for the purchase of fixed assets and up to one year for the acquisition of working capital. In addition, a specially created State Commission (February 2010) operating under adopted in 2009 the Law "On State Support of Small and Medium Enterprises", was endowed with broad powers for the purpose to activate private initiative in various sectors of the economy [9]. Today, the most successful and exemplary private enterprises of the national economy are: Poultry Complex "Gushtoplumy", Poultry "Hoshzaman", meat "Bereketli", confectionery enterprise "Bars", "Oguzkhan", "Hasar", dairy brand "Elin", glasswork "Keyik", furniture Factory "Aybolek "and many others [10].

The situation in the agriculture of the republic remains alarming. Basis of agricultural products are the manufacture of cotton and grain. Despite on efforts to increase the production of

grain and to achieve a breakthrough in this area have not succeeded yet. Because of the difficulties with the supply of bread in winter 1996 riots broke out, and the government had to urgently buy flour abroad. Adhering to multiculturalism in the agricultural sector with the support of the public sector, the authorities fail to reach the level of full self-sufficiency in grain production, which has to be brought from Kazakhstan and Iran. From the first years of independence, the collective farms have been preserved under the guise of *daikhan* farms. The system of agriculture management is the same; with maintain the practice of forced and voluntary citizens traveling to work in the countryside (cleaning cotton). Water management as strategically important in arid climates, it remains the property of the state, taking into account the age-old tradition of using water and its general lack of. After all, the only source of water in the state acts Amudarya water which comes from Tajikistan and Uzbekistan. Therefore, to facilitate the solution of this problem was intended to put into operation the second phase of the artificial lake "Altyn Asyr" stretching for hundreds of hectares in the heart of the Karakum desert.

The need of change in the agricultural sector is evident and the main issue here, as in Ukraine, is introduction of private ownership of land. Giving land to the peasants, according to the reformers should take place without prejudice to the collective farms. In the private ownership with right of survivorship farmer can get up to 50 hectares of land, in the long-term lease of 500 hectares, and the minimum rental period is increased to 10 years. Owners of the land can get from the state benefits in the form of favorable loans, freedom from taxes, financial bonuses in obligations form of the state to pay up 50% of the cost of seeds, fertilizers, chemicals, technical services. According to the law of October 13 (1995), foreign investors are not allowed to purchase land in private ownership, they can only use the public lands under lease. In general, these measures make possible to raise the threshold of food security of the country. Significant progress has been made in poultry and its products will soon cover the needs of the population. Currently, according to official figures the majority of domestic food covered by own resources of the country and the share of food in total imports is 5%, whereas in 2008 it was around 9%.

Policy of reform affect to the macroeconomic indicators. In the second half of the 2000s, the economy developed rapidly. According to official figures the value of GDP in 2011 was almost 29 billion dollars (in 2007 - 14 billion dollars). GDP growth for 2007-2008 was more than 10%, in the crisis of 2009 has increased by more than 6%, in 2010 to 9.2%, in 2011 to 14.7% [11]. Forecast for 2012 averaged about 8.4%. The foreign trade turnover was increased from 7.6 billion dollars in 2005 to 28.1 billion dollars in 2011 (exports 16.8 billion, imports 11.4 billion dollars) [12]. Moreover, due to lower exports of natural gas in the global economic crisis, is increase the share of exports of cotton textiles, electricity and petroleum products. In May 2008 was carried out the unification of the national currency - the manat, and since January 2009 its denomination. Rate of manat remains stable nowadays. When in November 1993 for the first time introduced the national currency, it immediately begins to depreciate rapidly and in 1995 allowed the free exchange rate. However, since 1998, set the official exchange rate. He was four times lower than the market, and it was carried out by sale of foreign currency to the state (including mandatory). Consequently, operating in the country at the same time not only official, but there is the shadow exchange rate of manat which the state tries to regulate [13]. In fact, exchange rate is set arbitrarily by the government, and not by the foreign exchange market. Therefore, when in early 2009 the national currency of the new sample against the dollar was 2.85 manat to 1 dollar instead of 14,250 for 1 dollar, actually officially was no devaluation of the manat [14]. Among the measures that help to minimize the consequences of the global financial crisis of 2009 for the Turkmenistan economy we can distinguish such as the formation of a special commission on this subject, the tightening of control over the exchange rate regime, the intensive increase of credit resources, ensuring their availability, support the liquidity of bank assets.

A characteristic feature of modern industrial development is the creation of new industries - mining and metallurgy, the beginning of the last on the construction of Ashgabat in 2009 smelter. Over the past years were put into operation cement, carbamide, and kaolin plants, the rapid growth are observed in the process industries: petrochemical, chemical, mechanical engineering,

metalworking, food processing industry. Modernization of textile complexes allowed their products to compete in the global market. The rise of the economy in 2010-2011 is associated with increased gas exports to China and Iran, as well as the rapid growth in the service sector, construction, agriculture and public investment. In particular, today in Iran built a second pipeline: Dowlatabat - Sarahs - Hangeran. China is the biggest partner of Turkmenistan for the volume of trade. Trade and economic relations between the two countries have grown over the past 10 years in 100 times, in 2012 exceeded over 10 billion dollars, with a total trade turnover of Turkmenistan over 35 billion dollars.

In May 2010 was adopted a "National Programme of socio-economic development of Turkmenistan for 2011-2030" aimed at accelerating the reform process of the transition, which actually began only in 2009, a greater openness of the Turkmenistan economy, its smooth integration into the world economic system [15]. Despite on the optimistic forecast of international experts on the medium-term prospects for the economic development of Turkmenistan, on this way they will have great challenges. Necessary to increase confidence in the market and the level of domestic competition, to provide private sector access to finance, and to limit the dominance of state-owned banks in the banking system, to create economic and legal guarantees and conditions for attracting large-scale investments, a faster pace to develop transport and communication complex. This will allow getting closer to the solution of global urgent problems of Turkmenistan economy - its diversification. Effective realization of the National Programme for the country will help to achieve the ambitious goal - to build in Turkmenistan "transcontinental economic bridge of interaction of European, Asia-Pacific and South Asian economic systems" [16].

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