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The investment climate in Turkmenistan: Challenges and possible ways of attracting foreign investment

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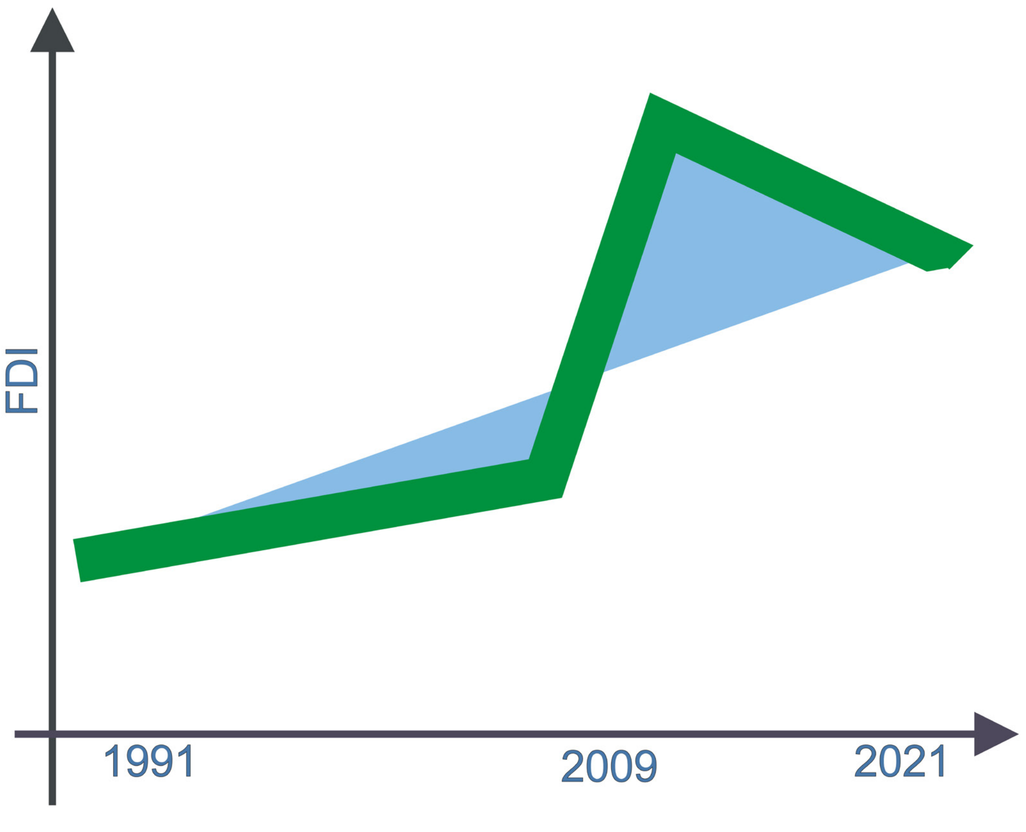
The investment climate in Turkmenistan

challenges and possible ways of attracting foreign investment

Research Report in Sociology of Law 2022:3



Yolbars Kepbanov, Slavomír Horák and Berdymyrat Ovezmyradov

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challenges and possible ways of attracting foreign investment

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Abbreviations

ADB	Asian Development Bank
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
EU	European Union
FDI	Foreign direct investment
GDPR	General Data Protection Regulation
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Agency
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

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Yolbars KEPBANOV, Slavomír HORÁK and Berdymyrat OVEZMYRADOV

1 Problem statement

Yolbars KEPBANOV and Berdymyrat OVEZMYRADOV

The investment climate of any state depends on its domestic and foreign policy, which includes a whole complex of factors. It is well known that the amount of foreign investment and the amount of capital entering a country depends entirely on how much investors trust the recipient state and the state's reputation in the global capital market, as well as the investment climate, the stable legal and regulatory framework governing foreign investment, and the extent to which global standards for foreign capital are met. This has been rightly noted by most experts. Some researchers consider a stable political environment and a favourable investment climate to be among the most important factors in attracting foreign investment (Гущин, Овчинников 2009). In a broader sense, this category includes a set of political, sociocultural, financial, economic, and legal conditions prevailing in any country that determine the quality of entrepreneurial infrastructure, the efficiency of investment, and the degree of possible risks when investing capital (Комаров, Литвина 2012).

The current academic literature devotes an exceptionally large amount of attention to the attraction of foreign investment and its role in the economic development of states. (Lee 2004; Александер, Бэйли, Шарп 2001). In Russia and in other post-Soviet countries, the related field has formed into an independent academic discipline (Богатырев 1992; Фархутдинов, Трапезников 2006; Гущин, Овчинников 2009; Комаров, Литвина 2012; Биндасова, Погосян 2015; Ершова, Отнюкова, Спектор 2016; Мороз 2013). In addition, a large number of interesting scientific studies and articles are available on issues of attracting foreign investments (Lankes, Venables 1996; Нурланова 1998; Nauro, Kinoshita 2003; Ершова, Отнюкова, Спектор 2016, Елизаветин 2004; Рудый 2006; Ульянова 2006a, 2006b; Арыстанбаева 2008; Ярошевич 2008; Голубина 2016).

Turkmenistan has a large resource potential and, consequently, potential for economic growth. At the same time, there are virtually no recent scientific studies that comprehensively address the issues of attracting foreign investment to the country. There are only a small number of studies dedicated to individual aspects of this problem (Агаджанов, Романова, Сайфулаева, 2007; Озкуллук 2013; Хабыева 2016; Ходжамурадов 2016).

The situation related to the investment climate in Turkmenistan is presented in a 2011 study by the International Institute of Policy Studies (IPS) (Инвестиционный потенциал Туркменистана. Анализ политических рисков 2011) and in the US Department of State's 2020 Statement (US Department of State 2020).

Since the first days of its independence, Turkmenistan, with its enormous resource potential, has declared its readiness for broad and open international cooperation and the need to attract foreign investment into the country's economy. To this end, the political leaders of the country, affirming the attraction of foreign capital as one of their priority strategic objectives, have repeatedly declared from the rostrum of the UN GA that the implementation of market reforms requires not only significant internal efforts but also the encouragement of external investments and the expansion of mutually beneficial international cooperation.

The Organisation for Economic Co-operation and Development Review (OECD 2002: 5) identifies foreign direct investment (FDI) as an integral part of an open and well-functioning economic system and a major catalyst for development. Developing countries, emerging market economies, and countries with economies in transition increasingly view FDI as a critical factor for economic development and modernisation, income growth, and employment. Certainly, it should be recognised that FDI from companies or individuals in setting up foreign business operations or acquiring foreign business assets can significantly enhance technology transfer and socioeconomic growth in developing countries (Vitalis 2002). In this respect, FDI may be more beneficial and desirable for sustainable development in the long run than official development assistance (ODA) or the purchase of capital or equity in a foreign company (portfolio investment). Foreign investment is attractive to the recipient if it represents a direct investment, including the financing of infrastructure projects, which reduces the burden on government budgets, the transfer of new technologies that will allow the diversification of exports and the expansion of the production base. On the other hand, foreign portfolio investment may be more effective in promoting institutional reforms (Bayulgen 2005). In addition, the positive effects from foreign investment may not arise when they are mostly directed at resource extraction while at the same time local labour and technology are insufficient to reap long-term development benefits (Moid 2018). Turkmenistan, with its concentration of investment in hydrocarbons, level of scientific and technological progress, and lack of institutional reforms, shows the signs of a country that may not achieve many development benefits from the current FDI structure in the long term.

Until 1991, the Turkmen Republic was part of a centrally planned Soviet economy, receiving state investments and subsidies in all spheres of the public sector, while the private sector was virtually non-existent, let alone foreign investment. The Soviet legacy cannot be ignored even after three decades of independence. Interestingly, the US government considers that the Convention with the Union of Soviet Socialist Republics on Taxation (1976) remains in force between the United States and Turkmenistan (US Department of State 2020). As in other post-Soviet countries, the collapse of the economic structure in the newly independent state immediately following the collapse of the USSR caused the country's economic difficulties in the 1990s. The first foreign investors also entered Turkmenistan in the decade after independence as private property was allowed on a limited scale and the country was opened to foreign travel, as were other post-Soviet countries.

Turkmenistan attracted substantial amounts of FDI in the hydrocarbon and manufacturing sectors during the first two decades of its independence. FDI flows increased steadily from 1992 to 2009 as the figures below illustrate. According to the World Bank, Turkmenistan made progress in attracting foreign investment, steadily increasing the share of FDI in GDP in the first two decades after the collapse of the Soviet Union (Figures 1-2). In 2009, FDI reached almost a quarter of GDP, a record high among Central Asian countries. Since 2010, however, the growth rate of investment attraction has slowed somewhat. Official statistics from Turkmenistan also attest to this (Figure 3). Thus, while foreign investments in the country amounted to 10,908.7 million manats in 2014, in the following years, from 2015 to 2018, the volume of capital into the country has steadily declined from 30 to 50% of the previous amount (Статистический ежегодник Туркменистана 2019). This volatility is due, more recently, to a significant slowdown in economic growth because of falling hydrocarbon prices and the outbreak of a pandemic, which makes it more relevant than ever to explore this issue. This was not a unique trend: FDI declined in all comparable countries in the region over the past decade before the COVID-19 outbreak. In general, hydrocarbons, petrochemicals, agriculture, construction, and public sector manufacturing attracted the most foreign interest and investment; but recently, companies have been increasingly withdrawing from the market of the country due to exchange rate and bill payment problems.

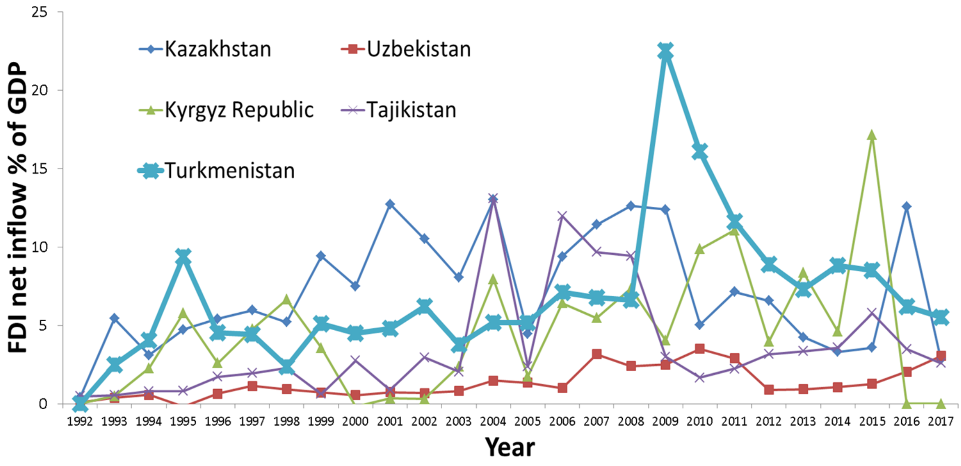

Figure 1 FDI in Turkmenistan as a share of GDP compared to other Central Asian countries
Source: World Bank (2020)

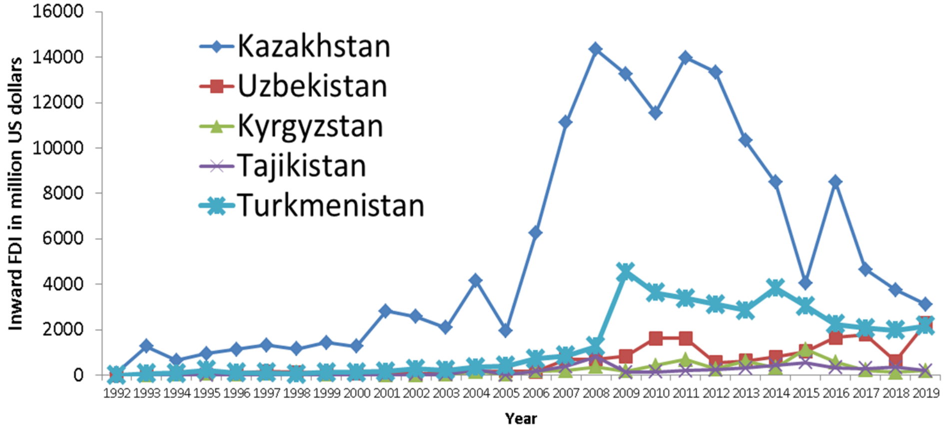

Figure 2 Foreign direct investment inflows to Turkmenistan compared to other Central Asian countries
Source: World Investment Report (2020)

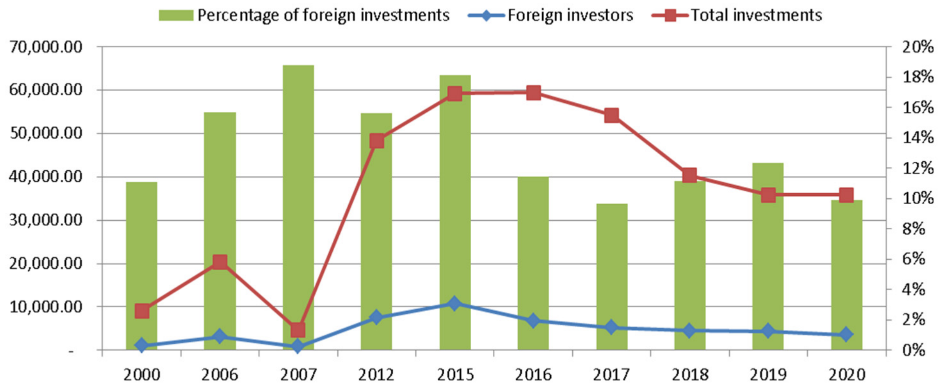

Figure 3 Foreign investment in fixed capital in Turkmenistan according to official statistics: red line – total value of investment, blue line – foreign investors, green column – share of foreign investment as percentage
Source: (Statistical Yearbook of Turkmenistan 2020, Statistical Yearbook of Turkmenistan 2008)

The government of Turkmenistan has discouraged outflows of investment to foreign countries, and the country's recent policy has been to replace imports and boost exports. According to anecdotal evidence, local businessmen have invested abroad in countries such as Turkey, the United Arab Emirates, and the United States, usually without disclosing this information for fear of a possible reaction from the state (US Department of Commerce 2018).

The US Department of State Statement provided detailed information as of 2020 on FDI conditions in Turkmenistan (US Department of State 2020). The corresponding report noted that Turkmenistan regularly amended its laws to meet international standards. Political stability has been among the most positive aspect of business in Turkmenistan, in addition to the lucrative budgets allocated to grandiose projects funded by hydrocarbon revenues. The low crime rate was another positive aspect of security. The government expressed interest in attracting more foreign companies to bid for infrastructure projects and in attracting more Western technology. Foreign companies were able to contract with the government for construction materials, agricultural equipment, oil and gas parts, medical equipment, food processing equipment, and other imports on a large scale. Foreign firms working with the state have been granted financing in the form of export credit agencies and development banks. Large foreign companies, such as General Electric, established operations in the country as suppliers of industrial equipment, but their local activities were largely limited to selling equipment to the state. Gradual privatisation opened up new opportunities for investment, although state enterprises continued to dominate Turkmenistan's industrial production. Problems with the rule of law, non-transparent rules, and corruption remained. Contracts can be awarded to companies with close ties to the ruling elites. Strict controls on currency flows limit the repatriation of profits or payments to suppliers. Delays in payments to foreign companies are common. Changes in the financial sector, including market exchange rates and conversions, will definitely improve the investment climate. Legal protection for assets is inadequate. An independent judiciary is needed. There have been expropriation risks for foreign enterprises and reports of seizures of local companies. Investment-related legislation must be consistently implemented or enforced. To summarise the above reports, the government should take serious steps to attract significant FDI outside the oil and gas industry (US Department of State 2020).

The purpose of this paper is to provide a detailed analysis of the state of FDI in Turkmenistan and to develop a set of comprehensive recommendations for policy-makers to overcome the current negative trends and to attract additional foreign investment. In the current environment, such an analysis is necessary, given the global changes caused by a significant drop in the price of hydrocarbons and the outbreak of a pandemic in 2020. It is not so much a matter of stating the urgent need for a favourable investment climate in the country and state support for foreign investment, but of having a clear understanding of the strategy and forming clear rules of the game for future investors.

This study attempts to capture as many of the issues surrounding FDI attraction as possible through a modern analysis that takes into account the most important developments. The timeliness of such an analysis becomes more evident from 2020, as disruptions in global markets caused by the outbreak of a pandemic have made it more of a priority than ever for governments to reduce their heavy reliance on oil and gas exports.

An analysis of existing practices, as well as the institutional and legal framework governing foreign investment in Turkmenistan, leads to the conclusion that it is extremely important to investigate these issues in order to identify problems and find ways to resolve them. Today, it has become obvious that one necessary condition for the sustainable development of Turkmenistan is high investment activity, which can be achieved, first of all, at the expense of the attraction and effective use of external resources.

The present work was initiated within the framework of the European Union (EU)-funded project Central Asian Law: Legal Culture and Business Environment in Central Asia (project number 870647 H2020 MSCA-RISE 2019-2023), coordinated by Lund University (Sweden).

The present study, given its main objectives, attempts to answer the following questions: (i) What might be the potential impact of increased foreign direct investment on Turkmenistan's economic development? (ii) What are the main factors that have hindered greater investment in Turkmenistan since independence? (iii) What measures can the government of Turkmenistan take to attract more foreign direct investment? (iv) How can partner countries and international organizations assist Turkmenistan in attracting more foreign direct investment into the country? (v) Which sectors of Turkmenistan's economy should be a priority for attracting foreign investment in the current environment?

The practical results of this research topic may be of interest to decision-makers in government, foreign businesses, partner countries and international development agencies.

2 Methodology

Berdymyrat OVEZMYRADOV

In this paper, the chosen way to understand the problem under study is through an integrated approach that includes technological, geopolitical, legal, economic, human, and communication factors (Figure 4). The structure shown in the image below is based on a fishbone chart (Ishikawa and Loftus 1990). Each of these factors includes several sub-factors in the order of their perceived importance for the final effect. While it is recognised that this classification of factors includes overlapping areas and is by no means exhaustive, it does appear to provide an adequate blueprint of cause and effect. The study considers each of these FDI factors separately.

Firstly, the basis of the low FDI under study is formulated specifically as a problem statement. Second, the main categories of causes of the problem are identified through a literature review and, in addition, a brainstorming of all possible causes and sub-causes. Thirdly, the study relies on surveys of a limited number of company representatives among past, present, and future investors. The results of the survey are used to supplement the causal analysis with confirmation, additional information, and measurement of interest in FDI in Turkmenistan. Finally, recommendations are developed for effective measures that the government of Turkmenistan and its partners can take to attract FDI.

After identifying the main reasons for the decline in foreign direct investment, the next step was to develop recommendations based on the best practices of comparator countries that have been successful in attracting investment under comparable conditions. It is important to note that the government has tracked the best practices of its neighbours in various areas and, in some cases, attempted to implement some of them in the country. For example, the introduction of official policies in modern areas such as technology parks, digitalisation, and renewable energy seem to have been influenced by relevant policies in other post-Soviet countries.

Unless otherwise stated, all financial indicators are converted into US dollars for ease of comparison and interpretation. It should be noted that data for Turkmenistan reflected in official statistics may not be accurate; therefore, the resulting analysis may be distorted in some cases. For example, the exchange rate for the local currency differed significantly from the unofficial (black market) exchange rate before 2008 and after 2017 (US Department of State 2020). Thus, the figures showing flows expressed in the national currency, the Turkmen manat (TMT), as well as other officially available data in this study, should be interpreted with reasonable caution.

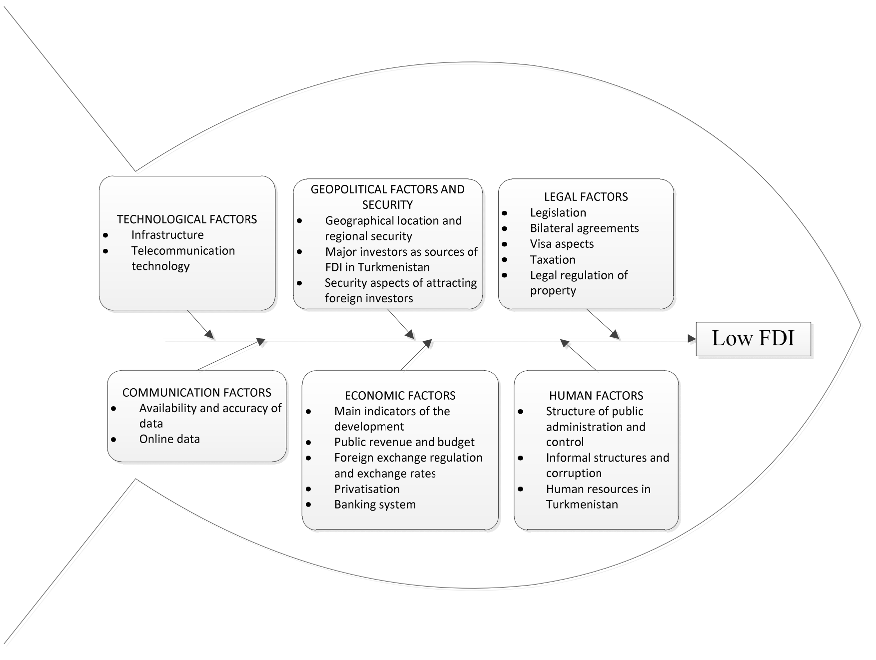

Figure 4 Causes of low investment

3 Investment policies and investment opportunities in turkmenistan

Yolbars KEPBANOV and Slavomír HORÁK

The investment policy of modern Turkmenistan is based on the need to create a favourable climate, including, above all, for foreign investors.

Turkmenistan's socioeconomic development programme for the period from 2019 to 2025 envisages deepening and accelerating structural reforms to stimulate sustainable and inclusive growth in the longer term, based on a more diversified market economy. Reforms in the real sector should focus on substantially simplifying administrative procedures and regulations, accelerating reforms and privatisation of state-owned enterprises, and attracting foreign direct investment. A simplified framework for the operation of free economic zones would potentially help attract new private investment, including foreign investment, and the resulting positive experience could be more widely disseminated throughout Turkmenistan (IMF 2018).

The main directions of Turkmenistan's investment policy are:

- In the oil and gas sector, the creation of alternative options to bring Turkmenistan's energy resources to the world market by building an extensive pipeline system and a long-term partnership with leading international companies for the efficient development of natural oil and gas reserves, deep exploration, and the development of hydrocarbon deposits both onshore and offshore in the Caspian Sea to increase their production, processing, and export.
- In the chemical industry, increased production of chemical products, including the construction of new complexes to produce carbamide, phosphate fertilisers, caustic soda, iodine, chlorine, bromine, and their products.

- In the textile industry, supplying the consumer market with high-quality domestically produced goods. This includes increasing the processing of cotton fibre within the state through the creation of new, highly profitable textile enterprises, the introduction of advanced technologies, and the production of competitive products to saturate both the domestic and foreign markets.
- In other industries, diversification and the development of both export-oriented and import-substituting production based on the use of local raw materials has been chosen as a strategic objective.
- The investment policy in the agro-industrial sector provides for the production and processing of grain and cotton, as well as the harvesting and processing of wool and raw hides. It also provides for an increase in the production of meat and dairy products, fruit, vegetables, and melons, as well as an increase in the number of livestock and poultry and the strengthening of the fodder base for livestock farming.
- In transport and communications, the main flow of investment is directed towards the development of road, air, rail, river and sea transport, and the creation of logistics centres. Comprehensive modernisation and diversification of the sectoral infrastructure continues, using the most advanced equipment to expand the communications system, digital TV and radio broadcasting, and an electronic document management system is being systematically introduced.
- In the social sphere, the investment policy is oriented towards improving the quality and standard of living of the population and the employment of the able-bodied population by creating equal conditions for economic activity, which would lead to an increase in the number of jobs. In this context, the construction and reconstruction of social facilities and engineering infrastructure is envisaged: hospitals, health centres, preschools, secondary schools, cultural centres, sports schools and facilities, water pipes, wells, sewerage systems, communication systems, housing and utilities, hotel complexes, rest homes, etc.
- The investment policy in the non-state sector of the economy is aimed at the creation and development of small and medium-sized enterprises and industries producing both export-oriented and import-substituting competitive products, as well as the organization and support of farmer's

(Dayhan) associations. (Инвестиционный потенциал Туркменистана 2019).

The Programme for the Development of Foreign Economic Activities of Turkmenistan for 2020-2025 provides for measures to attract large volumes of foreign capital investment in various sectors of the economy and the creation of a favourable investment environment for the establishment of joint ventures and foreign enterprises in the country.

Under these conditions, the identification of the role and opportunities for investment policy, at the present stage of Turkmenistan's national economy, continues to be quite topical at the present time. The government understands the dependence on natural resources, but nevertheless emphasises diversification in its investment policy: increasing investment in high-tech and environmentally friendly enterprises, in the non-hydrocarbon sectors of the economy, in innovation in the form of state support for research and development, including education and training for export-oriented industries (Нейтральный Туркменистан 2014).

In order to implement the investment policy in the country, certain steps are being taken to attract FDI. As of 1 January 2018, 419 legal entities with foreign participation are registered in Turkmenistan, alongside 225 enterprises with joint Turkmen and foreign participation (Статистический ежегодник Туркменистана 2018 год, 2019).

Turkmenistan's policy on the privatisation of state-owned assets and support for private entrepreneurship has had a positive role in attracting foreign investment. The State Programme on Privatisation of State-Owned Enterprises and State Property in Turkmenistan for 2013-2016 and the Action Plan for Privatisation of State-Owned Enterprises and State Property for 2013-2016 have been adopted and implemented. However, there is no information available on the preparation and implementation of a new programme for the privatisation of state property after 2016. According to official data, 2,466 state-owned objects were privatised between 1994 and 2019. (Статистический ежегодник Туркменистана 2018 год, 2019).

The country has adopted and is implementing the State Programme for the Support of Small and Medium-Sized Enterprises in Turkmenistan 2018-2024, which has set a course for public-private partnerships to attract inward investment. This will be facilitated by the recently adopted Law on Public-Private Partnership (Закон Туркменистана «О государственно-частном партнерстве» 2021).

Turkmenistan's accession to the WTO as an observer in May 2020 was an important development that will contribute to the country's integration into the world trade and economic system, constitute an important factor in the development of the market economy, build up and diversify the country's export potential, and increase its investment attractiveness. Accession to the WTO should be seen as an investment with high returns in the future, and as a necessary condition for attracting foreign investment through improved access to information on the political and economic conditions of doing business in the country (World Bank 2006). The steps taken to bring interaction with the WTO to a new level and obtain observer status in this organization will give Turkmenistan an opportunity not only to actively participate in global processes, but also to successfully realize its competitive advantages.

In order to analyse its investment potential and determine an investment rating, Turkmenistan is negotiating with representatives of the international rating agency Fitch Ratings to conclude an agreement with the agency. Fitch Ratings is one of the top three international rating agencies. Such agencies analyse the economic situation of countries, calculate investment risks, and publish ratings of states. As a result of such reports, potential investors determine which country to invest in. According to the agency's website, Fitch Ratings last reported on Turkmenistan's short- and long-term investment ratings in 2005 (Berdiyev B. 2020).

Foreign direct investment (FDI) remains somewhat limited outside the hydrocarbon sector. Foreign investment, in line with investors' strategic objectives, has been mainly in mining, oil and gas production and distribution, and wholesale and retail trade. At the same time, sectors whose renewal is vital for Turkmenistan are not of significant interest to investors. These include agriculture and education, where FDI inflows are negligible. Obviously, the government authorities responsible for attracting FDI should create conditions for the optimal structural use of foreign investment in Turkmenistan's national economy for its balanced development.

Turkmenistan badly needs FDI to accelerate the restructuring of its industrial production and to break its dependence on raw materials. To ensure food security, special attention should be paid to the efficient and intensive development of agricultural production. In addition, priority should also be given to the social sphere, education and health care, and the tourism industry.

Thus, the official information provided on Turkmenistan's foreign investment attraction policy indicates that the political leadership understands the importance of the relevant areas for the country's socioeconomic growth and strives to enhance this activity by attracting more FDI into the country. However, measures to attract FDI are being implemented in a fragmented and non-comprehensive manner. There appears to be a lack of understanding of all the factors that could contribute to attracting FDI into the country.

Turkmenistan's strategy since independence has been to diversify its industrial sectors (in particular those unrelated to hydrocarbon extraction and export), to improve import substitution, to export higher value-added goods, and to expand its services sector. If we analyse Table 1, it appears that the country experienced an investment boom between 2009 and 2014, peaking in 2009. These figures coincide with the completion of investments in China's development of gas fields in eastern Turkmenistan and the construction of the Turkmenistan-China pipeline.

Table 1 Foreign Direct Investments in Turkmenistan

Year	FDI	Change, %	Share of GDP %	Change, %
2020	1,169,440,000	-46%	2.2	-54%
2019	2,165,862,500	9.10%	4.8	-2.4%
2018	1,985,147,000	-4.83%	4.9	-11.45%
2017	2,085,944,000	-7.01%	5.5	-11.29%
2016	2,243,160,000	-26.28%	6.2	-27.06%
2015	3,042,968,000	-20.55%	8.5	-3.41%
2014	3,830,131,000	33.85%	8.8	20.55%
2013	2,861,420,712	-8.57%	7.3	-17.98%
2012	3,129,614,737	-7.71%	8.9	-23.28%
2011	3,391,067,000	-6.64%	11.6	-27.88%
2010	3,632,300,000	-20.22%	16.1	-28.59%
2009	4,553,000,000	256.54%	22.5	239.91%
2008	1,277,000,000		6.6	-1.97%

Source: Knoema.com, UNCTAD 2020

If we look at the official list of investments in the second half of the 2010s, the companies operating in the Turkmenistan market were mainly those related to the fuel and energy sector – BP, Shell, Buried Oil, JCB, and Pertofac, under the United Kingdom and Turkmenistan Trade and Industry Council – and the development of the Galkynysh gas field by Chinese companies.

Outside the hydrocarbon sector, the largest investments from abroad have been in transport and infrastructure. In Turkmenbashi (formerly Krasnovodsk), Chinese investors are developing a seaport that could serve as a Belt and Road initiative.

Despite all the problems, there are several international organisations and banks operating in Turkmenistan that are partly stimulating small and medium-sized businesses. The European Bank for Reconstruction and Development (EBRD) has supported some micro, small, or medium-sized business projects in Turkmenistan since 2006. Among the main projects that have received support from the bank are food industry facilities (Berk or Yager beer breweries, Täze Ay meat and confectionery, Coca-Cola) and other production facilities (Türkmen Penjire, Toprak paper). One example of a successful project is the Biyat beer brewery, which in 2018 received funding from the European Bank for Reconstruction and Development (EBRD Project Summary Documents. Turkmenistan 2021). The bank's activities have increased strongly in recent years and cooperation includes financing, small loans, investments, and/or training focused on the real private sector (Turkmenistan Country Strategy 2019). An example of a modern facility built with EBRD funding is the Toprak Ltd. waste paper recycling plant, which produces corrugated cardboard and packaging board, and includes two main plants plus a small collection centre in Mary purchasing 250 to 300 tons of paper waste from local businesses every month. The plant, commissioned several years ago in Geoktepe etrap, recycles more than a thousand tons of waste paper annually and is equipped with a paper-making line, making the final product, Kraft paper in rolls two or more meters wide (E-CIS 2021).

Japanese companies are also active in the Turkmen market, and in 2019 they ranked first in terms of investment in the Turkmen economy (Orient.tm 2019). Japanese investments also concern infrastructure projects besides the gas chemical industry (the gasoline plant in Ahal, the carbamide plant, and the gas chemical complex in Balkan Velayat). The government of Japan supports this sphere with grants and technical cooperation (approx. USD 6 million and USD 11 million, respectively).

Turkmenistan aims at further increasing cooperation with foreign partners in the energy sphere. Alternative energy has been identified as one of the priority vectors of implementation of the national strategy in this direction. In this context, hydrogen, as a fuel of the future, is especially important in light of the global problems connected with ecology and climate change. Turkmenistan has drafted a road map for the development of international cooperation in the field of hydrogen energy for 2022-2023, which provides for further expansion of effective cooperation in this area with the International Renewable Energy Agency (IRENA), the International Energy Agency (IEA), the International Energy Charter, the International Atomic Energy Agency (IAEA), and other reputable organizations, as well as exploring opportunities for discovering hydrogen. At the same time, it is proposed to take steps to improve the political and legal grounds for international cooperation in this sphere, particularly preparing a national strategy for developing hydrogen energy in Turkmenistan and involving foreign experts in this work. Qualified personnel will be trained to develop this sector in the country. It is planned to establish scientific contacts with foreign partners with proposed Center for Hydrogen Energy at the International University of Oil and Gas named after Yaghygeldi Kakaev. One of its main tasks will be to develop proposals for the implementation of pilot projects on the generation and use of hydrogen energy in Turkmenistan. There are also plans to work on the relevant infrastructure for the production, storage, and transportation of hydrogen energy carriers and to attract large investments into this sector. To this end, it is proposed to establish an interdepartmental working group for the development of hydrogen energy in Turkmenistan. In addition, in order to expand cooperation and the exchange of experience in this area, it is planned to organize consultations with the relevant agencies of such countries as Japan, the Russian Federation, the Republic of Korea, and the United Kingdom (Neutral Turkmenistan 2022).

Despite the aforementioned progress in investments from different sides, Turkmenistan will have to work hard to attract foreign investment outside the energy sector, whose products (most often in a coarse and unprocessed form) remain prevalent on the world markets for the time being. It is precisely such investments that can diversify the economy and contribute to its economic development, all the more so because the domestic resources for such investments have been severely depleted in recent years. Most of the investments the country receives are in the form of partnerships between Turkmen state oil and gas organisations (Turkmengaz, Turkmennebit) and foreign companies within the framework of a product sharing agreement, joint ventures in the textile industry, or contractors in the construction industry and state-ordered construction projects (Pomfret 2019: 145-146). The state thus tries to maintain control over its strategic resources in the fields of energy and strategic mining (Muminov and Varol 2020: 422-423).

4 Technological factors

Berdymyrat OVEZMYRADOV

4.1 Infrastructure

Turkmenistan lacks productive capital, modern technology, technical knowledge, and experience. The creation of the prerequisites for accelerated economic development cannot be achieved only through the intensive use of limited domestic resources. Without attracting external sources of financing, it is difficult for Turkmenistan to solve the problems of innovative development. This also applies to the strategic planning of a country's sustainable infrastructure in which there have been discrepancies between stated goals and observed investment flows (OECD 2019). Turkmenistan is located in the landlocked region of Central Asia, where, relative to other Asian regions, there is limited participation in foreign trade, high transaction costs, limited border crossings, high dependence on transit countries for goods that may be subject to an unfavourable political environment, weak institutions, and poor infrastructure quality (Kim et al. 2021). The existing literature on trade in Central Asia often emphasizes the importance of infrastructure.

The availability of an accessible and cheaper base of energy resources is an attractive investment factor. The government of Turkmenistan is constantly investing in oil and gas to modernize and expand the electricity and heat sector (IEA 2020). Based on international media reports, the country appears to have experienced fewer losses and interruptions in its electricity supply than most of its neighbours in Central Asia. Energy projects accounted for the majority of current infrastructure investment (mainly pipelines and cross-border transmission projects), but the country has achieved little diversification in its electricity mix, which is entirely dependent on natural gas, and it has not invested enough in the generation, transmission, and distribution systems to limit leakage and emissions (OECD 2019).

Turkmenistan has undertaken extensive reforms to improve its infrastructure in the road, rail, maritime and air transport sectors. Several airports and an international port were built. The volume of cargo transportation has increased in all sectors. Investment opportunities here include consulting services for the construction and maintenance of roads, railways, and ports, as well as specialized transport equipment, solutions for the creation of logistics centres, navigation equipment, and construction and cleaning equipment. The quality of many roads in and especially outside of cities still leaves much to be desired (US Department of Commerce 2018). Despite large-scale transport projects built over the past few years (such as the international seaport of Turkmenbashi on the Caspian Sea and the railway between Kazakhstan and Iran), Turkmenistan's infrastructure was considered weak and its logistical costs relatively high (OECD, 2019). Turkmenistan serves as an important transit country for shipments between Iran and Central Asia and, through the Caspian Sea, the Russian Federation. The country needs to increase its investment in transport to attract more transit traffic, simplify the process of using the international port for foreign shippers, and develop knowledge acquisition, including supply chain management, modern logistics systems, quality management, cold chains, and multimodal transport (Asian Development Bank 2020).

Turkmenistan has adopted multi-year national development programs in various sectors of the economy with subsections on attracting investment in the relevant infrastructure. For example, in 2007, the Avaza tourist zone was created with the provision of some tax incentives for investments in the construction of hotels and recreational facilities. However, the rigid visa regime in the country has led to underutilization of the potential of expensive infrastructure for attracting foreign tourism (US Department of Commerce 2018).

In Turkmenistan, many enterprises still use outdated equipment and technologies, which significantly reduces labour productivity and leads to the production of lower quality goods. This affects their competitiveness and reduces their ability to earn hard currency. Foreign investments allow this problem to be solved, because investment goods embody advanced technology and enterprises can use new technologies. The alternative of buying the rights to use the technology requires the outlay of expensive foreign exchange. Innovative processes can dramatically increase labour productivity in the country's enterprises and will stimulate investment in them. The government of Turkmenistan has tended to pay special attention to technology when developing policies in many areas. This seems to be in line with the inflated expectations that improvements in equipment and infrastructure alone could be enough to ensure prosperity without fundamental institutional changes, including much-needed liberalization in all areas. Without the application of public participation procedures, stakeholder concerns run the risk of being ignored in the design of infrastructure projects, cutting off valuable feedback and criticism from the public (OECD 2019).

4.2 Information and telecommunication technology

In Turkmenistan, the telecommunications network has gradually improved since the Soviet period. A high level of mobile connectivity and coverage has been achieved (Statistical Yearbook of Turkmenistan 2020). In cooperation with foreign partners, the country's telecommunications sector has installed high-speed fibre optic communication lines and upgraded most of the telephone exchanges and switching centres with digital technologies (World Factbook 2020). The Internet and mobile services sectors, however, have not yet been sufficiently developed to match the global advances in technologies that facilitate FDI in other countries (Santander 2020).

State control over most types of telecommunications has not contributed to the growth of this area. For a long time, one phone service was available in the country, the local mobile operator Altyn Asyr, with inferior quality and reliability (US Department of Commerce 2018). By 2019, the Russian mobile operator had left the country, leaving the market to the state-owned operator. The only provider of internet services is the state-owned telecommunications company Turkmen Telecom, and in some regions its services may be unreliable, especially outside the capital. Some rural areas still lack telephones; mobile broadband is in its early stages, Internet access in hotels is often slow or non-existent, and it can be difficult to establish an Internet connection in a private home or office (US Department of Commerce 2018).

Internet penetration has been well below the global average (Yazliyeva 2021). In the past few years, access to the Internet in the country has largely expanded, while the prices for its use have been reduced (Реджепова 2021.). The rise in internet use and mobile phone access in the country has occurred despite tight controls on social media and web portals. At the same time, there are significant restrictions on access to certain sites and most VPN services are blocked.

In 2017-2018, digitalization measures were taken in various sectors towards the goal of creating a knowledge-based economy: the Concept for the Development of the Digital Educational System and the Concept for the Development of the Digital Economy. In addition, a decree was issued in 2020 to accelerate the development of websites for government agencies and the integration of digital technologies into their work. However, digitalization was largely carried out only formally and did not achieve important capabilities by the pandemic outbreak of 2020, as evidenced by the inability to move to online learning (Muhamedov 2020). As of 2022, a standard Internet connection still did not quite provide a stable connection for the uninterrupted viewing of online videos and video conferences in good quality at any time of the day – an important function for international business during a pandemic.

E-commerce in Turkmenistan was underdeveloped and lacked laws to regulate it. Electronics and clothing were the main types of goods purchased via the Internet from abroad (mainly from Turkey and China). Few popular local Internet sites and mobile apps were focused on commercial advertising, with limited functionality, such as VESTNIKTM and TMAVTO. Most shoppers accessed online shopping sites from mobile phones with slow internet speeds and no online payment options, with currency convertibility remaining a major constraint for e-commerce or any type of foreign transaction (US Department of Commerce 2018).

The government passed laws to protect intellectual property rights, but they were poorly enforced, and since 2000, Turkmenistan has been on the US government's Special 301 List. As the economy deteriorated in the 2010s, potential intellectual property infringements increased (US Department of Commerce 2018). The United States was concerned about reports of widespread use of unlicensed software on government computers and sought a response from the government of Turkmenistan to ensure that their agencies would use only licensed software and comply with international copyright agreements (Office of the United States Trade Representative 2015).On the positive side, the government of Turkmenistan did not impose localization policies or formally require foreign investors to use domestic content in products and technologies (US Department of State 2020). It appears that foreign companies were not required to transfer the source code or encryption keys, or maintain a data warehouse in Turkmenistan (US Department of State 2020).

It is necessary to create conditions so that foreign companies do not experience difficulties in doing business inside the country due to severe restrictions on the Internet and the inability to access many websites. Allowing more internet providers and competition in the telecommunications market will help address issues with connection reliability and speed. It will also open up new growth opportunities for foreign investment in e-commerce and in other underdeveloped telecommunications sectors, enabling the country to follow the world's promising technological trends.

5 Communication factors

Berdymyrat OVEZMYRADOV

Reliable statistics and transparency undoubtedly play a role in the final decisions of foreign investors.

5.1 Availability and accuracy of data

Compared to other post-Soviet states, there has been a lack of important statistics on Turkmenistan available to potential investors. The texts of regulations or government decisions are not sufficiently published online, and the State Statistics Committee did not make most of its data available to the public (OECD 2019). The government is centralized and opaque, information that is openly available in most other countries can be classified as "state secrets," and limited national statistics are published using data collection and evaluation methodologies that are often not credible (US Department of Commerce 2020). Laws often refer to bylaws that are not publicly available and mostly take the form of decrees that are not classified by topic, making it difficult to find relevant references (OECD 2019). The government could make efforts to implement the Convention on Access to Information, Public Participation in Decision-Making, and Access to Justice in Environmental Matters (OECD 2019), to which Turkmenistan has been a party since 1999.

One cannot avoid the data and methodological differences used by individual country sources. This reiterates the important fact that accurate statistics are not available, although these and other subsequent figures presented in this study are the best estimates available from authoritative sources. Significant discrepancies in economic growth, population size, and other important indicators relevant to foreign investment decisions have recently been reported. Due to a lack of reliable data, the World Bank recently stopped publishing economic, income, and growth data for Turkmenistan (World Bank 2021). Improving both the quantity and quality of data available to the public should be one of the most important areas for improving the overall climate for business and foreign investment in the country.

Instead of trying to improve the country's image through further restrictions, embellished official reports, ostentatious activities, and other ineffective measures, the government should increase data transparency and freedom for independent media at least to the level of its neighbours in the Central Asian region. This would serve as a real countermeasure to the growing negative information background around the country in the eyes of foreign partners.

5.2 Information online

Organizations based in Turkmenistan clearly need a greater online presence with websites and access to important information. The government has recently promoted the creation of new websites and online content in an effort to digitize. However, Turkmenistan's web resources need to provide much more volume and functionality as real steps toward informing potential investors. It has often been reported that authorities block independent Internet resources without any explanation or legal basis, so the population widely uses VPN (Virtual Private Network) applications to bypass Internet censorship (US Department of Commerce 2020).

Independent media are still the main sources to make up for the lack of official information. Despite domestic blockades, alternative news sources (www.azathabar.com, www.hronikatm.com, www.turkmen.news) and social media (YouTube, Facebook) have been significant resources, both abroad and locally (Yazliyeva 2021). Unfortunately for potential investments, the bulk of the news and reports on the country covered by these independent resources does not contribute to the attractiveness of foreign businesses.

In recent years, the government has taken some steps to solve the problem of openness regarding the information coming out of the country. Since 2014, new web resources not officially affiliated with the state media have appeared online, including Orient.tm, Arzuw.news, and other private media outlets. All of these websites identify themselves as independent media and provide a relatively higher level of coverage than official news in Turkmenistan. The government appears to have recently authorized the creation and support of such new media through reporters from relevant unofficial channels in the country and the disclosure of certain information not available in the official media. This is a rather unusual strategy for the government and a departure from the longstanding practice of restricting private media. These steps may be a cautious response to the dismal level of media freedom as measured by world rankings. Thus, they can be seen as limited measures toward greater openness, despite the understandable criticism of such media by independent observers as being indirectly managed by the government.

The country continues to rank among the worst in the world in terms of Internet censorship and surveillance (Yazliyeva 2021). It also lacks a single window to facilitate business registration (OECD 2019). User-friendly platforms must be created where the public can access relevant information. Following the examples of neighbouring countries, digitalization in the provision of single-window services should include detailed information and advice for businesses. Many more steps need to be taken to create a truly independent media and online services platform, including the online resources so important in today's world for potential investors from abroad.

6 Geopolitical factors and security

Yolbars KEPBANOV

6.1 Geographical location and regional security

The doctrine of permanent and positive neutrality is the critical aspect defining Turkmenistan's role and place in contemporary international relations. Neutral status was a natural response to radically changed geopolitical conditions: it was seen as the best way to ensure the state's sustainable independence, its progressive development, and, not least, its security, built on the principle of the balanced presence of world and regional powers (Кепбанов 2009).

First of all, permanent neutrality for Turkmenistan means its securitization, a way to protect national interests. Secondly, such a model enables the state's foreign policy predictability and ensures internal stability and sustainable development. Such criteria are essential in international economic cooperation to attract foreign investments into the country's economy and create equal conditions for all existing and potential partners.

Turkmenistan is located in a geographically and geopolitically challenging region in terms of security. The country has no direct access to the world's oceans and is remote from promising markets, particularly from energy consumption markets, which is an obstacle to increasing Turkmenistan's energy exports. Moreover, the country is also surrounded by oil and gas producing countries that compete for regional and global market access. Turkmenistan shares a Caspian Sea border with Azerbaijan and Russia to the north and west, two countries that have strengthened their Turkish and European gas markets. In the south, Iran possesses the world's largest gas reserves, creating another competitor for Turkmenistan. Uzbekistan to the northeast and Kazakhstan to the north also produce gas and promote an active gas export policy. Turkmenistan's neutrality determines the formation of an investment policy based on balancing world and regional powers. The geopolitical factor in Turkmenistan's investment attraction policy has to a certain extent begun to balance the interests of a wide range of foreign countries in the Turkmen market over the past ten years.

At the same time, the Turkmen authorities regularly tend to change their geopolitical priorities. Experts note the strong positions of Chinese, and to an extent US, Japanese or Korean companies, while Russian and Israeli businesses show a decreasing trajectory. Such "geopolitical swings" were, according to experts, a risky game for the Turkmen authorities, as none of the external players are ultimately satisfied (Инвестиционный потенциал Туркменистана 2011).

6.2 Major investors as sources of FDI in Turkmenistan

At present, Japan, China, South Korea, Germany, and the United States are the top five countries of origin in the structure of Turkmenistan's foreign investment inflows. However, companies from other Asian (Malaysia, Turkey, Iran, UAE, etc.) and Western countries (Canada, Denmark, France, Italy, etc.) are also present in the Turkmen market in roughly equal shares. Furthermore, the activities of Russian companies in Turkmenistan (Gazprom, Kamaz, etc.) have been noticeably increasing. This means that, at present, some kind of the balance has been achieved for countries participating in investment projects, so it is not a matter of the monopoly of one or another country in the market of Turkmenistan.

The People's Republic of China. China is currently the key strategic partner of Turkmenistan, with the Treaty of Friendship and Cooperation signed in May 2014. The country is also the largest trading partner and a significant investor in Turkmenistan's economy. About 37 enterprises with Chinese capital operate in the country, and 66 investment projects totalling US$4.4 billion or 2.3 billion yuan have been registered. Chinese companies are represented in the oil and gas sectors, as well as telecommunications, transport, agriculture, textile, chemical and food industries, healthcare, and construction.

Following the successful diversification of natural gas export routes in 2009, China has become Turkmenistan's largest export market and natural gas as a predominant commodity. The volumes of natural gas deliveries are demonstrated and analysed in Figure 5 (chapter 8), making Turkmenistan’s gas export highly dependent on Chinese demand. This factor became particularly evident in 2020, when China drastically reduced its gas imports due to the COVID-19 pandemic outbreak (Hess 2020). Interestingly, over the same period, China increased its gas imports from Kazakhstan, a country with diversified exports that is less reliant on the Chinese market. The commodity-exporting Central Asian states, which already have substantial loans from Chinese banks, should carefully consider the cost of any future joint projects. China has a history of refusing to pay the agreed price as soon as a pipeline is completed, when the balance of power shifts from supplier to buyer (The Economist 2020b). Less strict requirements for transparency, environmental protection and social responsibility make Chinese investments more attractive for the governments of several developing countries. At the same time, seemingly relaxed preconditions for obtaining investment in projects that other investors would not consider show yet the other side of the Chinese investment strategy. China has been a powerful economic partner, pushing its purchases at low prices and borrowing at interest rates that are often higher than those of other international creditors. In particular, large-scale projects financed at high market rates and under unfavourable conditions for developing countries risk creating a debt trap. The vivid example of Sri Lanka, where the government had to lease its port and surrounding land to a Chinese company for nearly a century, can serve as a warning about engaging with partners willing to finance and build projects while ignoring negative feasibility reports due to political considerations and the strategic reasons of their government (Abi-Habib 2018). Realising the ineffectiveness of previous agreements with Chinese companies, the new Malaysian government recently attempted to cancel a controversial project, but had to renegotiate the terms to avoid termination fees of $5 billion (Mitchell and Woodhouse 2019). The above examples showed that projects could suffer from poor cost-benefit analysis (The Economist 2020a). Many projects credited under China's Belt and Road Initiative are already at risk of default or might not become beneficial for the recipient countries.

Nevertheless, some of the initiative's projects may benefit local populations, and many projects have yet to show results in the future. Chinese operations in Turkmenistan have primarily been limited to the oil and gas sector. Significant opportunities remain for Chinese FDI in the technology sector, such as renewable energy. The government could effectively attract more investment in broader areas if balanced and mutually beneficial conditions were agreed upon with Chinese partners.

China National Petroleum Corporation (CNPC) has been one of Turkmenistan's leading business partners. The company has been exploring and developing the Bagtyýarlyk fields since 2007. This area serves as a base for the Turkmenistan-China transnational gas pipeline, commissioned in December 2009. According to intergovernmental agreements, 65 billion cubic meters of Turkmen natural gas will be supplied to China annually through this pipeline soon. As of the beginning of 2020, CNPC's investments in this project amounted to more than 8.2 billion US dollars (Business of Turkmenistan 2020). Other major investment projects implemented jointly with CNPC and Petroçaýna include the development of the Galkynysh field, one of the largest in the world, with estimated reserves of 26.2 trillion cubic meters of gas. The commercial gas plant capacity constructed there reaches 30 billion cubic metres of natural gas per year. Following the contract with the Turkmengaz State Company, CNPC is erecting yet another complex of gas production facilities there, with a capacity of another 30 billion cubic metres per year.

Overall, Turkmenistan now exports the bulk of its natural gas production to China, accounting for most gas deliveries arriving through the pipeline systems. It seems that this choice in favour of China was due at the time to the most acceptable terms and loans provided by the Chinese side to Turkmenistan, which neither Russia nor Western countries could offer (Horta 2013).

This situation shows how Chinese companies maintain a monopoly on the country's gas market. The absence of external competition around Turkmen gas and Ashgabat's limited capacity to diversify its gas exports has allowed China to increase gas production in Turkmenistan incrementally and to reserve larger volumes of gas for supplies to the PRC (Парамонов, Строков 2015). At the same time, Turkmenistan has to deal with the competition of other pipeline-connected countries, mainly Kazakhstan and Russia, whose deliveries increased from almost zero to become the second largest supplier of gas through the pipeline systems (Table 2). In addition, the average gas price could be on a lower level in Turkmenistan compared to other countries.

Table 2 Main natural gas exporters to China (2020)

Exporters	Total value (billion USD)	Total cubic meters (gas+LNG) 1 billion m^3	Average price USD per 1,000 m^3
Australia	10.37	38.73	267
Turkmenistan	6.00	27.60	217
Qatar	3.37	10.88	310
Russian Federation	2.36	10.73	220
Malaysia	1.76	81.47	216
Myanmar	1.42	71.04	201
Indonesia	1.76	68.35	257
United States of America	1.10	42.73	258
Kazakhstan	1.37	40.45	338
Papua New Guinea	1.12	40.19	278
Uzbekistan	0.63	33.28	190

The countries in bold deliver their gas to China via pipelines. Russia provides its gas to China using both pipelines (about 37%) and LNG (63%).
Source: Trademap.org

Japan. Japan is a significant investor as well as an economic, political, and cultural partner in Turkmenistan. The practical implementation of Japanese foreign policy is based on bilateral ties. This means that mutual official visits play a substantial role in developing fruitful partnership relations. In this regard, the visits of the President of Turkmenistan to Japan in December 2009 and September 2013 gave impetus to strengthening ties and deepening cooperation between the two countries.

On the other hand, while visiting Ashgabat in October 2015, Japanese Prime Minister Shinzo Abe signed a package of agreements together with representatives of Japanese business and financial circles. These agreements launched joint projects worth over US$18 billion. They included projects for the construction of a gas processing complex to produce linear low-pressure polyethene from ethylene, a plant for the production of liquid fuel from natural gas based on Japanese GTL technology, a plant for processing polymers from gas, and various facilities that are being developed within the Galkynysh gas field. Most of these projects have already been implemented. In addition, Japanese companies are involved in a turnkey polythene and polypropylene plant with ethane cracking in Dashoguz province. Several projects related to gas processing are to be carried out in the chemical industry and energy sector, including the construction of a complex for the production of concentrated phosphate fertilizers at the Turkmenabat chemical plant and a 432 MWt (ISO) gas turbine power plant in Serdarabat *etrap* of Lebap *velayat*.

As of 2019, Japanese companies ranked first in terms of investment in the Turkmen economy (Orient.tm 2019). This longstanding cooperation with Japanese companies and financial institutions is an example of the effective use of Turkmenistan's investment potential. Vnesheconombank (Bank of Foreign Economic Relations) of Turkmenistan alone has a portfolio of ten investment projects worth over US$7.6 billion, with Japanese financing accounting for US$4.6 billion (SNG Today 2019).

Historically, soft power is another core element of Japan's foreign policy in Central Asia. Its essence is based on scientific and historical cooperation and the implementation of cultural and educational programmes, the investment appeal of the energy sector, telecommunications, and infrastructure in general. Unlike other powers, Japan does not seek to increase its influence in the region to gain access to natural resources. Instead, it has always underlined that its aid is disinterested and aimed at forming long-term friendly ties with Central Asian countries (Уразаева 2017).

Historical cooperation between Japan and Turkmenistan has to be seen in this context. This means that the well-established export of high technologies to

Turkmenistan, further collaboration in the development of oil and gas industries, and the construction of industrial complexes are principal areas of Japanese investments. The historical dialogues continue to aim at an equal distribution of power in the region. Thus, for Japan, which traditionally has little access to natural resources, a partnership raises the possibility of importing processed and liquefied Turkmen gas to allow it to replenish its material-technical resources and thus the construction of oil and gas plants (Уразаева 2017).

Japanese investments enable the implementation of new technologies and marketing innovations, which will stimulate, in the long run, the transition from an economy of manual labour and rented capital to the complex structures of a post-industrial economy. In other words, this aspect is purely a question of high-tech development opportunities. Based on an analysis of the value of the projects carried out by 2017, projects utilising Japanese capital from Sojitz, Chiyoda, Nippon, ITOCHU, JGC, Kawasaki, TOYO, Mitsui, Tsukishima, Mitsubishi, Sumitomo, and several state banks and other financial institutions involving both countries stand out. The total value of the ongoing projects is more than US$18 billion (Кацумата 2017).

The Republic of Korea. Korea's policy in the economic cooperation with Turkmenistan, including investment, is almost identical to that of Japan. It is, therefore, no coincidence that Korea is implementing most of its investment projects in Turkmenistan jointly with Japanese investors. The attractiveness of Korean cooperation with Central Asia lies in the resource base of Central Asian states and the specific pattern of relations that Korea is building with those states in the context of its broader Eurasian continental ties. As a result, the architecture of this cooperation inevitably correlates both with the dynamics of Russian-Korean relations, the presence of other Asian powers in the region, and especially in terms of the possible containment of China's influence (Буланакова 2020).

At the same time, unlike Japan, Korea seems more interested in Turkmenistan's resource base. This attitude was confirmed by the statements made about the possibility of supplying Turkmen natural gas to Korea during the visit of the country's prime minister to Turkmenistan in April 2019. Therefore, Korea's interest in Turkmenistan lies primarily in competition for access to resources. With the impact of the pandemic, Korea has become most acutely aware of its dependence on resource partners and is willing to cooperate with a large number of partners to diversify its traditional ties.

The Russian Federation. Historically, the Russian Federation has had significant economic ties, political influence, and soft power in Central Asia. The Russian language serves as a *lingua franca* for officials and business representatives in the area, more frequently than English or any Turkic language. Russian companies have invested in activities in Turkmenistan since independence, and they are likely to remain attractive business partners for the foreseeable future.

Russian-Turkmen relations are currently based on the principle of the Strategic Partnership Agreement signed on 2 October 2017. Russia is Turkmenistan's increasingly significant trading partner, especially for imports (see Table 3). The negligible figures of Turkmen export to Russia once again confirm the dependency of Turkmenistan on gas export, whose amounts of exports to any other country except China is insignificant.

Table 3 Russia-Turkmenistan Trade (2017-2020) (thousands of USD)

	Russian export to Turkmenistan	Share of Russia in Turkmenistan import %	Turkmen export to Russia	Share of Russia in Turkmenistan export %
2017	34,378	0.78	84,372	1.00
2018	288,831	10.32	155,203	1.53
2019	543,322	17.65	151,475	1.38
2020	649,475	19.31	320,701	4.10

Russian exports are based on machinery, equipment, and vehicles; chemical products; foodstuffs and agricultural raw materials; metals and metal products; timber and pulp and paper products; and mineral products. About 190 Russian companies are operating in Turkmenistan. Among the leaders in doing business in this country are KAMAZ PJSC, GAZ Group Management Company LLC, and Tatneft PJSC. Natural gas is the central area of cooperation between the two countries. Tatneft concluded the contract with Turkmenneft on the general maintenance and reconstruction of oil wells, the organization of reservoir pressure maintenance systems, and the introduction of automatic systems for oil production and extraction facilities. However, gas exports to Russia have decreased substantially for various reasons, including the current situation in the market. The Production Sharing Agreement (2009) between ITERA Oil Company OJSC and the State Agency on Management and Use of Hydrocarbon Resources under the President of Turkmenistan to develop Block 21 of the oil field in the Turkmen sector of the Caspian Sea is on of the most significant Russian-Turkmen projects. In the Caspian Sea, the Russian oil company Lukoil also plans to develop a joint field between Turkmenistan and Azerbaijan, Dostluk.

The United States. Turkmenistan signed a Framework Agreement on Trade and Investment Relations with the United States to improve the investment climate and expand trade relations. The United States and Turkmenistan have most-favoured-nation status in trade relations. The US government considers the double taxation convention introduced during Soviet times to still be in force and applicable between the United States and Turkmenistan. The US companies General Electric and John Deere supply Turkmenistan with appropriate equipment and machinery, but their business operations are limited mainly to the sale of industrial equipment to the government of Turkmenistan.

European Union countries. The EU in Central Asia has traditionally focused on soft power, which values quality and transparency in bilateral relations and ongoing projects. The European vector is one of Turkmenistan's essential and desired foreign policy priorities. The EU's cultural and economic ties with Turkmenistan have strengthened considerably over the years of independence. With the participation of European companies, the European Bank for Reconstruction and Development financed and implemented a substantial number of projects in Turkmenistan.

Although not ratified, a Partnership and Cooperation Agreement was signed between Turkmenistan and the EU in 1998. Later, in April 2009, the European Parliament voted in favour of an interim trade agreement between Turkmenistan and the EU, which removed all obstacles to the activities of European companies in the country's energy sector. Based on Ashgabat's declared policy of diversifying its energy export routes, the EU became very interested in supplies of Turkmen natural gas. The Turkmen leadership signed a memorandum of long-term dialogue with the German concern RWE in April 2009, envisaging the development of Block 23 of the Turkmen Caspian Sea shelf and cooperation in transporting Turkmen gas to Europe across the Caspian.

As the EU looks for a stable gas source to decrease its dependence on Russia, this consistently leads European politicians to Ashgabat. Despite the launch of the Turkmenistan-China and Turkmenistan-Iran gas pipelines in late 2009 and early 2010, respectively, the EU still considers its imports from Turkmenistan through the system of the South corridor bypassing Russia.

As for the EU investments, however, poor infrastructure, complex regulation, an underdeveloped private sector, high levels of corruption, exchange rate problems, and inadequate human resources have created obstacles to the deeper involvement of EU partners, who usually have strict requirements for transparency, the environment, and ease of doing business abroad. Such an approach contrasts diametrically with the Russian and Chinese investors, who allow themselves to be less scrupulous when entering into agreements in such an environment. In particular, Chinese investors seem to have an advantage in negotiating large-scale projects with governments that have less consideration for the local populations' socioeconomic and human consequences. The joint ventures (JVs) or other forms of cooperation are an option for combining the strengths of EU and Russian enterprises and countering competition from state-backed Chinese companies in Central Asia. Zeppelin International AG, which maintains a strong regional presence in Russia and Central Asia in construction equipment, can serve as the relevant example in this category (Construction Equipment Eurasia 2020). This European company, which sells American Caterpillar equipment, has benefited from the synergy created by a well-integrated network of Russian-speaking specialists to offer high-quality services to public and private customers in local markets. It is an example of a flexible Western company operating in post-Soviet countries that adapts to the local business culture while maintaining acceptable ethical and social responsibility standards.

The Republic of Turkey. Turkey is one of the largest trading partners of Turkmenistan, and is the most important one in terms of imports. About 600 Turkish companies are registered in Turkmenistan, working in the trade, investment, construction, energy, transport, communication, textile, and processing industries. This puts Turkey among the most significant investor countries in the Turkmen economy, excluding the oil and gas sector. Turkmenistan exports textile products, fuel and energy, chemical and agricultural products. Significant amounts of metal and metal products, household goods, equipment, construction materials, electrical equipment, chemical and light industry products, foodstuffs, vehicles, and medicines come from Turkey.

6.3 Security aspects of attracting foreign investors

Security is a crucial factor in the field of foreign investment, and is of direct relevance to host countries. Countries accepting foreign investments need to consider security aspects in shaping their investment policies and regulatory frameworks. As a country with a developing economy, Turkmenistan should consider possible risks and threats for its economy while carrying out investment activity.

Turkmenistan's exceptional natural resources are attractive to foreign investors, making it essential to consider security when shaping investment policy. As the foreign investor seeks to maximize profit in other countries, the contradictions between foreign investors and the country's national interests are a natural aspect of investment policy. The interaction process between the investors and recipients of FDI requires mutual respect and a balance of interests at all stages of cooperation (Комаров, Литвина 2012: 189). Therefore, the activities of foreign capital should be clearly regulated by the state to guarantee national security. In our opinion, state regulation of investment activities should be understood as a system of measures established to implement investment policy and effectively manage investment activities.

Security aspects are partly reflected in several Turkmen laws. The Law on National Security of Turkmenistan mentions "hindering the growth of investment activity and the uncontrolled export of capital and goods outside the country" among the main security threats (Закон Туркменистана «О национальной безопасности Туркменистана» 2013).

The Law on Foreign Economic Activity stipulates that "when implementing foreign economic policy, Turkmenistan shall take measures to protect the domestic market and the interests of domestic producers" and recognises "ensuring the economic security of Turkmenistan" among the basic principles of foreign economic activity (Закон Туркменистана «О внешнеэкономической деятельности» 2014). The Law on Investment Activities in Turkmenistan prohibits investment in facilities that do not meet environmental standards in their creation and use or damage the legally protected rights and interests of citizens, legal entities, or the state.

The regulations mentioned above are essential to ensure the optimal government regulation of foreign investors' activities in order to attract FDI for the long-term and sustainable development of the national economy. This balanced and deliberate approach, using a combination of investor and host government interests, ensures the attractiveness of foreign investments (Law on Investment Activities in Turkmenistan 1992).

For this reason, Turkmenistan established an Agency for Risk Protection of the Economy under the Ministry of Economy and Development of Turkmenistan in early 2013 to protect its market from unscrupulous investors. The agency's main task includes the analysis of perceived risks (political, economic, financial, legal, sectoral, regional, and natural) in the national economy. First of all, the agency checks the financial reliability of a foreign company to ensure the country's investment security. The Financial Monitoring Service under the Ministry of Finance and Economy of Turkmenistan, established on 5 October 2018 by presidential decree, should also be considered in the context of security. The Service is an authorised state body for combating money laundering and terrorist financing. It also guarantees and coordinates measures to assess, mitigate, and eliminate national risks (Decree of the President of Turkmenistan 2018).

Foreign investors can influence host countries in different ways. Large companies can use their economic power to influence government policies against a country's national interests. They can extract significant economic and political benefits by asking for excessive protection, tax exemptions, tax breaks on capital investment, and other incentives. As a result, the profits of such companies may exceed their social costs. The recipient countries could eventually encounter and counterweigh the following consequences of foreign investor pressure: limiting domestic competition, ecological degradation (e.g., the transfer of harmful industries from a developed to a transition country), addressing social issues, tax liabilities, export/import ratio, privatisation of local companies, provision of incentives, snf quality of their output (Александрова, Маровгулов, Сухенко 2014).

Thus, foreign investment can affect recipient countries, depending mainly on their degree of maturity and self-sufficiency. Therefore, they should pursue prudent policies to regulate foreign investment so that it is used for the country's benefit. On the other hand, it also is crucial for the recipient state to recognise that security risks also arise for investors in foreign countries. As a result, both parties are equally at risk, making it essential for them to consider and negotiate their mutual interests. Turkmenistan is still at the stage of forming its statehood fundament; its economy, and the legal system are still developing, which comes with certain risks for foreign investments. Undoubtedly, the following excerpt is relevant here: "the policies of developing countries towards foreign capital are often characterised by fluctuations and changes. This is largely because these states experience an acute shortage of resources for capital investment and are forced to attract funds from outside" (Богуславский 1989: 172).

7 Legal factors

Yolbars KEPBANOV

7.1 Legislation

Legal factors are the set of legal norms that govern the recipient country's attitude towards investors in attracting foreign investment. The attractiveness of an investment is determined by the extent to which a country has developed investment and general legislation, which regulates investment activities and establishes uniform rules and mechanisms for interactions between foreign investors and government authorities.

At the same time, the legal regulation of investment relations at the national level is carried out both by the main branches of legislation (norms of constitutional, civil, administrative, tax, customs, land, and other legislation) and by special acts regulating investment relations directly, including those with the participation of a foreign investor.

Turkmenistan has developed extensive investment legislation. The primary legislative acts of direct relevance to foreign investors include the

- Civil Code (Гражданский кодекс Туркменистана 1998);
- Tax Code (Налоговый кодекс Туркменистана 2004);
- Land Code (Кодекс Туркменистана «О земле» 2004);
- On Enterprises (Закон Туркменистана «О предприятиях» 2000);
- On Joint Stock Companies (Закон Туркменистана «Об акционерных обществах» 1999);
- On Licensing Certain Types of Activities (Закон Туркменистана «О лицензировании отдельных видов деятельности» 2008);
- On Property (Закон Туркменистана «О собственности» 2015).

Special legislation in the field of foreign investment includes the following laws:

- On Investment Activity in Turkmenistan (Закон Туркменистана «Об инвестиционной деятельности в Туркменистане» 1992);
- On Foreign Concessions (Закон Туркменистана «Об иностранных концессиях» 1993);
- On Foreign Investments (Закон Туркменистана «Об иностранных инвестициях» 2008);
- On Hydrocarbon Resources (Закон Туркменистана «Об углеводородных ресурсах» 2008);
- On Foreign Economic Activity in Turkmenistan (Закон Туркменистана «О внешнеэкономической деятельности» 2014);
- On Free Economic Zones (Закон Туркменистана «О свободных экономических зонах», 2017).

The following laws also play an important role in creating a favourable investment climate in the country:

- On Currency Regulation and Currency Control in Foreign Economic Relations (Закон Туркменистана «О валютном регулировании и валютном контроле во внешнеэкономических отношениях» 2011);
- On Denationalization and Privatization (Закон Туркменистана «О приватизации и разгосударствлении» 2013);
- On the Securities Market Act (Закон Туркменистана «О рынке ценных бумаг» 2014);
- On International Commercial Arbitration (Закон Туркменистана «О международном коммерческом арбитраже» 2014);
- On Combating Corruption (Закон Туркменистана «О противодействии коррупции» 2015).

In addition, there are also a number of other regulations affecting the activities of foreign investors.

The Law on Foreign Economic Activity in Turkmenistan provides for international economic and financial cooperation and the attraction of foreign investments within the main areas of foreign economic activity (Закон Туркменистана «О внешнеэкономической деятельности» 2014).

The Law on Investment Activity in Turkmenistan provides a set of practical actions of the state's physical and legal entities on realising investments. The state regulation of investment activity is carried out with a view to the realisation of the economic, scientific, technical, and social policy of Turkmenistan. It should provide preferential conditions to any investors carrying out investment activity in priority directions defined by the state. Under the Act, all investors have equal rights to carry out investment activities. Investors independently determine the volume, sphere, and effectiveness of investments and, at their discretion, engage on a contractual basis with the natural and legal persons they need to make these investments. Investors have the right to own, use, and dispose of the objects and results of their assets, including reinvestments and trade operations on the territory of Turkmenistan.

Turkmenistan guarantees the stability of the rights of subjects of investment activity and the protection of investments regardless of their form, ownership, and state affiliation. For instance, in the case of the adoption of legislative acts, the provisions of which restrict the rights of the subjects of investment activity, the relevant provisions of these acts may not come into force earlier than ten years after their publication. Investors have to enjoy equal treatment, excluding the application of measures of a discriminatory nature that might hinder the management, utilisation, and liquidation of investments and the conditions and procedures for the export of investment results. The assets shall not be nationalised, requisitioned, or subject to measures of equal effect. Such actions may be applied only on the basis of the unique legislative acts of Turkmenistan with compensation to the investor in full for losses caused by the termination of investment activity (Закон Туркменистана «Об инвестиционной деятельности в Туркменистане» 1992).

Following **the Law on Foreign Investments,** enterprises with foreign investments are granted national legal treatment and favourable legal remedies in the free economic zone territory. They are subject to customs privileges, the right to export their products (works, services) without a licence, and import products (hardware or services) for their own needs.

Foreign investors or enterprises with foreign investment operating in the free economic zone:

- have the right to lease land depending on the payback period of the investment projects;

- may register investment projects, as well as enterprises with foreign investment, branches, and representative offices of foreign legal entities without having to pay registration fees;
- are exempt from paying consular and registration fees, fees for registration of contracts, state fees for issuing or renewing a licence, land rents, and deductions from profits to non-budgetary funds.

Certification of equipment and materials imported to Turkmenistan by foreign investors, enterprises with foreign investments, and their contractors and subcontractors carrying out activities pertaining to the construction and operation of facilities in the free economic zone shall be made without charging for certification services. They independently determine terms of sale of products (intellectual outputs, services) produced by them, except for products (intellectual outputs, services) whose prices are regulated by the state.

Foreign investors and enterprises with foreign investment have the right to transfer their property and information freely outside Turkmenistan, to unreservedly use incomes and profits in Turkmenistan, to transfer revenues, profits and other legally obtained monetary amounts in foreign currency outside Turkmenistan, to access information following the procedures stipulated by the legislation of Turkmenistan, and to terminate investment activities in Turkmenistan.

Public authorities, local executive authorities, and local self-governing bodies do not have the right to interfere with the economic activities of foreign investors and enterprises with foreign investments, carried out in accordance with the legislation of Turkmenistan. Acts of these state bodies and local authorities that violate the rights of foreign investors or enterprises with foreign investments are invalid. Any actions based on them are illegal in the order established by the legislation of Turkmenistan. They are granted guarantees to ensure the visa regime and stay in Turkmenistan (Закон Туркменистана «Об иностранных инвестициях» 2008).

The Law on Free Economic Zones stipulates that foreign legal entities operating in free economic zones through branches and representative offices can be participants in free economic zones.

Under the Act, participants in free economic zones have the following privileges and benefits:

- The right to carry out activities in free economic zones without obtaining a licence;

- A ten-year grace period for land rents (i.e., they are exempt from land rents for three years from the date of the contract, land rents for the next seven years are charged at 50% of the rate established by legislation, and at the end of this period – in full);
- The right to open accounts in national and foreign currency, to freely acquire national and foreign currency, and to use their financial assets in their accounts, both within and outside the free economic zones, without restriction or permission;
- When exporting goods from the territory of the free economic zone outside the customs territory of Turkmenistan, export customs duties are not levied, and the prohibitions and restrictions of an economic nature established by the legislation of Turkmenistan do not apply to these goods.

According to the Law, the state guarantees the stability of the conditions for conducting investment activities on the free economic zone territory and the observance of their rights and legitimate interests for participants within the free economic zone.

Such stability of the conditions for conducting investment activities is ensured in the case of early liquidation or change of the special legal regime of the free economic zone, including a change of the borders of its territory. The participants of the free economic zone are guaranteed the right to continue their activities on the conditions stipulated by the agreement until the expiration of the agreement, but not for more than ten years. This provision also applies to the tax legislation of Turkmenistan.

The state also assures the foreign investors the right to export profits and investments beyond the borders of the zone and the state border of Turkmenistan. Nationalisation by the state of any of the property of the free economic zone participants is not allowed.

No discrimination in the free economic zone for the enterprises with foreign investment compared to other enterprises operating in the zone and measures of compulsory withdrawal of foreign investment (nationalisation, requisition, confiscation) or other measures of similar effect are allowed. Sequestration of investment property is not allowed, except for temporary suspension of the right until the investor pays off its obligations (Закон Туркменистана «О свободных экономических зонах» 2017).

The Law on Hydrocarbon Resources provides significant benefits to foreign investors acting as contractors and subcontractors under production sharing agreements (PSAs). Turkmenistan has concluded such PSAs with several foreign companies, including the large transnational companies that are developing the oil and gas fields in the Turkmen sector of the Caspian Sea. Закон Туркменистана «Об углеводородных ресурсах» 2008).

The Land Code of Turkmenistan grants foreign investors the right to a long-term lease of land plots (up to 40 years) for non-agricultural purposes (Кодекс Туркменистана «О земле»).

Other regulations include the Decree of the President of Turkmenistan "On Guarantees of Protection of Foreign Investments and Capital" of 26 November 1993. The first years of independence stipulated that the state protects the investments, property, and capital of foreign investors in Turkmenistan. State authorities and administration bodies were prohibited from imposing restrictions on the right to use investors' property and capital, except in cases of unlawful acts committed by investors as provided for by law. The document guaranteed investors and foreign workers the right to transfer their capital and property outside Turkmenistan without any restrictions (Постановление Президента Туркменистана 1993).

According to the Decree of the President of Turkmenistan "On Measures to Accelerate Investment Development of the Economy of Turkmenistan" of 12 July 2004, a list of significant investment projects that were under implementation in 2004, newly launched in 2004 and to be introduced in 2005 were approved (Постановление Президента Туркменистана 2004).

7.2 Bilateral agreements

Legal regulation in foreign investment is carried out through national and international legal rules. Turkmenistan provides legal guarantees to foreign investors through its participation in multilateral international treaties and the conclusion of international agreements on the promotion and mutual protection of investments. Turkmenistan has now joined the Convention on the International Centre for Settlement of Investment Disputes (Washington, D.C., 18 March 1965), allowing investors to apply to the Centre. Turkmenistan has concluded 28 bilateral investment treaties with, among other countries, Canada, China, France, Germany, India, Italy, Russia, Turkey, and the United Kingdom. However, the United States does not yet have a bilateral investment treaty with Turkmenistan; the regulations are still covered by the 1973 income tax treaty with the Soviet Union. A resolution on an interim EU-Turkmenistan trade agreement was adopted in 2009. Western states are considering the possibility that economic and trade engagement can stimulate the necessary political reforms (US Department of State, 2020).

Bilateral international treaties on avoiding the double taxation of income and property constitute another purview of international agreements. As of 2022, Turkmenistan has concluded 37 of such treaties.

The following factors drive the conclusion of bilateral international agreements:

1) the interest of developing states in the inflow of foreign investments;
2) the need of foreign investors for simple, straightforward, and immutable rules for their commercial activities in the territory of the recipient state.

These rules can be guaranteed to them mainly at the international level. As far as the national legislation of various states is concerned, it cannot provide and ensure the full implementation of absolutely all of such guarantees, as national law regulations can be changed at any time in favour and in the interest of the receiving state (Доронина, Семилютина 2005).

The bilateral format of Turkmenistan's relations with other states in attracting foreign investment is the most appropriate and effective tool for cooperation. It is determined by the obligations and responsibility of the country to the concrete state investor. Moreover, the volume of commitments (guarantees and privileges) enshrined in these treaties can go beyond the scope of the current domestic investment legislation. In this regard, it is crucial to analyse their correlation to the further improvement of national legislation in foreign investment.

Thus, Turkmenistan's foreign investment sphere is carried out through a combination of national and international legal regulations. Moreover, it should be noted that the national legislation is constantly being updated (practically all laws adopted in the early 1990s have been revised) and relevant changes and additions are systematically introduced. Indeed, on the one hand, this may indicate the improvement of investment legislation, but on the other hand, it demonstrates its instability.

Although the legislation on foreign investment in Turkmenistan is well developed, there are still several problematic issues in this area. First and foremost, investment legislation needs to be reformed to increase transparency, flexibility, and harmonisation with international legal norms. Laws and other legal regulatory mechanisms change frequently and are not always freely accessible (although the situation is gradually improving). In addition, some regulations are not supported by written law but are governed by informal orders ("from above") (Muminov and Varol 2020: 425). Overall, given the existing problems in the area of legal provision for foreign investment, the President of Turkmenistan stated at a meeting with members of the Mejlis of Turkmenistan on 11 February 2020 that it was necessary "to bring the Law on Foreign Investment up to date by providing incentives for the establishment of enterprises equipped with advanced technologies and producing competitive products" (Нейтральный Туркменистан 2020).

According to the Economist Intelligence Unit, 2019, and based on existing and potential investors, the most substantial legal obstacles are connected with state control of the economy, stringent regulations, and legal non-compliance and extortion in courts. Entrepreneurs also complain about high levels of corruption (Turkmenistan Country Report 2019; see also chapter 9.2 for further details).

Thus, the main problems in the area of legal regulation of investment activities include the lack of a stable legal and regulatory framework, weak law enforcement practice, the general nature of the guarantees provided to protect foreign investments and the lack of a specific mechanism for their implementation, and, finally, the adaptation of the national legal framework for international norms and bilateral and multilateral agreements on guarantees and mutual protection of investments.

7.3 Visa aspects

Turkmenistan has quite capable legislation regulating visa issues. The consular offices of Turkmenistan abroad are responsible for issuing entry visas into the country. Following the Law of Turkmenistan "On Consular Offices of Turkmenistan Abroad" (Закон Туркменистана «О консульских учреждениях Туркменистана за рубежом» 1996), the consul has the right to issue, extend, or cancel visas for entry to, exit from, and transit through Turkmenistan, as well as to amend already issued permits (Article 42).

However, such a right of the consul, granted to them by law, may become encumbered with numerous legal regulations and negate the exercise of this right. After receiving documents from foreign nationals for entry into the country, they are sent for approval to the State Migration Service, which has the right to make the final decision through a special commission established for this purpose. The Law of Turkmenistan "On Foreign Investments" establishes guarantees of the visa regime and the stay of foreign citizens on the territory of Turkmenistan (Article 20). According to the Law, foreign investors are entitled to get multiple-entry visas for not more than one year. It also allows foreigners free movement throughout the territory of Turkmenistan, except for regions with special conditions established by the legislation of Turkmenistan. Entry visas and permits to persons working in the free economic zone shall be issued through preferential procedures. Foreign natural and stateless persons, who are foreign investors, fully owning enterprises with foreign investment, have the right to permanent residence in Turkmenistan. The State Migration Service controls access to the country and monitors the movement of foreign nationals. All visitors staying for more than three working days must register with the State Migration Service.

It is not fully known what criteria this commission is guided by when approving or denying visas. In this way, the decisions on granting visas are not transparent. A special permit is required to travel to most border areas, which cover substantial parts of the country. Representatives of foreign companies wishing to enter Turkmenistan for the first time often find it challenging to obtain an entry visa if they are not invited by a state authority or local business partner. Experienced investors often complain of bureaucratic delays in obtaining access to return to the country. (US Department of State 2020). In 2007, the Avaza tourist zone was created with tax incentives for investments. However, the strict visa regime has led to a low utilization of the expensive infrastructure aimed at foreign tourism (US Department of Commerce 2018).

Regional tensions may motivate strict visa controls, including potential instability among Turkmenistan's neighbours (Afghanistan, Iran, and Uzbekistan) and the need to guard against infiltration by aliens, primarily terrorists. Nevertheless, this approach would not facilitate the growth of foreign capital into the country in the short term.

7.4 Taxation

The Tax Code (Налоговый кодекс Туркменистана 2020) establishes the legal basis for the taxation of foreign investors operating in Turkmenistan, according to which all foreign investors (individuals or legal entities, having registered their branches and representative offices in Turkmenistan) are recognised as taxpayers and must register for tax purposes.

Foreign investors are paying:

- 15% Value Added Tax (VAT) according to Articles 95 and 103;

- Subsoil Use Tax (Article 129) set at the following rates:

(a) for taxable operations with hydrocarbon resources: natural and associated gas – 22%; crude oil – 10%;

(b) for taxable operations with other minerals, depending on the level of profitability – up to 50% (Article 133).

- Income tax rates are set at 20%. The tax rate on income in the form of dividends and other funds from shareholdings in other legal entities is set at 15%. (Article 172).

- Personal income tax is set at 10% (Article 192) (Tax Code of Turkmenistan 2004).

In addition to the Tax Code, the Law of Turkmenistan "On Hydrocarbon Resources" establishes tax exemptions for foreign companies operating on production sharing (PSA) terms. They pay only profit (income) tax and payments for subsoil use (hydrocarbon royalty and bonuses in the form of one-off payments upon signing a contract (Art. 48) (Закон Туркменистана «Об углеводородных ресурсах» 2008).

According to the Tax Code, tax exemptions are applied to profits derived from the provision of tourism services in national tourist zones and services related to the management and operation of tourist industry facilities in their territory (Article 170, Part 2). For example, the Avaza National Tourist Zone on the Caspian Sea coast provides some tax incentives to those willing to invest in the construction of hotels and recreational facilities.

Turkmenistan has also signed 28 bilateral agreements on the avoidance of double taxation.

In order to encourage demand for innovative technologies in industry, construction, and services, the state authorities could implement incentives that include government guarantees, tax incentives, and reimbursement of part of the interest rate on loans and leasing payments.

Thus, the current taxation system contributes to a certain extent to attracting foreign investment into the country's economy, especially into the oil and gas industry under PSA conditions. The Law on Hydrocarbon Resources is a special piece of legislation that provides incentives for investors and guarantees their protection. At the same time, it is essential to establish an effective mechanism for implementing the provisions of the tax legislation, eliminating subjective approaches and arbitrary application of the said norms in practice.

7.5 Legal regulation of property

In Turkmenistan, state ownership is still the main form of property. The foundations of ownership are included in the Civil Code of Turkmenistan (1998).

The Law on Property (Закон Туркменистана «О собственности» 2015) claims the right of the state to possess, use, and dispose of land and other natural resources on its territory (Article 15/2). The state-owned land includes state national cultural heritage sites; the property of the state authorities; the unified energy system; public transport, communication, and information systems of national importance; enterprises and industrial complexes; state agricultural enterprises; social and cultural facilities; and other property created and acquired from the state budget (Article 16).

In addition to state ownership, the Law protects the right of private ownership on the part of Turkmenistan citizens and legal entities (Article 11). Citizens may own land and movable and immovable property (Article 12). Legal entities and foreign citizens have the right to own industrial and other enterprises, buildings, structures, or other property on the territory of Turkmenistan for entrepreneurial and other activities in the cases and according to the procedure established by the legislation of Turkmenistan (Articles 26-27). The law also secures the property of foreign nationals and stateless persons located in Turkmenistan unless determined by the legislation of Turkmenistan in another way. The Act guarantees inviolability, equal protection, and equal conditions for developing all forms of property (Article 28).

The law also claims that state property may be privatised by citizens and legal entities (Article 18). Based on this regulation, the State Privatisation Programme for 2013-2016 and the Action Plan for Privatisation of Enterprises and State-Owned Property for 2013-2016 have been adopted and implemented in Turkmenistan. Thus, from 1994 to 2019, 2,466 state-owned facilities have been privatised. (Статистический ежегодник Туркменистана 2018, год 2019). Privatisation was also supported by the Law of Turkmenistan "On the Denationalisation and Privatisation of State Property," which give foreign citizens and legal entities, as well as their branches and permanent representations in Turkmenistan, the right to participate in the privatisation of state property (Article 7). (Закон Туркменистана «О приватизации и разгосударствлении» 2013). According to Article 18 of the Property Law, state property may be privatised by individuals and legal entities from foreign states. They may take part in the denationalisation of state property and the privatisation of state property only with the approval of the Agency for Risk Protection of the Economy under the Ministry of Finance and Economy. In this context, the government declared its willingness to experiment more extensively with new forms of ownership in an economy that has remained largely state-controlled for many years compared to other post-Soviet republics.

8 Economic factors

Slavomír HORÁK

8.1 Main indicators of economic development

Since Turkmenistan's independence, energy and cotton have remained the primary export commodities (Pomfret 1995: 125-194; Pomfret 2019: 133-138). Table 4 shows the export revenues of Turkmenistan. The sectoral structure of the Turkmen economy and its exports are still based predominantly on raw materials or primary processing products. According to the MIT Observatory of Economic Complexity (2018), which collates statistical data from different sources, more than 80% of Turkmenistan's exports consist of natural gas, while another 10% comprises other hydrocarbons and their derivatives. This correlates with other data (Trade Map 2018) pointing to a 90% share of energy carriers and their derivates. In addition, the country's geographical position with no access to the open sea creates another problem with hydrocarbon exports. Hydrocarbons can only be exported through expensive pipelines, requiring considerable capital investment and costly maintenance. The number of buyers then remains limited. Several Turkmen oil and gas importers use this position to negotiate prices with Turkmenistan. Nevertheless, the country has become highly dependent on hydrocarbon exports to China, which account for about 98% of Turkmenistan's gas exports capacities, as Figure 5 illustrates (Trade Map 2020).

Table 4 Export revenues of Turkmenistan (thousands of USD)

Year	Total export	Mineral fuels	%	Cotton	%
2001	2,312,369	2,055,639	88.9	161,989	7
2002	2,636,630	2,361,589	89.6	117,058	4.4
2003	2,677,087	2,380,365	88.9	132,919	5
2004	3,563,323	3,145,668	88.3	203,713	5.7
2005	4,823,925	4,374,130	90.7	201,893	4.2
2006	5,443,488	4,717,875	86.7	245,684	4.5
2007	6,703,213	6,108,040	91.1	328,916	4.9
2008	9,507,155	7,823,120	82.3	299,780	3.2
2009	2,678,286	2,001,339	74.7	214,803	8
2010	2,674,662	1,849,306	69.1	485,899	18.2
2011	7,421,625	6,713,784	90.5	418,125	5.6
2012	11,250,128	10,383,230	92.3	484,150	4.3
2013	12,070,873	10,724,029	88.8	629,244	5.2
2014	12,517,064	11,272,373	90.1	643,292	5.1
2015	10,093,803	9,061,473	89.8	568,427	5.6
2016	7,963,914	6,788,028	85.2	474,259	6
2017	8,399,959	7,548,565	89.9	412,519	4.9
2018	10,130,789	9,278,787	91.6	309,935	3.1
2019	10,962,729	10,088,394	92	245,277	2.2
2020	7,784,500	6,808,049	87.5	177,585	2.3

Source: https://www.trademap.org/

The other export sector is electrical energy, supplied to Afghanistan (despite the political changes in 2021), Tajikistan, and Kyrgyzstan. In addition to the energy sector, domestic and foreign investments concern mainly chemical and textile products, fertilisers, and cotton (Turkmenistan – Golden Age 2020). Investments in the refining industry have increased the production of fuels and polypropylene. Cotton exports are driven by the sale of raw cotton or products of primary processing (cotton yarn, cotton fibre, etc.). Of the finished products, the most common are terry, denim, and other similar products (transactions of the State Commodity Exchange of Turkmenistan published in the official press: tdh.gov.tm, Туркменистан золотой век, Нейтральный Туркменистан).

All these data show only the partial reform of the Turkmen economy, as well as high state regulation and no fundamental steps to fulfil the strategy of directing investment into high value-added goods and increasing the export of such goods (Денисов 2010).

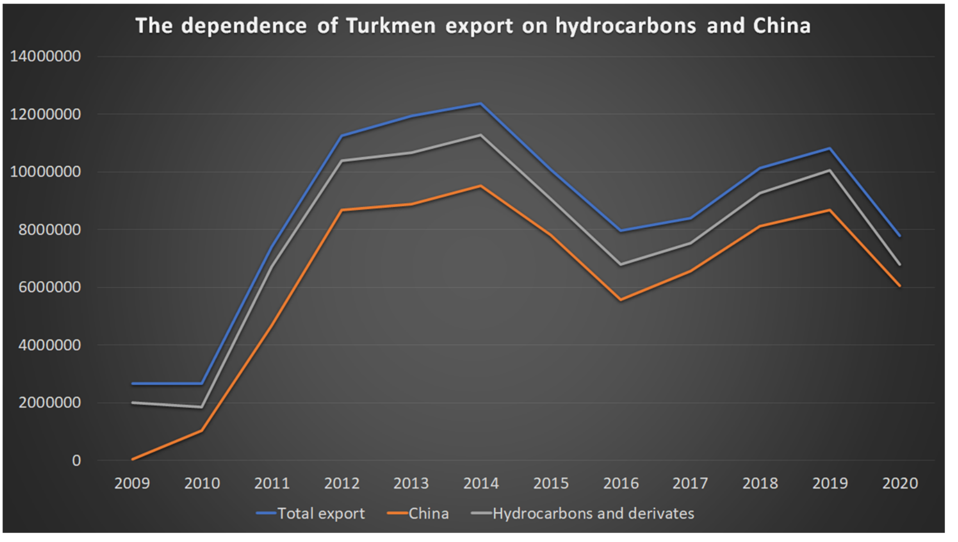

Figure 5 The Dependence of Turkmen export on hydrocarbons and China
Source: Trademap.org

8.2 Public revenue and budget

The state budget of Turkmenistan and the structure of state revenues and expenditures are known only in general terms, so they cannot be analysed thoroughly. The official sources in Turkmenistan are limited to general information on individual budget items in Turkmenistan (Turkmenistan.ru 25 October 2020). According to official data, some 70-80% of expenditures are spent on social needs. The incomes do not indicate how much money from hydrocarbon exports reaches the budget. Some authors estimate these revenues at 44% (Muradova 2015: 3). If this figure is even approximately close to reality, Turkmenistan has either a strong economy that does not depend on hydrocarbon export or not all revenues from this item are included in the budget.

If we trace the dynamics of budget revenues and expenditures, we can immediately observe a gradual increase in both budget lines up to 2015. Starting from 2021, however, the impact of falling energy prices and, consequently, the budget's revenue is clearly reflected in the official figures. It shows that the government has managed to contain the budget deficit, but from 2017 onwards, this has not been possible, even according to official sources. Despite an export increase, the revenues declined due to falling hydrocarbon prices, impacting the budget revenues. Consequently, the government began to reduce the manat's value at the beginning of 2016 and gradually restricted the population's access to convert the manat into foreign currency. This situation has generated a black market for foreign currency (see below).

Tracing the correlation between Turkmenistan's officially announced GDP figures, the official budget, and exports from the country, we can demonstrate that while the official statistics may be somewhat inaccurate and overstated (mainly in terms of yearly announcement of high GDP growth), there is at least a correlation between GDP, budget, and exports (including hydrocarbons). Disharmony between the aforementioned factors has been observed since the 2015 economic crisis, and particularly after its intensification two years later. Based on the official figures, GDP and exports have been growing, while budget revenues have been falling, regardless of the official manat devaluation in 2015. In 2017-2021, planned budget revenues and expenditures fell by more than 20%. We do not know the actual state budget revenues and expenses, as figures close to the original budget proposal for a given year are officially announced after the annual budget report.

Two principal facts can explain this anomaly (even if official figures are taken into account). Firstly, part of the revenues has been reallocated to repay state debts (especially to China). Indebtedness to China is difficult to postpone, with unconfirmed speculation that loan repayments are increasingly reflected in the state budget. According to official information, the loan to China was paid back in June 2021, although it is premature to say how the financing, which so far has flowed into China, will be distributed (Нейтральный Туркменистан 2021; Eurasianet.org 2021). Secondly, the state revenues are being transferred to extrabudgetary funds (particularly the Reserve Money Fund, the Reserve Currency Fund, and the Stabilisation Fund), whose structure remains opaque in the long term (Šír 2010: 74). Some authors (Бердыева 2009; Bohr 2016: 38-39) point to a parallel budget, the structure of which is challenging to find in official sources. Finally, the country's falling budget most accurately reflects the consequences of falling oil prices and the resulting decline in profits from hydrocarbon exports (Figure 6). As a result, the budget does not receive these funds, and it is increasingly challenging to balance it from other sources. Notably, the GDP growth figures are not shown as reduced in order not to diminish the image of a prosperous state.

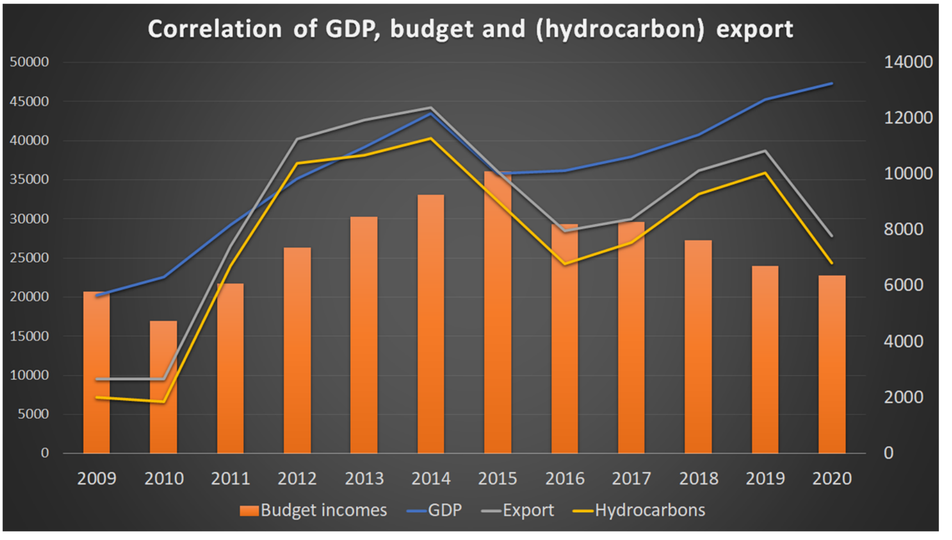

Figure 6 Correlation of GDP, budget, and export (including hydrocarbons)

Table 5 Turkmenistan state budget incomes and expenses (official sources)

	Revenues (million manats)	Expenditure (million manats)	Revenues (millions of US dollars)	Expenditure (millions of US dollars)
2009	58,892.2	58,892.2	20,663.9	20,663.9
2010	48,280.7	49,780.7	16,940.6	17,466.9
2011	61,957.6	63,973	21,739.5	22,446.7
2012	74,908.4	76,398.4	26,283.6	26,806.5
2013	86,335.8	89,735.8	30,293.3	31,486.2
2014	94,129.1	97,829.1	33,027.8	34,326
2015	102,800.8	106,200.8	36,070.5	37,263.4
2016	102,478.5	104,878.5	29,279.6	29,965.3
2017	103,571.6	104,871.6	29,591.9	29,963.3
2018	95,508.5	95,508.5	27,288.1	27,288.1
2019	83,868.3	83,868.30	23,962.4	23,962.4
2020	84,391.0	84,291.0	24,111.7	24,083.1
2021	79,509.6	79,509.6	21,859.9	21,859.9

Source: Parahat.info, TDH.gov.tm, fineconomic.gov.tm.

8.3 Foreign exchange regulation and exchange rates

The exchange rate of the Turkmen manat, entrepreneurs' access to foreign currency, and the possibility of foreign investors to exchange it create unfavourable conditions for investment in the country. The country's central bank has fixed the official exchange rate at around 3.5 manats per US dollar since January 2015, increasing it from the previous rate of 2.85 manats per US dollar.

However, decreasing foreign currency revenues from the sale of hydrocarbons and finished goods, as well as mandatory contributions to state non-budget funds and ambitious construction projects has led to a drop in foreign currency rates to such a level that the Central Bank of Turkmenistan could no longer allow it to be sold on the free market. The global pandemic put additional pressure on the country's foreign currency reserves, resulting in the devaluation of the manat on the black market in the first half of 2020 after remaining relatively stable during 2019 (US Department of State 2020).

The Central Bank of Turkmenistan (and subsequently commercial banks) did not have sufficient foreign currency at their disposal. The shortage of foreign currency and the emergence of an informal market increased the demand spiral of businesses and households, which led to a further deepening of the insufficient currency supply.

Access to currency at the official exchange rate remains limited for most entrepreneurs in Turkmenistan, creating a substantial imbalance in the business sector. The official exchange rate is maintained artificially by the government, and the limited access to currency has created an unofficial market for foreign currency since 2016, with the exchange rate steadily deviating from the official rate (despite some fluctuations). The rate of the manat against the US dollar reached more than nine to ten times the official rate in 2021, dropping down to about a sixfold difference as of the time of writing this report (see Figure 7). Such parameters underline the urgent need to introduce flexible exchange rates to attract investment.

Limited access to foreign currency for local entrepreneurs and difficult currency conversion for foreign investors is one of the significant obstacles to attracting FDI (IMF 2019). Although investors in strategic industries have preferential access to foreign currency, their operation is still limited.

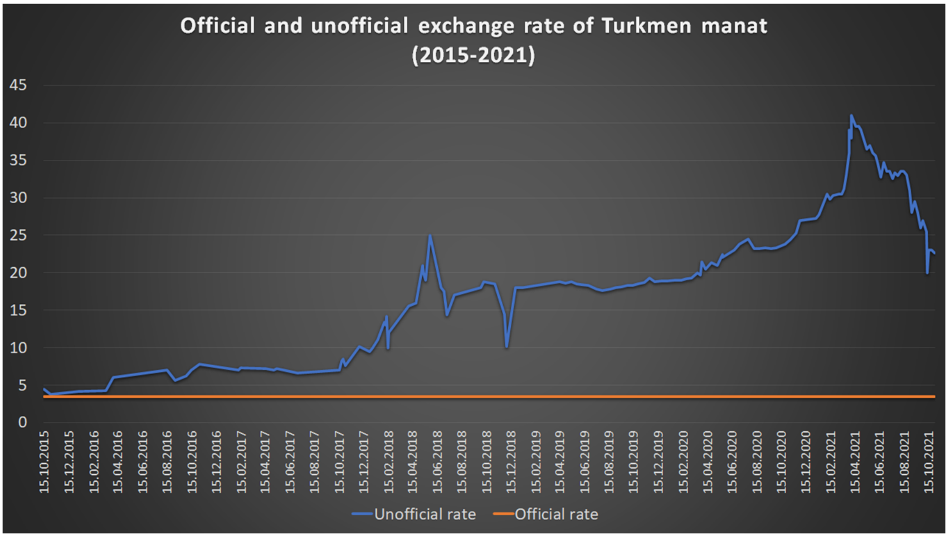

Figure 7 Official and unofficial exchange rates of the Turkmen manat (2015-2021)

8.4 Privatisation

Since the first law on privatisation and denationalisation was adopted in 1993, the Government of Turkmenistan has tried to change the investment structure to eventually create the space for investments in all kinds of industrial enterprises. It opened two principal ways to attract investments: 1) privatising existing enterprises and their refurbishment and modernisation, and 2) creating the ground for new enterprises. The government succeeded in privatising most small enterprises in the 1990s, typically shops, small production, and services (not to mention housing), although most large enterprises have never been privatized (Pomfret 2001: 167-168). Considering the example of other post-Soviet (as well as post-communist) countries, the state was in no hurry to sell off strategic sectors of the economy, preferring to retain control over these critical areas. Privatisation was based on each enterprise's individual project assessment, and, as such, each asset would eventually be sold as a specific case.

A more ambitious privatisation program started only after 2014 in connection with the Law on Denationalisation and Privatisation of State Property from 18 December 2013 (Закон Туркменистана «О приватизации и разгосударствлении» 2013). This wave affected mainly non-strategic enterprises and took place within a relatively limited framework. Key enterprises remained state-owned.

According to official data (Union of Industrialists and Entrepreneurs of Turkmenistan), over 70% of enterprises are currently in private hands. However, this figure refers only to sectors beyond the energy sector. According to various estimations, the energy sector comprises between 30% and 40% of the Turkmenistan economy, which (taking into account the impact of this sector of the economy) reduces the share of private enterprises by less than half.

Turkmenistan's privatisation strategy has remained only partially implemented and has not resulted in the establishment of a free business environment in the country. Moreover, privatisation has not touched strategic sectors of the economy or other significant enterprises in industry and services that could be of interest to foreign capital. According to the Law of Turkmenistan on Property (2015), state property is the property of the people of Turkmenistan. State property includes land, the state objects of national cultural heritage, and the property of the state authorities of Turkmenistan; the Armed Forces, national security bodies, border and internal troops, and defence facilities; the unified energy system; public transport, communication, and information systems of national importance; state budget funds, the Central Bank of Turkmenistan and other state banks (including their subsidiaries), the State Reserve, insurance, and other funds; the property of the state educational institutions, research institutions, centres, and the Academy of Sciences; and the meteorological services, patent agency, and agencies for natural protection, standardization, and metrology. State ownership may include enterprises and industrial complexes, state agricultural enterprises, social and cultural facilities, and other property created and acquired with state budget funds or other state assets or transferred free of charge to Turkmenistan by other legal entities, as well as the discoveries, inventions, and other results of intellectual activities (Закон Туркменистана *«О приватизации и разгосударствлении»*, 2013, Article 16).

8.5 Banking system

After the collapse of the Soviet Union, three clusters of banks emerged in Turkmenistan: the Central Bank of Turkmenistan, state banks based on Vnesheconombank or Sberbank, and commercial banks (Khalova, Talmy 1999: 45). Gradually, the Soviet legacy evolved into a two-tiered system consisting of the Central Bank and commercial banks (see Table 6). However, it should be taken into account that more than half of the banks currently operating in Turkmenistan (2021) are state-owned, and these banks control the majority of the Turkmen market

(Pomfret 2019: 146). This approach could be understood in part as the initial stage of a transformation of the economy, but today, the problematic banking sector might become one of the barriers to economic development and, consequently, foreign investors.

The quality of services at banks lags behind world standards. Private joint-stock companies often offer limited benefits for individuals. Banks often lack proper websites, including internet banking and other standard services. Moreover, the banking sector in the country is heavily regulated by the state, and both overt and covert government regulations create additional restrictive barriers for individuals and investors. In particular, there are frequent restrictions on withdrawals from ATMs. As the economic crisis deepens in the country, more restrictions on banking services have been introduced.

In addition to the problems mentioned above (limited manat convertibility, inaccessibility of foreign currency, and restrictions on money transfers abroad), a dysfunctional (compared to world standards) banking system creates substantial problems for potential investors. Banks are also in no hurry to introduce reliefs or guarantee services according to world standards, although, for example, the State Bank for Foreign Economic Affairs of Turkmenistan has established an investment fund

Table 6 List of commercial banks in Turkmenistan

State-owned commercial banks	Commercial banks and other banking institutions
Turkmenistan (Türkmenistan) Turkmenbashi (Türkmenbaşy) Daýhanbank Halkbank	Senagat Rysgal State Bank for Foreign Economic Affairs of Turkmenistan (Türkmenistanyň Döwlet daşary ykdysady iş banky) Turkmen-Turkish Joint Stock Commercial Bank

9 Human factors

Slavomír HORÁK

Human factors related to the psychological and cultural aspects of decision-making, both at the government and individual levels, seem to represent an often-neglected category of factors limiting FDI in a country. However, such factors contribute significantly to both the ability of the country to absorb foreign investments and to the image of the country in general.

9.1 Structure of public administration and control

The Ministry of Trade and Foreign Economic Relations of Turkmenistan is theoretically responsible for foreign investments. To facilitate the inflow of foreign entrepreneurs to the Turkmen market, the Turkmenistan Economic Risk Protection Agency was established in January 2013 (Оразкулиев 2013). The agency's responsibility includes monitoring the timely delivery of public facilities and the risks associated with the activities of foreign companies on the Turkmen market. Although the Agency should have facilitated the entry of foreign companies into the Turkmen market, feedback from entrepreneurs shows that the Agency has turned into a body of state control over foreign companies and its activities are highly non-transparent (Muminov and Varol 2020: 424). It is also noteworthy that the Statute of the Agency was only approved in 2019.

There is a decisive role for the Union of Industrialists and Entrepreneurs of Turkmenistan (Türkmenistanyň senagatçylar we telekeçiler birleşmesi) in the state. The Union was founded in 2008 and is regulated by a special law of 5 October 2019 (Закон Туркменистана «О Союзе промышленниках и предпринимателей» 2019). The structure supports specific sectors of entrepreneurship, but also has regulatory functions and promotes control of the business sphere by the state (Isaacs 2020: 380-381). Without membership in this structure, it is difficult for entrepreneurs to develop their own businesses, and there is limited access to credit through the largest affiliated bank in the Union, Rysgal.

In order to control the expenditure of the funds, the state credits its orders (the backbone of domestic investment) mainly through the Union of Industrialists and Entrepreneurs. The construction of the new capital of the Akhal province (US$1.5 billion), the Ashgabat-Turkmenabat motorway (US$2.3 billion), the potash complex in Lebap (US$600 million), the development of the Avaza national tourist zone on the Caspian Sea coast, or other infrastructure and industrial projects are examples of this approach. The Union thus enjoys a strong influence in the business environment, a role that any investor in Turkmenistan should consider.

The tax authorities have vast powers of state control over entrepreneurs and can carry out extensive fiscal and physical checks of the activities of any entrepreneur. It is noteworthy that about half the tax officials' salaries are financed from the fines and penalties that are applied and paid or recovered (Tax Code of Turkmenistan 2004, Article 71, Part 3). In sum, there is a broad range of possible penalties that can be imposed on entrepreneurs to increase wages, as well as room for abuse. As a result, this leads to the need for good informal contacts among entrepreneurs and potential investors.

Concerns about maintaining security and stability in the country seem to be one of the main reasons motivating the tight control over many aspects of doing business, which is unusually high even when compared to neighbouring countries. It is perhaps less surprising when one looks at a state with a large territory and a relatively small population in a country neighbouring an unstable region with overlapping interests of major powers. Whatever the reasons, such high levels of state control and regulation are widely perceived by independent observers as impeding the growth of key development indicators, including investment. Reducing the excessive control to a level acceptable for both the government and international partners might demonstrate that the economic and reputational benefits far outweigh any perceived risk of destabilisation and loss of excessive internal influence.

Turkmen officials at all levels seem to prioritise the minimisation of risks when dealing with international cooperation. This phenomenon increases in the regions and rural areas outside Ashgabat. Even if higher-level officials have authorised the event, international actors may face serious suspicion and opposition from local officials before meetings with beneficiaries.

As a pertinent example of a different approach, despite becoming more authoritarian after 2000, the Russian government has reasonably relied on highly skilled technocrats to implement some key economic and investment policies. Those liberal views of professionals have often opposed the powerful bloc of *siloviki* (security forces representatives in the government). Russia's elites understood the importance of balancing political control and security concerns with economic and business interests to ensure the system's survival. Turkmenistan could benefit significantly from the more profound inclusion of experienced technocrats with a better understanding of modern economic and financial systems in the decision-making process at the highest levels of government.

9.2 Informal structures and corruption

Investing in any country requires contacts in the local business, political, or public sphere. All of these factors contribute to the success of an investment. However, incomplete economic reforms have paved the way for the emergence of all sorts of informal structures requiring specific preferences for their benefit in both the short and long terms (Hellman 1998).

Based on discussions with some entrepreneurs, corruption and nepotism are considered serious issues in doing business, although Turkmenistan has recently adopted some anti-corruption laws and strategies (particularly the 2014 Anti-Corruption Law and the 2017 State Anti-Corruption Programme). The anti-corruption campaign has yielded partial results, and several officials have been arrested in connection with this issue. Nevertheless, the long-term desired result in eliminating or substantially reducing systemic corruption has not been seen and the problem for FDI persists.

According to several economic actors (IMF 2019; Turkmenistan Country Report 2019), corruption is considered to be one of the most substantial obstacles to foreign investment. Foreign investors either have to adapt to local corrupt practices or they can find it almost impossible to operate (Czech businessman interview 2016).

As mentioned above, the state controls and regulates business partly through the Union. Admission of new members to the Union brings some unconventional obligations, which can be avoided, especially by entrepreneurs who have the necessary connections. In addition to membership fees, entrepreneurs are required (unofficially but obligatorily) to pay various fees to support investments, humanitarian purposes, etc. Following the new law on the Union of Industrialists and Entrepreneurs of Turkmenistan, foreign legal and natural persons may become members of the Union (Art. 7, p.1, Закон Туркменистана «О Союзе промышленниках и предпринимателей» 2019). Based on the conditions in

Turkmenistan, membership in or contact to the Union seems to be the key for foreign companies and investors to access to the Turkmen market.

Foreign investors also have to deal with nepotism and, subsequently, problems with recruitment. The choice is often (though not always) made through nepotism (*blat*) by order of some patron in the state structures (for similar research on the South Caucasus, see Aliyev 2015 and 2017). The investor or foreign partner often cannot select the best employees at their discretion, but has to give jobs to those with the necessary connections who may be less suitable for the particular work (Czech businessman interview 2016). Conversely, according to some businessmen, the necessary connections can help to deal with and solve problems with the state authorities (Belarusian businessman interview 2016).

The situation with informal structures remains highly unintelligible to the foreign investor. Due to the current level of corruption and cronyism of informal connections, only those investors who are willing to adapt to the informal rules in the country are usually able to come to the Turkmen market. Many others keep their distance from Turkmenistan for the same reasons. As an interviewed Czech businessman said, an investor is welcome in the country as long as he or she has good informal relations and can pay (Czech businessman interview 2016; see also Investment Opportunities in Turkmenistan. Political Risk Analysis 2011: 22).

9.3 Human resources in Turkmenistan

Finding a qualified labour force is becoming an increasing problem. Due to increasing emigration (COVID-19 notwithstanding), the quantity and quality of human resources recruited for foreign companies and investors is logically decreasing. As a rule, migration involves the most active and educated part of the population – that is, precisely those who could become prospective employees from investors' point of view (Todaro and Smith 2015, p. 77). Despite some suggestions that such emigration may bring positive benefits for some countries of origin (Beine, Docquier, and Rapoport 2006; Taylor 1999), it seems that, in the case of Turkmenistan, this factor keeps maintaining the aforementioned negative effect. By some accounts, Turkmenistan's actual resident population has decreased in many ways (Azathabar 2019, Панфилова 2021). From an investor's perspective, this means less opportunity to recruit local people, particularly in the highly skilled workforce.

It should be noted that a substantial part of the younger generation in Turkmenistan maintains high-level ambitions to be adequately educated. The limited number of places available at the universities in Turkmenistan and the restrictive measures on admission has stimulated the demand for higher education abroad and encouraged the international mobility of the country's young people. The annual increase of students studying abroad (prior to the COVID restrictions) indicates this clearly. As of 2020, 46,223 Turkmen students were enrolled in foreign universities (UNESCO 2020), a higher proportion relative to the population than from other Central Asian countries. More than half of the international students in Belarus in 2019-2020 were from Turkmenistan (Education in the Republic of Belarus 2020: 43). Such a policy could undoubtedly have a positively impact in attracting foreign investment into the country in the long term if the state creates the proper conditions for returning graduates. Unfortunately, the available human (educational) potential is not always integrated into the labour market, which gives rise to the migration of young people from the country (Zakharkevich 2020: 275).

Language proficiency in Turkmenistan is also related to the issue of investment. In this respect, one must consider the limited data on language skills among the Turkmen population. However, in connection with migration as mentioned above, it can be assumed that the population leaving Turkmenistan has the necessary knowledge of foreign languages, mainly Russian, Turkish, and to a lesser extent English. Part of the population from the Soviet and early post-Soviet eras speaks Russian, although even in Soviet times (e.g., according to the 1989 census), fluency in Russian was among the lowest in the former Soviet republics (Арефьев 2012: 146-147). Nevertheless, Russian remains essential for communication in the still multi-ethnic Ashgabat and other cities, and Russian-language education is in high demand, even if the limited number of Russian-language classes and the one Russian school in the country cannot cover it (CABAR.asia 2019). Gradually during the post-Soviet period, people with knowledge of other languages emerged. With an increasing number of Turkmen-Turkish schools and universities and the extension of media broadcasts in Turkish, the range of the population with an active knowledge of the language has risen significantly. Graduates from Turkish lyceums and universities were considered well-educated professionals and were much in demand in the Turkmen labour market, including among investors. However, Turkish language schools were closed down and became inaccessible to Turkmen citizens after 2016. Moreover, in many cases, people with Turkish language skills chose to migrate to Turkey or other countries. Knowledge of other languages, mainly English, is primarily a characteristic of those in similar categories as the Russian or Turkish language speakers.

It should be stressed that investors are ready to employ specialists with knowledge of Turkish (for Turkish investors) or Russian (for other investors) if the relevant specialist is qualified in the respective job. With the continuous brain drain and emigration from the country, the country lacks qualified specialists for many positions demanded by investors. Moreover, in connection with the general Turkmenisation of society since the beginning of the 1990s, Turkmen officials request the recruiting of Turkmen, especially those involved in the nepotism nexuses. Such a situation creates unfavourable conditions for investors, for whom the issue of nationality is of secondary importance when recruiting employees (Czech entrepreneur conversation 9 August 2021 Belarusian businessman interview).

In sum, based on the above analysis and the limited number of interviews conducted, we conclude that an investor can only rely on a limited number of local specialists with high qualifications and appropriate language skills (mainly Russian, Turkish, or English). On the contrary, given the high unemployment rate and experiences of existing foreign businesses, it is much easier to find low-skilled labour in Turkmenistan who can communicate through Turkmen interpreters. Unfortunately, this gives Turkmenistan the image of a country that is attractive only for low-skilled investments – a goal that cannot be desirable for the Turkmen government.

10 Survey of local and foreign companies

Yolbars KEPBANOV, Slavomír HORÁK and Berdymyrat OVEZMYRADOV

In order to collect additional material for the study, it was decided to conduct an anonymous survey to determine the interest of foreign investors in Turkmenistan and the opinion of local businesses to improve the investment climate in the country. The annex contains two types of questionnaires, which were used to interview representatives of local and foreign businesses. The methodology and information gathered during the survey are summarised below.

The duration and scope of the survey were limited to the scope of the study. The actual number of respondents representing foreign investors in Turkmenistan was small, both internally and externally. The survey organisers had to take special care to avoid the very likely problems with the confidentiality of the survey subjects. The priority of data protection here stems not only from general ethical principles, as in the case of GDPR, but also from the sensitivity of the topics that many locals and foreigners working directly with them are reluctant to discuss. Such topics related to politics and corruption may seem totally safe in Western countries, but many locals in Turkmenistan would not want to discuss them because of the perceived potential for negative consequences. As a result, many common forms of opinion research, such as interviews, surveys, and focus groups, are extremely difficult to conduct not only within Turkmenistan, but also among potential respondents abroad. The survey was conducted between May and June 2021. All respondents were informed that the information collected was anonymous and would only be used for survey purposes.

The survey methodology and questionnaire are based on publicly available reports from similar surveys in other countries, including the Economist Intelligence Unit (Lovells 2014), World Bank Group (2014), and Dragon Capital (2020). The sample for the survey was drawn by meeting certain demographic criteria and passing test questions. Consequently, it cannot be claimed that the survey results are based on a random sample representing a population of unknown size for potential or actual investors in Turkmenistan. The results reflect trends in the views of the 32 individuals representing companies in the sample, without calculating a statistically significant degree of confidence. The survey consisted of two consecutive phases. In the first stage, suitable companies were identified either by searching the database or through representatives with whom the survey organizers were familiar. Participants selected for the survey were then provided with a standard questionnaire (see Appendix) – either through a link to a Google Form by email or a direct survey of company representatives using a paper questionnaire. Almost all of the resulting questionnaires were still received in hard copy and later converted to an electronic tabular format to facilitate analysis. In the second, less structured phase of the survey, the consenting respondents underwent an in-depth interview. Two versions of the questionnaires were used, with minor differences concerning the adaptation to the survey of local (Questionnaire 1 in the Annex with seven questions) and foreign (Questionnaire 2 in the Annex with nine questions) respondents. All individual interviewees and other participants who responded to the individual stages of the survey are hereinafter collectively referred to as respondents.

The majority of the respondents were employed in the natural resource extraction, chemical production, construction, trade, and agriculture sectors (Figure 8). Foreign respondents were mainly from the Russian Federation, Turkey, and Iran (Figure 9).

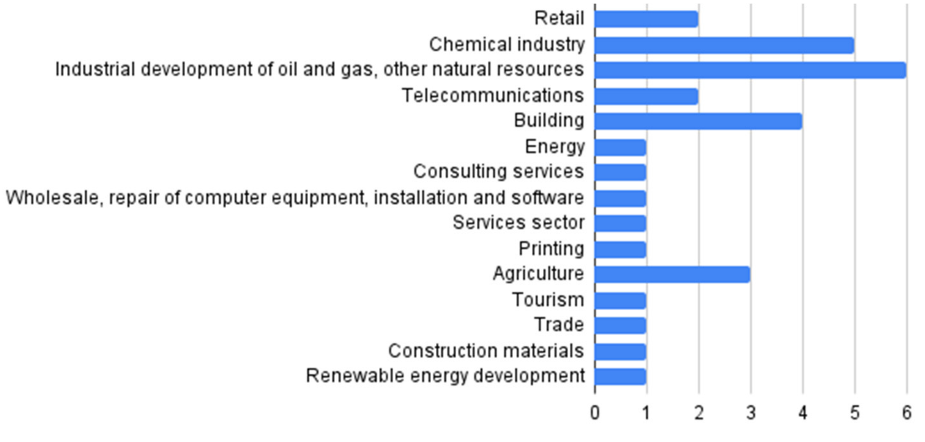

Figure 8 Summary of all respondents by sector

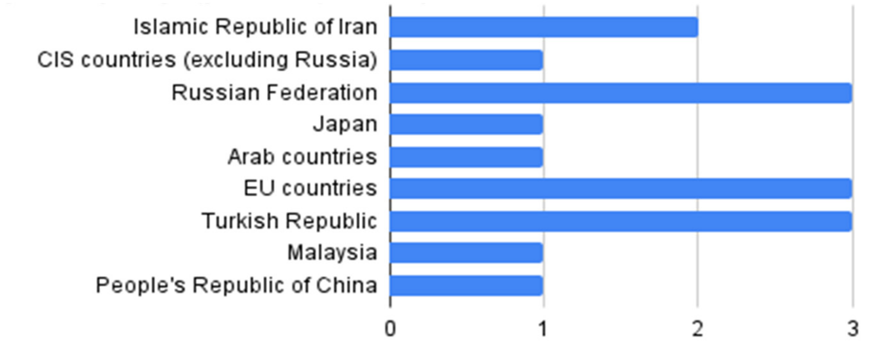

Figure 9 Summary of all foreign respondents by country

Restrictions on foreign exchange controls, an unstable financial system, the independence of the judiciary, and corruption were identified by the respondents as the most important issues for attracting foreign investment (Figures 10, 11, and 12). Legislation, human rights, and the outflow of labour resources from the country were relatively less important issues. The results did not differ significantly for foreign or local respondents. Instability and arbitrary and discriminatory treatment seemed to be more important issues for the foreign segment of the respondents.

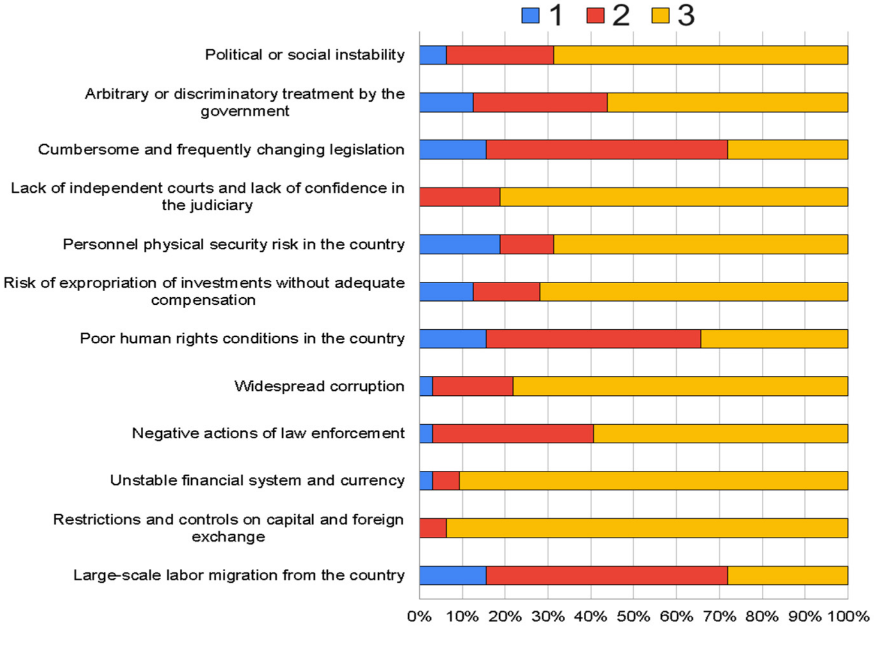

Figure 10 Assessment by representatives of local businesses in Turkmenistan of obstacles to attracting foreign investment (1 – Not so important; 2 – Of medium importance; 3 – Very important)

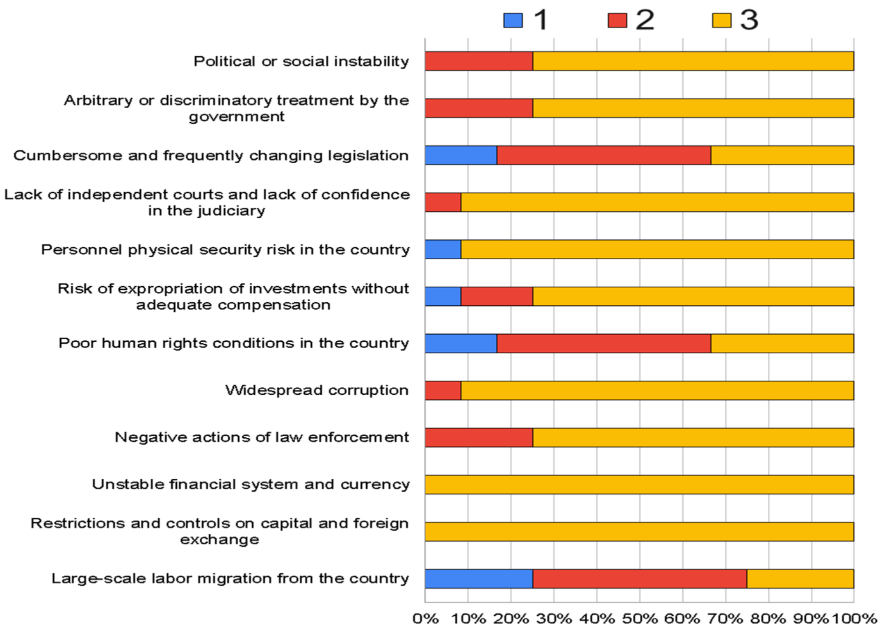

Figure 11 Foreign business representatives' assessment of barriers to foreign investment in Turkmenistan (1 – Not so important; 2 – Of medium importance; 3 – Very important)

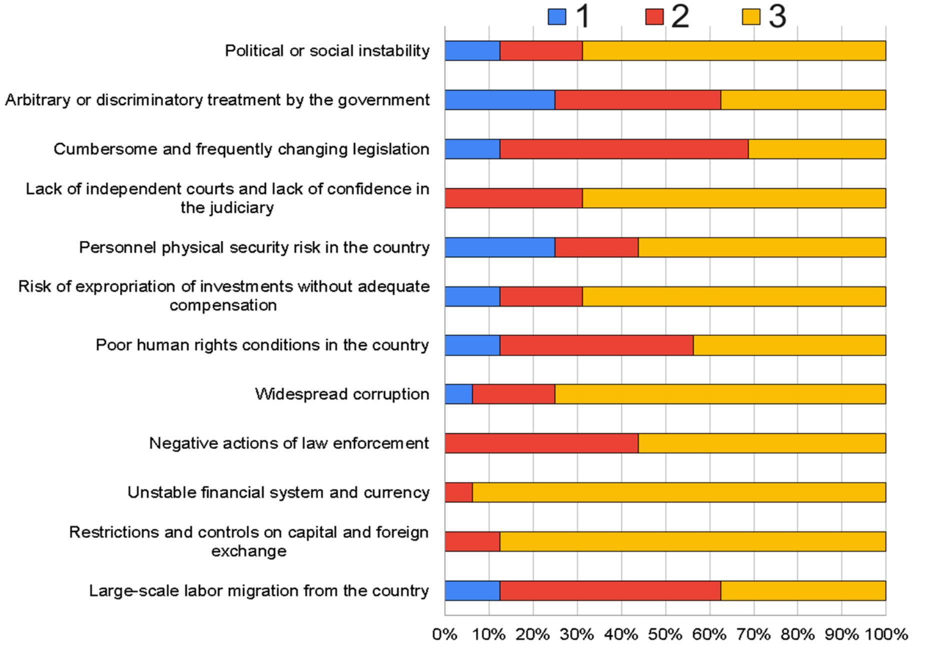

Figure 12 Respondents' (representatives of foreign and local businesses) assessment of barriers to attracting foreign investment in Turkmenistan (1 – Not so important; 2 – Of medium importance; 3 – Very important)

As the most negative consequences potentially arising from foreign investments, the local respondents selected excessive exploitation of natural resources and operating only for profit with little regard to the interests of the local population.

Independence of the judiciary with strict enforcement of laws and standards in protecting investor rights were selected by the majority of respondents as the most important steps to be taken in the area of the rule of law to improve the foreign investment situation (Figure 13). Better prepared judicial and law enforcement systems were ranked as the second most important measure.

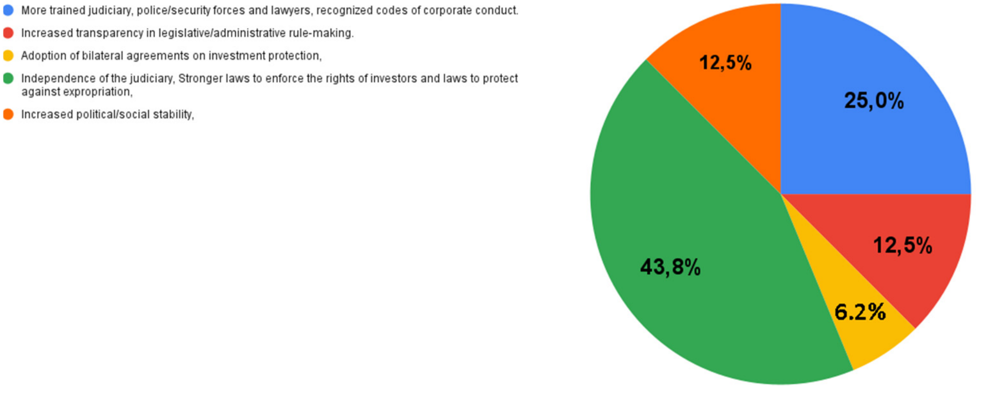

Figure 13 Respondents' assessment of rule of law measures to improve the situation of foreign investment in Turkmenistan

Judicial reform, transparent large-scale privatisation and an effective fight against corruption were among the possible steps that respondents considered likely to positively influence foreigners' decisions to invest in Turkmenistan (Figure 14).

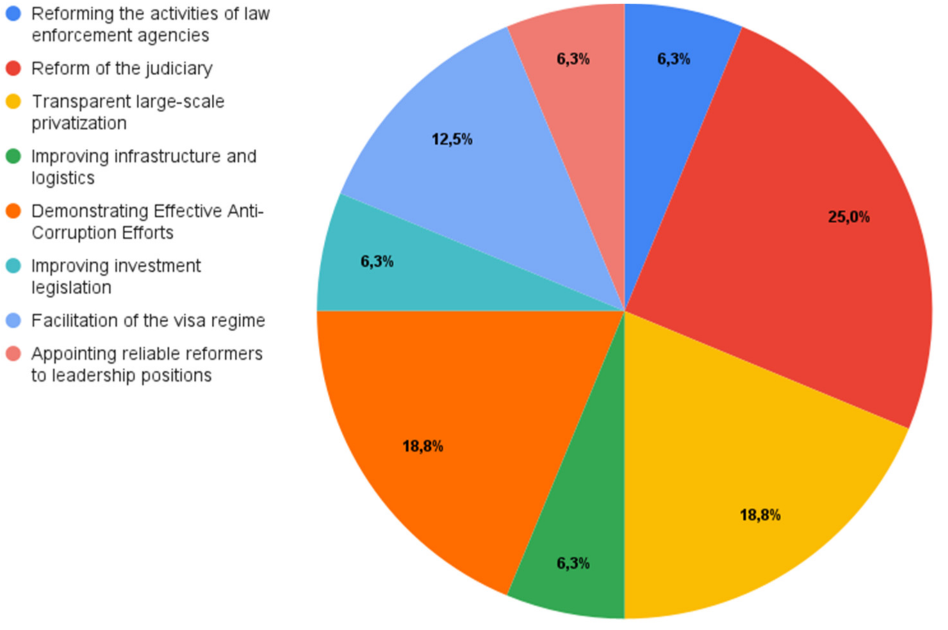

Figure 14 Respondents' assessment of government measures attractive to investors in deciding to invest in Turkmenistan

Increasing the tax burden and state capital controls were the steps selected by the majority of respondents as having the most negative impact on investment decisions (Figure 15).

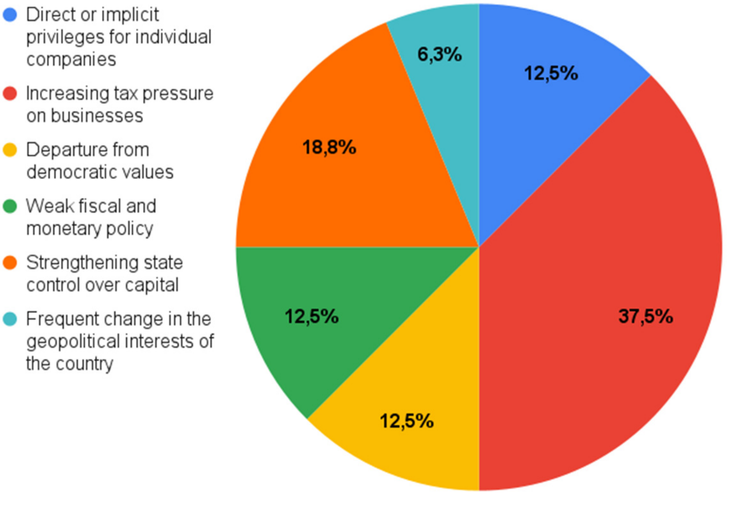

Figure 15 Respondents' assessment of government measures that have a negative impact on investors' decisions to invest in Turkmenistan

Access to local markets and natural resources were cited by respondents as the main reasons for foreign investment (Figure 16).

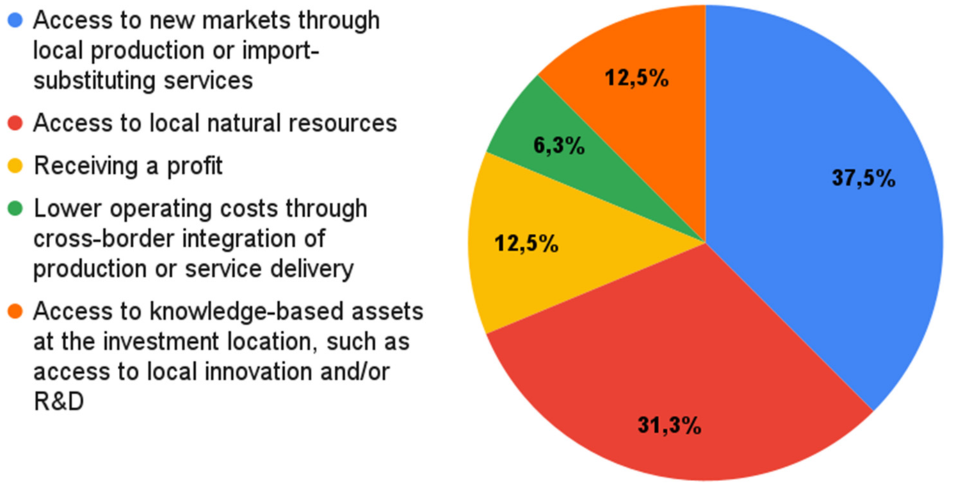

Figure 16 Reasons for decisions to invest in Turkmenistan

Business events, conferences, and investment shows were identified by respondents as the most desirable services for foreign investors (Figure 17). An investment guide and a guide to explore investment opportunities were also among the especially preferred services.

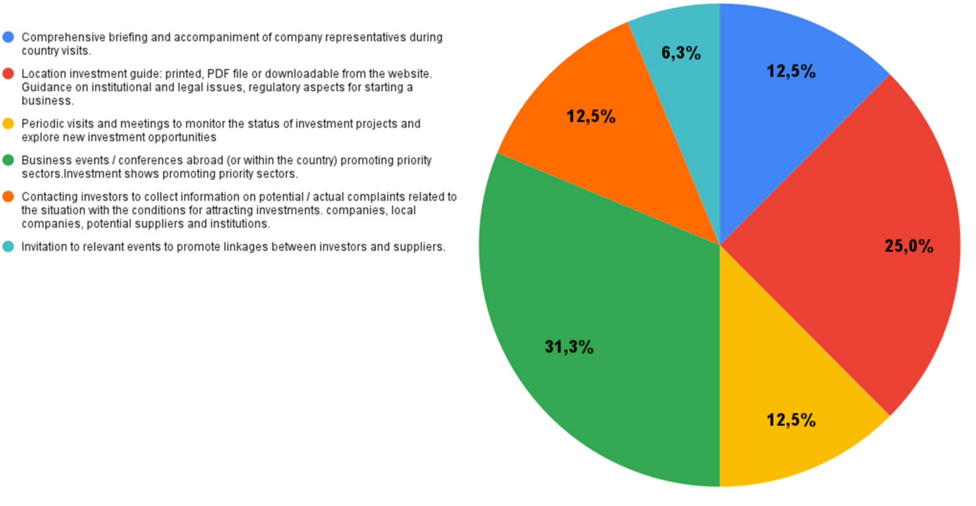

Figure 17 Services promoting foreign investment in Turkmenistan

The results of the survey suggest that further economic liberalisation, particularly the relaxation of currency controls, together with the fight against corruption and the creation of an independent judiciary, have the potential to be the most effective measures to attract more foreign investment. Interestingly, the improvement of the human rights situation and democratisation were not named among the most important, which confirms the findings of other studies on the low priority of such issues for foreign investors.

11 Recommendations on attracting foreign investment

Yolbars KEPBANOV, Slavomír HORÁK and Berdymyrat OVEZMYRADOV

An analysis of the investment climate in Turkmenistan allows us to draw certain conclusions and recommendations that might help to stimulate foreign investment into the country.

First, Turkmenistan's policy for attracting foreign investment is based on creating a favourable climate for foreign investors. The government has adopted programmes and plans for the future socioeconomic development of the country and investment legislation. This shows that the political leadership understands the importance of this area for the country's socioeconomic growth and strives to intensify this activity by attracting more FDI. However, measures to attract FDI are being implemented fragmentedly and incomprehensively. There is still a lack of understanding of all the factors that could attract FDI to the country.

Second, the key feature defining Turkmenistan's role and place in modern international relations is the doctrine of permanent, positive neutrality. First and foremost, Turkmenistan's permanent neutrality is the fundament of its security and the way it protects its national interests. This model allows for predictability in the country's foreign policy, ensures internal stability and sustainable development, and helps to develop effective models for international economic cooperation built on a balanced presence of world and regional powers.

Third, Turkmenistan is located in a geographically problematic and unsecured region. The country is far from promising markets and has no direct access to the world's oceans. This limits the available markets for energy resources, which is an obstacle to increasing Turkmenistan's energy exports to the world. Moreover, the country is surrounded by similar oil and gas producing countries that compete with Turkmenistan for regional and global markets. These circumstances have led to the dominance of China in the natural gas market and forced the government to consider the prevailing geopolitical situation in the region, as well as its geographical position.

Fourth, the foreign investments coming to Turkmenistan from the leading world and regional powers are conditioned by different political and economic factors. Turkmenistan and the entire Central Asian region have long occupied a special place and value for industrialized countries such as China, Japan, the United States, Russia, Turkey, and others for economic and geopolitical reasons.

As a resource-rich country, Turkmenistan might become highly attractive for foreign investors, making it essential to weigh security considerations in shaping its investment policy. Foreign investors have varying degrees of influence over the country, which depends to a large extent on its maturity and self-sufficiency. Turkmenistan is an emerging state with a developing economy and legal system, which entails higher risks. In this regard, the activities of foreign capital should be clearly regulated by the national state based on a reasonable policy that allows for the consideration of both its own interests as well as those of the investors. Such an approach should be based on policies that provide equal treatment of all investors and guarantee legal protection of their rights and legitimate interests.

Fifth, foreign companies prefer extractive industries and, above all, the development of hydrocarbon resources when investing their capital in the Turkmen economy. The most significant investments in Turkmenistan's economy have been developing oil and gas through the construction of cross-border gas pipelines and signing production sharing agreements (PSAs). In this regard, the government of Turkmenistan should continue to work on improving and making its image attractive for much needed foreign investment in other sectors of its economy. However, as the trend towards long-term declining hydrocarbon revenues continues, Turkmenistan should increasingly apply standard management practices common to most neighbouring countries instead of the special policies that the government could afford to rely on in the past, when oil and gas prices were high. These unique ways of running the economy and doing business, also known as the "national way," have differed dramatically over the years from most post-Soviet countries, including their closest neighbours in Central Asia.

Favourable legislative conditions, guarantees, and economic incentives should be created to attract foreign investment. Foreign investment should be actively involved in the structural transformation of the country's economy and the acceleration of technical re-equipment and modernisation of production.

Sixthly, the practice of attracting foreign investment to the country shows that preference is given more to large capital and investors and less to medium and small businesses (the latter tend to take part as subcontractors). The large companies have more potential to protect their interests and leverage to possibly influence local authorities to overcome existing problems in the Turkmen market. This is also explained by the fact that attracting foreign investment to Turkmenistan is associated with certain risks. At the same time, to guard against these risks, state-owned companies, which enjoy the government's patronage at the official level and have agreements at the level of bilateral intergovernmental commissions, invest in the country to a large extent. Such companies have more privileges and security guarantees. Small and medium-sized companies that are willing to be present in the Turkmen market on a long-term basis suffer potential losses due to the specifics of the political and business culture. At the core of a foreign company's activities in the Turkmen market are good connections, a permanent presence in the market (i.e., in the country), and the fulfilment (and often prudence) of all formal and, most importantly, informal requirements from the relevant state structures.

Seventh, foreign investment legislation needs to be reformed to increase transparency, flexibility, and harmonisation with international legal norms. It is essential to pay special attention to the sustainability of the legal and regulatory framework, increasing the efficiency of law enforcement practice, ensuring guarantees of foreign investment protection, and adapting the national legal framework to international norms, as well as to bilateral and multilateral agreements on guarantees and mutual protection of investments.

Particular attention should be paid to improving tax legislation, creating an effective mechanism to ensure the implementation of the provisions of tax legislation, and eliminating subjective approaches in applying these norms in practice. It is of the utmost importance for investments to ensure legislation standards that secure inviolability, equal protection, and equal conditions for the development of all forms of property.

Eighth, it is necessary to facilitate migration legislation that relaxes entry conditions (particularly the visa regime) and foreign citizens' registration on the territory of Turkmenistan. The current overly strict visa regime and total control of foreigners are inconsistent with the legislation and hinder the encouragement of foreign investments.

Ninth, deeper cooperation with foreign institutions and banks (EBRD, ADB, etc.) can increase ODA funds that support important areas of investment decision-making to develop synergies between FDI and ODA. More intensive cooperation with international financial institutions will increase the effectiveness of institutions and policies necessary for attracting foreign investors. Some donor countries and institutions, such as the World Bank, could focus on a results-based aid mechanism, where agreements are made between government agencies and the private sector to provide specific services. Turkmenistan should become open to reforming its institutions and expanding privatisation to benefit from the combined inflows of FDI and ODA. Steps need to be taken to encourage investment in desirable sectors, without which it is impossible to attract more investors.

Tenth, as for economic factors, supporting investments beyond the oil and gas sector should drive the country out of its current dependency on gas exports to China, which represent a vulnerability for the Turkmen economy. Although the hydrocarbon sector will remain crucial for Turkmenistan in the coming decades, developing alternative industries and services should help to overcome the unfavourable economic structure and diversify exports in terms of geography and commodities. Services (including tourism, despite the temporary COVID pandemic that has affected this sector) or renewable energy might be two promising sectors to follow.

Eleventh, the "export" of human capital observed in the country substantially hamper the investment potential of Turkmenistan. The lack of skilled and well-educated cadres and their constant outflow from the country creates a key barrier for potential investors, especially vis á vis the competition of other neighbouring countries. The government should foster the return of professionals educated outside Turkmenistan or currently working abroad. Despite the general patriotic sentiments among the population, young people in particular tend to leave the country to search for appropriate jobs. The high level of corruption and widespread nepotism within Turkmenistan creates the image of gloomy prospects among the younger population.

Twelfth, the area of sustainable infrastructure and telecommunications requires additional investment, allowing more independent providers into the Turkmen market to unlock untapped potential. The current limited digitalization measures cannot sufficiently help the transition to a knowledge economy without ensuring the stable and affordable use of the Internet at good speed and free of excessive restrictions. Loosening excessive state control and eliminating the monopoly position in the telecommunications market will serve as an effective first step. Having removed unnecessary restrictions, the state should focus on supporting the appropriate infrastructure and digital literacy. It is especially necessary to create an efficient information centre for services to businesses and citizens on the principle of a single window. All this will help modernize the much-needed sectors for doing business in the post-pandemic world.

Thirteenth, there is a need to make information much more accessible and accurate in all areas. The opacity and unreliability of official data in limited access harms the country's reputation and attractiveness for foreign business. The state must ensure that reliable and unvarnished statistical data are provided to international organizations. Providing all regions with access to the Internet with the elimination of existing limits in blocking and speed is a further important step in creating a more attractive information and communication environment for foreign and local businesses. In addition, greater access to the country by representatives of large and respected media from abroad will help create conditions for greater transparency and openness, which are so important in decision-making by foreign investors. Finally, creating conditions for the operation of truly independent media at the local level will be an important step in the liberalization measures badly needed by the country in improving the socioeconomic environment, which will in turn increase the country's attractiveness to foreign investors.

Generally, Turkmenistan has all the preconditions to attract foreign investors. At the same time, due to many internal and external obstacles, this potential is not being used by the Turkmenistan state authorities at the level repeatedly urged by the country's leadership.

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Appendix

The information collected during the survey is reflected in Section 10 ("Overview of the survey of representatives of local and foreign companies") of this study. The survey was anonymous. Below are two types of questionnaires that were used to interview representatives of local and foreign businesses.

QUESTIONNAIRE 1

Survey of local business representatives about attracting foreign investment.

The purpose of the anonymous survey is to determine the views of local businesses on improving the investment climate in the country. All information is anonymous and used only for the above purposes. It takes about 5-10 minutes to fill out the questionnaire.

1. Which industry/business area in the country do you represent? (*write*)

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2. How do you assess the national government's policy on attracting foreign investment? (*select one answer*)

- o Good
- o Satisfactory
- o Unsatisfactory
- o Difficult to answer

3. In your opinion, which sectors of the country's economy require foreign investment? (*several answers can be selected*)

- ☐ Agriculture and agribusiness
- ☐ Construction

☐ The chemical industry

☐ Industrial development of oil and gas and other natural resources

☐ Energy

☐ Renewable Energy Sources

☐ Health, pharmaceuticals, and biotechnology

☐ Education

☐ Media and publishing

☐ Telecommunications

☐ Financial and banking services

☐ Information Technology

☐ Transport, logistics, and distribution

☐ Retail trade

☐ The tourism industry

☐ Other

(specify)____

4. When attracting foreign investment, which foreign countries should be more favoured? (*several answers can be selected*)

☐ Russian Federation

☐ People's Republic of China

☐ United States of America

☐ Turkish Republic

☐ Islamic Republic of Iran

☐ Countries in Europe

☐ CIS countries (excluding Russian Federation)

☐ Arab countries

☐ Japan

☐ South Korea

☐ Malaysia

☐ Other country

(specify)____

5. How important do you think the following barriers are for attracting foreign investment to the country? (*on a scale of 1 to 3*)

	1 – Not so important	2 – Of medium importance	3 – Very important
Political or social instability	○	○	○
Low educational level of employees, human resources	○	○	○
Strict visa regime for foreign nationals to enter and stay in the country	○	○	○
Arbitrary or discriminatory treatment	○	○	○
Risk of physical security of staff in the country (high crime rate)	○	○	○
Risk of expropriation of investments without adequate compensation	○	○	○
Poor human rights conditions	○	○	○
Mistrust in the judicial system	○	○	○
Widespread corruption	○	○	○
Monopolisation of markets and capture by oligarchs	○	○	○
Cumbersome and frequently changing legislation	○	○	○
Negative actions by law enforcement agencies	○	○	○
An unstable financial system and currency	○	○	○
Restrictive capital and foreign exchange controls	○	○	○
Large-scale labour migration out of the country	○	○	○
Other (specify) __________________________	○	○	○

6. In your opinion, what measures should the country take to improve the situation in attracting foreign investment? (*select only the three most important from the following answers*)

- ☐ Increased political/social stability
- ☐ Adoption of democratic systems of government
- ☐ Independence of the judiciary
- ☐ Rule of law, enforcement of laws, increased transparency in legislative/administrative rulemaking
- ☐ Improving laws to enforce investor rights and laws to protect against expropriation
- ☐ Credibility of government statistics
- ☐ Adoption of bilateral investment protection treaties
- ☐ Compliance with international human rights agreements
- ☐ Fighting corruption
- ☐ Transparent large-scale privatisation of state property
- ☐ Human capital development
- ☐ Other (specify)

____

7. In your opinion, how could the activities of foreign companies operating in Turkmenistan negatively affect the situation in the country? (*several answers can be selected*)

- ☐ Predatory exploitation of hydrocarbon and other natural resources
- ☐ Foreign companies operate only for profit without regard to the interests of the population
- ☐ Repatriation of capital and transfer of profits in various forms (dividends, interest, royalties, etc.), which worsens the country's balance of payments

☐ Increased imports of equipment and materials, requiring additional foreign exchange costs
☐ Suppressing local producers and limiting competition
☐ Increasing dependency of the national economy, threatening its economic security
☐ Ignoring local conditions by foreign investors
☐ The decline of traditional sectors of the national economy
☐ Increased social tensions (in particular through higher wages in foreign enterprises)
☐ Reduced incentives for national research and development (R&D) due to imports of foreign technology
☐ Environmental degradation as a result of the relocation of "dirty" industries
☐ Other (specify)____

THANK YOU FOR TAKING PART IN THE SURVEY!

QUESTIONNAIRE 2

Survey of foreign business representatives on the investment climate.

The purpose of the anonymous survey is to determine the interest of foreign investors in Turkmenistan and the views on improving the investment climate in the country. All information is anonymous and used only for the above purposes. It takes about 5-10 minutes to fill out the questionnaire.

1. Has your company attracted foreign direct investment in Turkmenistan over the last five years? (*select one answer: yes or no*)

○ Yes

○ No

2. Which country (region) do you represent?

○ Russian Federation

○ People's Republic of China

○ United States of America

○ Turkish Republic

○ Islamic Republic of Iran

○ Countries in Europe

○ CIS countries (excluding Russian Federation)

○ Arab countries

○ Japan

○ South Korea

○ Malaysia

○ Other countries

(specify)____

3. What is your main industry?

- o Agriculture and agribusiness
- o Construction
- o The chemical industry
- o Industrial development of oil and gas and other natural resources
- o Energy
- o Renewable Energy Sources
- o Health, pharmaceuticals, and biotechnology
- o Education
- o Media and publishing
- o Telecommunications
- o Financial and banking services
- o Information Technology
- o Transport, logistics, and distribution
- o Retail trade
- o The tourism industry
- o Other

  (specify)____

4. How important do you think the following issues are for attracting investment by foreign companies operating in Turkmenistan? (on a scale from 1 to 3)

	1 – Not so important	2 – Of medium importance	3 – Very important
Political or social instability	○	○	○
Arbitrary or discriminatory treatment	○	○	○
Lack of transparency in rulemaking processes	○	○	○
Cumbersome and frequently changing legislation	○	○	○
Lack of recognition of treaty rights	○	○	○
Lack of independent courts and mistrust of the judiciary	○	○	○
Risk of physical security of staff in the country	○	○	○
Risk of expropriation of investments without adequate compensation	○	○	○
Poor human rights conditions in the country	○	○	○
Widespread corruption	○	○	○
Business takeover by oligarchs or other players in the local market	○	○	○
Monopolisation of markets	○	○	○
Negative actions by law enforcement agencies	○	○	○
Complex tax administration	○	○	○
An unstable financial system and currency	○	○	○
Restrictions and controls on capital and foreign exchange	○	○	○
Difficulties in transferring and exchanging currency	○	○	○
Large-scale labour migration out of the country	○	○	○
Visa restrictions for entry into the country	○	○	○
Inaccurate statistics	○	○	○
Other (specify) ______________________________	○	○	○

5. **Regarding the rule of law, what do you think are the three most important steps the country should take to improve the situation?** (*select only the three most important from the following answers*)

□ More trained judiciary, police/security forces, and lawyers; recognized codes of corporate conduct.

□ Increased transparency in legislative/administrative rulemaking.

□ Adoption of bilateral agreements on investment protection.

□ Independence of the judiciary; stronger laws to enforce the rights of investors and laws to protect against expropriation.

□ Increased political/social stability.

□ Other (specify)____

6. **Which of the following possible steps by the authorities of Turkmenistan would have the most positive impact on your investment decisions?** (*select only one answer*)

□ Demonstrating effective anti-corruption efforts

□ Judicial reform

□ Law enforcement reform

□ Visible steps to separate the interests of politics and business, reducing the influence of the oligarchs

- ☐ Improving investment legislation
- ☐ Appointing credible reformers to leadership positions
- ☐ Improved infrastructure and logistics
- ☐ Transparent large-scale privatisation
- ☐ Visa facilitation

7. Which of the following possible steps by the authorities of Turkmenistan would have the most negative impact on your investment decisions? (*select only one answer*)

- o Frequent changes in the country's geopolitical interests
- o Increased tax pressure on business
- o A departure from democratic values
- o Explicit or implicit privileges for individual companies
- o Weak fiscal and monetary policies
- o Removing credible reformers from their positions
- o Strengthening state control of capital
- o Protectionist measures in foreign trade
- o Other (specify)____

8. What is your main business reason for foreign direct investment? (*select only one answer*)

- o Access to new markets through local production or the provision of import-substituting services
- o Access to local natural resources
- o Reduced operating costs through cross-border integration of production or service provision
- o Access to knowledge-based assets at the place of investment, e.g. access to local innovation and/or R&D
- o Other (specify)____

9. What are the best services to provide to investors interested in Turkmenistan? (*several answers can be selected*)

- □ Comprehensive briefing and accompaniment of company representatives during country visits.
- □ Location investment guide: printed, PDF, or website; guidance on institutional and legal issues, regulatory aspects for starting a business.
- □ Periodic visits and meetings to monitor the status of investment projects and explore new investment opportunities.
- □ Business events/conferences abroad (or within the country) promoting priority sectors; investment shows promoting priority sectors.

- ☐ Contacting investors to collect information on potential/actual complaints related to the situation with the conditions for attracting investments. companies, local companies, potential suppliers, and institutions.
- ☐ Invitation to relevant events to promote linkages between investors and suppliers.
- ☐ Other (specify)

____

THANK YOU FOR TAKING PART IN THE SURVEY!

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Central Asian Law

This research report was prepared in the framework of the EU-funded project "Central Asian Law: Legal Cultures and Business Environments in Central Asia" (project number 870647 H2020 MSCA-RISE 2019-2023), which runs from 01/03/2020 through 28/02/2024. The project is coordinated by Lund University, and the project consortium includes European universities (University of Zurich, Charles University Prague, Riga Graduate School of Law, Marmara University, University of Latvia, Istanbul Medipol University, University of Manchester) as well as Central Asian partner institutions (Zhetysu University, Khujand Polytechnic Institute of the Tajik Technical University, SIAR Research and Consulting, Tebigy Kuwwat Public Association, Academy of the General Prosecutor's Office of Uzbekistan, Westminster International University in Tashkent).

The purpose of this paper is to provide a detailed analysis of the state of FDI in Turkmenistan and to develop a set of recommendations to attract foreign investment. This study attempts to capture as many of the issues surrounding FDI attraction as possible through an analysis that takes into account the most important developments. The timeliness of such an analysis becomes more evident from 2020, as disruptions in global markets caused by the outbreak of a pandemic have made it more of a priority than ever to reduce the reliance on oil and gas exports. The present study attempts to answer the following questions: (i) What might be the potential impact of increased foreign direct investment on Turkmenistan's economic development? (ii) What are the main factors that have hindered greater investment in Turkmenistan since independence? (iii) What measures can the government of Turkmenistan take to attract more foreign direct investment? (iv) How can partner countries and international organizations assist Turkmenistan in attracting more foreign direct investment into the country? (v) Which sectors of Turkmenistan's economy should be a priority for attracting foreign investment in the current environment? The results of this research may be of interest to decision-makers in government, foreign businesses, partner countries and international development agencies.

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