

# CHAPTER I

## INTRODUCTION

### A. Problem Background

The Central Asian region consist of five sovereign states, it is located in the North of Central Asia, China in the East, Turkey in the West and Afghanistan and Iran are in the South. Soon after independence of the Central Asian countries started to establish good relations with neighbouring countries. The republics of Central Asia share a common strategic environment. Their foreign policy based on multilateralism. Also, there are no perspectives for the establishment of new bloc or new regional alliance. This region is abundant in natural resources.<sup>1</sup>

The collapse of Union of Soviet Socialist Republics (USSR) in the end of 19<sup>th</sup> century is indisputably one of the most astonishing geopolitical events of the century. USSR, where the world had grown accustomed to its presence for 75 years, suddenly collapsed. There are many independent states with unfamiliar names have emerged on to the international politic scene. This emergence of multiple new states to the former USSR has already both literally and figuratively changed the map of Asia. There are six new states that shape a new geopolitical region, which is called Central

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<sup>1</sup> Global Politician, *Natural Resources of Central Asia and The New Great Game*, retrieved

Asia, namely Tajikistan, Uzbekistan, Kazakstan, Turkmenistan, Kyrgystan and Azerbaijan.<sup>2</sup>

Turkmenistan known as Turkmenia, it is the 52<sup>nd</sup> largest country in this world and a landlocked country in Central Asia, bordering the Caspian Sea to the west, Iran and Afghanistan to the south, Uzbekistan to the north-east, and Kazakhstan to the north-west. It is the second largest republic in the region after Kazakhstan. By virtue of its geographical location, history, and economic circumstances within the region of Greater Central Asia, Turkmenistan should be a major crossing point for both regional and continental transport. After 69 years as part of the Soviet Union, including 67 years as a union republic, Turkmenistan declared its independence on 27 October 1991.<sup>3</sup>

USSR was based on a Soviet-Socialist system, means of state ownership of the means of production, collective farming, industrial manufacturing and centralized administrative planning. The economy was characterised by state control of investment, public ownership of industrial assets. The amount of farmland was extended through vast irrigation projects in Central Asia.<sup>4</sup>

For a century and a half as a backwater outpost of the Russian and Soviet empires, Turkmenistan's primary role was to supply the imperial center with raw materials and labor. Turkmenistan remained one of the most

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<sup>2</sup> Ali Banu Azizi and Myron Weiner, *The New Geopolitics of Central Asia and Its Borderlands*, Indiana University Press, Bloomington and Indianapolis, 1994.p.19

<sup>3</sup> CIA, *The World Factbook: Turkmenistan*, retrieved on February 12, 2013 at <https://www.cia.gov/library/publications/the-world-factbook/geos/tx.html>

<sup>4</sup> Anonymous, *Economic System of USSR*, retrieved on February 17, 2013 at

economically and socially backward republics in USSR, with largely agrarian economy, despite exploration and exploitation of enormous oil and gas resources.<sup>5</sup>

After the independence, The politics of Turkmenistan takes place in the framework of a presidential republic, whereby the President of Turkmenistan is both head of state and head of government. Turkmenistan has a single party system, but according to the government, begun a transition towards a multi party system.<sup>6</sup> Turkmenistan's economic system also change to economic liberalism because the government implied from other country that success to develop a country is using economic liberalism, such as United States of America and European country.

In Suparmurat Niyazov's regime, Turkmenistan moves from central planning to a market economy and to a full democracy, neither plan progressed. Annually plans set forth by the government and a centralised economy gave little indication of moving away from state dominated economy, and the dictatorial nature of many of his decrees. But because Turkmenistan did not understand about liberalism, they had many lacks to change their system. It was not easy for them to change their system from Soviet-Socialist to liberalism because they have been with Soviet Union for almost 69 years. The Turkmenistan's economy retained many of the legacies of the Soviet type command of economy. Full employment is a stated objective of the State policy, nominal wages and prices are tightly

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<sup>5</sup> Global Politician, *Turkmenistan's Diversification Efforts*, retrieved on February 13, 2013 at <http://globalpolitician.com/default.asp?26624-turkmenistan>

<sup>6</sup> BBC News, *Turkmenistan Takes Reformist Step*, retrieved on February 12, 2013 at <http://www.bbc.com/news/central-asia-17628103>

controlled. Private sector is under developed. Directed subsidies and state procurement are widespread. Investment in key sectors of the economy is provided by the State. Finally, all major of economic's decisions are only taken at the final approval by President Niyazov.

Like most other Soviet Republics, Turkmenistan was poorly prepared for the unexpected and sudden independence. To develop their economy and prosperous are one of some purposes of Turkmenistan's government. Economic development generally includes such trends as technological innovation, improvements in the standard of living and life expectancy, and increases in the amount of invested assets per capita. In addition, it also requires the role of government as a ruler and public representation to well manage all national sectors, such as people, natural resources, technology and relations to other countries. The government will do many strategies in order to gain their economy. The strategy that they will do is based on the interest and the ability that they have.

Turkmenistan is a part of Commonwealth Independent of States (CIS), it has few supranational powers, it is aimed at being more than a purely symbolic organization, nominally possessing coordinating powers in the realm of trade, finance, law making, and security. Turkmenistan had many problems dealing with demographic, technology, and geopolitic in the beginning of independence. It is not easy as a new independence state like Turkmenistan to develop their economic.<sup>7</sup>

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<sup>7</sup> CIS, *About Commonwealth of Independence States*, retrieved on February 12, 2013 at <http://www.cisstat.com/eng/cis.htm>

The demographic problem was the first problem, they had dealt with the smallest population of the five former Soviet Republics in Central Asia. It influenced to the lack of human resources as one of the main developing factors. Besides that, they also lack of technology to proceed their huge natural resources. Moreover to existence economic distortion as a result of USSR collapse, had been exacerbating their economic development for the first decades of independence. They have many obstacles of economic factors in the first period of government. Thus, they needed a strong role of government to bring them surpass the crises that they had.

Agriculture in Turkmenistan is a significant sector of the economy. Animal husbandry makes up a great deal of agriculture in Turkmenistan, despite the fact that the arid climate presents difficulties in producing sufficient feed for the animals and grow plants.

Turkmenistan's transition from a command economy to a free market economy was initially cushioned by its relatively low level of development, as well as by the central government's plans for a gradual reform over a 10 year period with the state continuing to play strong directive and protective roles in the economy.<sup>8</sup> Before Saparmurat Niyazov died, he led liberal economic system for a half from his regime. From its independence, he still led Turkmen's economy in socialist system. He changed it to economic liberalism because he wanted Turkmen's economy more developing. Gurbanguly Berdimuhamedov, current president, still continue this

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<sup>8</sup> Alexandre Repkine, *Turkmenistan Economic Autocracy and the Recent Growth Performance*, retrieved on March 14, 2013 at <http://psychologie.dev.czu.cz/stred->

economic system, which is economic liberalism because he also believes to use this system, Turkmen's economy will be more developing.

Starting from this point, writer feels that it is necessary to discuss the strategy of Turkmenistan in solving their economic problems in the beginning of independence. Therefore, having viewed the above phenomenon the writer agrees on writing the topic under the title: **“THE ECONOMY IN TURKMENISTAN UNDER ECONOMIC NEOLIBERALISM DURING GURBANGULY BERDIMUHAMEDOV’S REGIME IN 2007-2013”**

#### **B. Purpose of Writing**

There are five purposes of this research:

1. As the requirement of the writing undergraduate thesis for achieving the Bachelor of International Relation.
2. To explain the history and Turkmenistan's economic problems in the beginning of independence.
3. To explain the strategy of Turkmenistan government to develop their economic.
4. To explain the economic system that Turkmenistan government use.
5. To explain its proceeds after they change their economic system.

#### **C. Research Question**

From the background part of this paper above, the question the writer likely to stand the research question on “How newly Turkmenistan government implement neoliberalism during Gurbanguly Berdimuhamedov's regime?”

## **D. Theoretical Framework**

### **1. Neoliberalism**

The goal of neoliberalism is the removal of all barriers to commerce, and the privatization. In this scenario, public life will be at the mercy of market forces, as the extracted few profits benefit.<sup>9</sup> Neoliberalism favours the free market as the most efficient method of global resource allocation. Consequently it favours large-scale, corporate commerce and the privatization of resources.<sup>10</sup>

Neoliberal policies advocate market forces and commercial activity as the most efficient methods for producing and supplying goods and services. At the same time they shun the role of the state and discourage government intervention into economic, financial and even social affairs. The process of economic globalization is driven by this ideology; removing borders and barriers between nations so that market forces can drive the global economy. The policies were readily taken up by governments and still continue to pervade classical economic thought, allowing corporations and affluent countries to secure their financial advantage within the world economy.<sup>11</sup> Corporations are now the most productive economic units in the world.

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<sup>9</sup> Rajesh Makwana, *Neoliberalism and Economic Globalization*, retrieved on August 29, 2013 at <http://www.stwr.org/globalization/neoliberalism-and-economic-globalization.html>

<sup>10</sup> Mirowski, Philip, Dieter Plehwe. 2009. *The Road From Mont Pèlerin: The Making of The Neoliberal Thought Collective*. Cambridge: Harvard University Press

<sup>11</sup> Rajesh Makwana, *Neoliberalism and Economic Globalization*, retrieved on August 29, 2013 at <http://www.stwr.org/globalization/neoliberalism-and-economic-globalization.html>

Free trade is the foremost demand of neoliberal globalization.<sup>12</sup> In its current form, it simply translates as greater access to emerging markets for corporations and their host nations. These demands are contrary to the original assumptions of free trade as affluent countries adopt and maintain protectionist measures. Protectionism allows a nation to strengthen its industries by levying taxes and quotas on imports, thus increasing their own industrial capacity, output and revenue. Economically powerful nations have created a global trading regime with which they can determine the terms of trade.

According to neoliberal ideology, in order for international trade to be 'free' all markets should be open to competition, and market forces should determine economic relationships. A liberalized global market provides corporations with new resources to capitalize and new markets to exploit. Neoliberals claim that privatized services are more efficient than those run by the state. They believe that market competition and corporate efficiency can drive prices down for consumers.<sup>13</sup> These arguments are used as a sales tool to convince the public and their governments, and privatization is rapidly advancing throughout the developed and developing world. Neoliberal dominance over global governance structures has enforced access to these markets.<sup>14</sup>

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<sup>12</sup> Burchill, Scott, Andrew Linklater, Richard Devetak, Jack Donnelly, Matthew Peterson. 2005. *Theories of International Relations*. New York: Palgrave Macmillan.

<sup>13</sup> Rajesh Makwana, *Neoliberalism and Economic Globalization*, retrieved on August 29, 2013 at <http://www.stwr.org/globalization/neoliberalism-and-economic-globalization.html>

<sup>14</sup> Burchill, Scott, Andrew Linklater, Richard Devetak, Jack Donnelly, Matthew Peterson.



The mandate for economic growth is the perfect platform for corporations which, as a result, have grown rapidly in their economic activity, profitability and political influence. Yet this model is also the cause of the growing inequalities seen across the globe. The privatization of resources and profits by the few at the expense of the many, and the inability of the poorest people to afford market prices, are both the causes.<sup>15</sup>

The globalizations of the world economy has seen the spread of manufacturing industries to many developing countries and the relocation of transnational manufacturing centres to what are often low wage, high repression areas regions with low health and safety standards where organized labour is frequently suppressed or illegal. The creation of new centres of production occurs wherever profit opportunities can be maximized because investments decisions are governed by absolute profitability rather than comparative advantage for liberals, this is nevertheless the best way of encouraging much needed foreign investment in the developing world and establishing a trade profile for countries which might otherwise be excluded from world trade altogether.

Modern trading conditions have diverged significantly from the assumptions which underpin the neoliberal analysis of how markets and trade actually worked. The internationalization of production, the mobility of capital and the dominance of transnational corporations are just thing developments which render theories of comparative advantage

## 2. Post-Socialist Transition

Post-Socialist Transformation (PST) is defined as set of processes that bring political democracy and market economy in old, socialist institutional and social environment.<sup>16</sup> And it can be defined as from socialist planned economies to democracies developing towards market economy.<sup>17</sup> PST is by all means a process of historical significance. It is hardly possible to image complex and extensive systemic changes. In simplistic terms, the process is twofold in nature: from the political perspective, authoritarian regimes are being replaced by democracies, and, from the socio-economic perspective, the systems are being transformed from centrally-planned economies based on state ownership domination and bureaucratic control mechanisms into the free market economies based on private ownership and a deregulated market.<sup>18</sup>

The post-socialist transformation has also meant that the post-socialist countries have changed their relations towards other countries.<sup>19</sup> As a part, it is a result of the disintegration of the former Soviet block, that involved close economic and political cooperation. The collapse of the former relations forced the countries involved to find new partners. But, the

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<sup>16</sup>Slobodan Cvejčić, *Civic Movement, Social Capital and Institutional Transformation in Postsocialist Serbia*, retrieved on September 1, 2013 at <http://www.doiserbia.nb.rs/img/doi/0038-0318/2004/0038-03180403269C.pdf>

<sup>17</sup> Jan Henrik Nilsson, *The Debate on Post-Socialist Transformation in the Perspective of Baltic Integration*, retrieved on September 1, 2013 at <http://www.geo.ut.ee/nbc/paper/nilsson.htm>

<sup>18</sup> Centre for European Studies, *Training Program: Post-Socialist Economic Transformation, Development and Regional The Case of Poland's Economy in a Comparative Perspective*, retrieved on September 1, 2013 at <http://www.ces.in.th/main/?p=3503>

<sup>19</sup> Jan Henrik Nilsson, *The Debate on Post-Socialist Transformation in the Perspective of Baltic Integration*, retrieved on September 1, 2013 at <http://www.geo.ut.ee/nbc/paper/nilsson.htm>

new relations are also a result of a determination, on part of the post-socialist countries, to break the isolation that previously had a suffocating effect on society, and to loose dominating ties. The changing relations are clearly visible in the statistics of trade and in patterns of transportation and communications. A series of new international and bilateral fora have been founded in order to promote cooperation.

Post-communist countries are committed to development, and to achieve that goal, they have been engaged in different forms and degrees of liberalisation, stabilisation, privatisation and democratisation.<sup>20</sup> The move to markets and private property strongly impacted on the shape of foreign trade, foreign investment and the place of the post-communist countries in the global world order. The global dimension of change is usually regarded positively as part of the victory of liberalism and democracy; globalization in this perspective empowers people through the development of wealth, communications; such as travel and networks; and culture.<sup>21</sup> PST have entered the world economy with respect to economic penetration, exposure to the world market has led to a decline in their relative economic and welfare positions, though some countries have fared worse than others.

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<sup>20</sup> Shu Yun Ma, *Third World Studies, Development Studies and Post-Communist Studies: Definitions, Distance and Dynamism*, retrieved on September 1, 2013 at <http://www.artsrn.ualberta.ca/courses/PoliticalScience/670A1/documents/Shu-YunMaThirdWorldStudiesDevStudiesPostCommunistStudies.pdf>

<sup>21</sup> David Lane, *Global Capitalism and the Transformation of State Socialism*, retrieved on September 1, 2013 at <http://www.artsrn.ualberta.ca/courses/PoliticalScience/670A1/documents/DavidLaneGlobalCapitalismandtheTransformationofStateSocialism.pdf>

### **E. Hypotheses**

Through the theoretical framework mentioned above, the hypotheses of newly Turkmenistan government implement neoliberalism during Gurbanguly Berdimuhamedov's regime to develop their economy is changed the economic constitutional reforms but some regulations still same with socialist system.

### **F. Methods of Writing**

The methods of writing to address the matter into the paper, the writer is trying to use the deductive method (general to specific). It based on the theoretical framework that pulled to a hypothetical conclusion which proven through empirical available data. The writing is tending to be librarian research with the helps of printed media like books references, magazines, newspaper, journal, report of many sources and also electronic media which is internet.

### **G. The Research Area**

The research area is used to limit the research to avoid the research from being expanded and would be handled, the writer limiting the problematic matter and explained research. Timeline of the research is started in 1991 when Turkmenistan had independence, and up until now.

### **H. Systematic of Writing**

The system of writing was meant to answer the research question and hypotheses that were explained. In the writing, the writer shared the

**CHAPTER I:** Introduction. The first matter to introduce the background of the topic. The writer would also write the Purpose of Writing for explaining the purpose of the paper that written, Research Question that the research to be asked into matter, Theoretical Framework for defining the issues and pull the framework to systematic arrangement data, Hypothesis as temporary consideration as assumption, Research Method, Research Area and Systematic of Writing that explaining what it will be limited and needed to define the matter.

**CHAPTER II:** The Union of Soviet Socialist Republics Collapse and History of Turkmenistan Independence. The writer will start by figuring the Turkmenistan condition in the USSR era. The next explanation will be in the time of USSR collapse and how it influences to Turkmenistan independence. After the collapse, the Turkmenistan economy had been partially changed, and will be more elaborated about it. Those all phases description will be accompanied by the elaboration on influence and impact of each phase tradition to Turkmenistan current cultures. This chapter will be ended with the elaboration of the challenges and opportunity of Turkmenistan as a newly independence state, especially on economic problem.

**CHAPTER III:** Turkmenistan's Strategy to Develop their Economy. This chapter will contain of the explanation about Turkmenistan government to solve economic problem. Then, the writer will explain about their strategy in domestic and international area. In the end of this chapter

will be elaborated more about the using of economic liberalism as the strategy of Turkmenistan to support its developing economics.

**CHAPTER IV:** The Implementation of Turkmenistan's Strategy to Support Economic Development in the Gurbanguly Berdimuhamedov. This chapter, the writer focuses on economic liberalism that is used by Turkmenistan, including all direct relations to other states, such as Russia, United States of America, the member of Commonwealth of Independent States (CIS), Middle Eastern Countries and some Asian Countries. This chapter will be closed by the elaboration of economic cooperation that joined by Turkmenistan and the success of it to the economic development.

**CHAPTER V:** This chapter consists of Conclusion and Closing. It is filled by concluded data and the ending words for closing the paper that can be pulled from many chapter's ideas before