

◀ TURKMENISTAN PARLIAMENTARY ELECTION AND EXPECTED POWER TRANSITION

What foreign investors should expect and how to adjust corporate government relations strategies

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On 28 March 2021, Turkmenistan held its first ever election to the Halk Maslahaty (People's Council), the upper house of its parliament, formed in 2021. The election (largely a ceremonial affair in which members are elected by the regional authorities or appointed by the President himself) is a significant step in the forward planning of the regime of President Gurbanguly Berdimuhammedov as it looks to quell rising social unrest and consolidate power ahead of any future need to manage a transition to a chosen successor. President Berdimuhammedov is the second President of Turkmenistan, having held office since 2007.

Ranked 162nd out of 167 in the [World Democracy Index](#) 2020 and as an [unfree country](#) by Freedom House, Turkmenistan remains an extremely isolated state, characterized by a harsh authoritarian political regime. In the ranking of political and civil liberties, the country ranks 207th out of 209 countries represented. As a result of the election, the Halk Maslahaty has now become part of the legislative branch for the first time and consists of 56 deputies, 48 elected by regional authorities and 8 directly appointed by the President (previously the People's Council had 2,507 members). Its chairman becomes Acting President if the President is unable to perform his functions.

The managed election to the upper house of parliament, along with the previous reform of this body and the reduction of its composition, has two main goals:

1. To create a potential platform for the promotion of Gurbanguly Berdimuhammedov's son, Serdar, to the Presidency (given particular urgency given the ill-health of the President).
2. To delegate some of the powers to influential members of the Turkmen elite in order to quell rising discontent against the background of socio-economic problems in the country.

These election can therefore be seen as part of a broader power transition scheme focused mainly on retaining power within the current President's close circle of associates and preparing the ground for a smooth future transition to the President's son, Serdar Berdimuhammedov.

ELECTION AS A LINK IN THE POWER TRANSITION

The power transition plan is driven by three main issues:

- › **The growth of public discontent** deriving primarily from the food crisis¹, the introduction of consumer charges for gas, electricity and water (previously all free of charge), and the overall poor state of the economy;
- › **Growing discontent among tribal elites:** clan leaders are fearful of losing their capital and their spheres of influence should Gurbanguly Berdimuhammedov suddenly die, and they are also wary of possible domestic political disturbances.
- › **President Berdimuhammedov's health.** It is known that the President has diabetes, but details on his state of health are fiercely guarded. In 2019 and 2020, he uncharacteristically vanished from the media eye for lengthy periods of time, sparking rumours of a significant decline in his health. It has been reported that the renowned German endocrinologist Klaus Parhofer has visited Turkmenistan twice since early November 2020 to treat the President, despite pandemic restrictions.

The election were held following the September 2020 constitutional reform that restructured the Parliament into a bicameral body, Milli Gengesh. The reform had been in the works since October 2019, after the establishment of the special commission on amending the Constitution.

Berdymukhammedov's actions indicate a desire to retain power in the hands of his family, in particular, by transferring the Presidency to his son, 39-year-old Serdar, who after reaching the age of 40 will be able to run for the office.

On 11 February 2021, Serdar Berdimuhammedov was appointed Deputy Prime Minister. President Berdimuhammedov holds both offices of the President and the Prime Minister. As a result, given the weakness of the legislative branch, Serdar Berdimuhammedov has de facto become Turkmenistan's second in command.²

Our analysis suggests Mr. Berdymukhammedov is trying to transfer power during his lifetime, fearing discontent both from the population and from the powerful clans (tribes) that play a prominent role in Turkmenistan's public life.

Turkmenistan has strict censorship, the opposition is suppressed and Gurbanguly Berdimuhammedov is extensively glorified. Nonetheless, [discontent](#) with the regime is gradually rising, exacerbated by the economic and food crisis and by the introduction in 2019 of charges for previously free electricity, gas, drinking water and table salt. At this time, the authorities referred to the significant increase of Turkmen's income as a means of justifying these unpopular moves, however in reality, they were prompted by an enduring economic crisis.

Authorities do not publicly admit to any negative socio-economic trends: instead government statistics focus only on economic growth. At year-end 2020, GDP had officially grown by 5.9%, yet in April 2020, the IMF [predicted](#) a modest rise of 1.6%, given the pandemic. Turkmenistan's population is gradually becoming poorer, however: according to [ESCAP](#), nearly [22%](#) of the population lived below the official poverty line in 2018, while of late high inflation ([8% in 2020](#)) and the rapid depreciation of the local currency are exacerbating the impact of the pandemic. Back in 2015, amid a sharp deterioration in the economic situation, the Central Bank of Turkmenistan banned currency conversion for individuals and set the state exchange rate at 3.5 manats per U.S. dollar.

¹ Since 2015, Turkmenistan has experienced an [ongoing](#) food crisis caused by a decline in the country's income amid falling global energy prices. The authorities began to reduce food imports. As a result, the country saw a sharp increase in food prices, and there is still a shortage of the main components of the food basket.

² Gurbanguly Berdimuhammedov himself held this position before becoming President.

It is only possible to buy currency in the country on the black market, where the value of the dollar is steadily increasing and exceeds the official rate many times over. [Foreign](#) media reported that on April 3 the dollar was sold in the black market for AZN 40, whereas on March 20 it was AZN 30.

The quality of life in Turkmenistan is also falling steadily: in the UNDP's human development [index](#), the country fell from 103rd place in 2015 to 111th in 2020. Again, the authorities do their best to disguise the real state of affairs: state media report new economic “achievements” while ignoring the real situation.

The discontent among tribal elites is the second important reason accelerating a power transition. Thus far, the leaders of influential clans have not dared to oppose the President directly; non-public criticism of the regime is, however, gradually rising in these circles. President Gurbanguly Berdimuhammedov is apparently trying to ease the tribal pressure by granting influential leaders seats in the new house of parliament.

POWER TRANSITION SCENARIOS

The new constitution grants former Presidents the office of a Halk Maslahaty Deputy, another important element of the power transition procedure. This development could suggest Gurbanguly Berdimuhammedov's intention to retire from the office of President and lead the newly-formed upper house while transferring the presidential office to his successor.

Analysis shows that, given the implemented reforms, the power transition could follow one of the following scenarios:

- › **The current President does not run for re-election once his term expires in 2024.** As former President, Gurbanguly Berdimuhammedov will still be a Halk Maslahaty Deputy and its Chair. In the meantime, Serdar Berdimuhammedov, working as Deputy Prime Minister, will have accumulated sufficient experience and political heft. In the future, he will run for President with high chances of winning. This appears to be the most likely scenario.
- › **The current President resigns early.** He will continue to chair the Halk Maslahaty and will declare an early election, with Serdar Berdimuhammedov running. This is also a probable scenario that would satisfy the tribal elites' demands for change and allow Gurbanguly Berdimuhammedov to effect the power transition promptly should his health deteriorate further.
- › **Serdar Berdimuhammedov is appointed a Halk Maslahaty Deputy and becomes its Chair.** Since the Speaker of the upper house becomes Acting President should the President resign early for any reason, Serdar Berdimuhammedov would discharge presidential functions. However, since he will then be unable under the Constitution to subsequently run for President, this scenario appears unlikely.

ELECTION OUTCOMES AND POSSIBLE FURTHER DEVELOPMENT OF THE POLITICAL SITUATION

Turkmenistan's domestic political situation could subsequently follow the below scenarios:

- › **The base scenario** entails continuation of a gradual power transition. Deputy Prime Minister Serdar Berdimuhammedov is the most likely successor. No matter how he becomes President, it will be seen as preservation of the status quo in Turkmenistan. Given the protracted economic and food crisis, the country's domestic political situation will gradually exacerbate, triggering a tightening of repressive policies.
- › With his father chairing the Halk Maslahaty, Serdar Berdimuhammedov will have limited capabilities. Subsequently, as he gradually accumulates political influence, he will be able to assume full power. Given his currently insignificant political influence, he may come under pressure, primarily from tribal leaders. Consequently, several power centres could emerge in

Turkmenistan's domestic politics. Unless political consensus is achieved, an acute political crisis could then break out when Gurbanguly Berdimuhammedov dies.

- › **A negative scenario** entails an accelerated exacerbation of the domestic political situation. This might happen if Mr Berdimuhammedov starts advancing his son's promotion to the office of the President without taking the elites' stance into account. Tribal elites and security bodies might start opposing this process in order to slow down the power transition or prevent it altogether, taking power away from the Berdimuhammedov clan and from the Akhal-Teke tribe.
- › In this case, a direct confrontation might erupt between the Berdimuhammedovs and tribal elites, turning into a protracted domestic political conflict. The result could be a regime change and new people with no connections to the Berdimuhammedovs and the Akhal-Teke tribe coming to power.

CONSEQUENCES OF THE POWER TRANSITION FOR BUSINESS

The base power transition scenario offers some hope that the status quo will persist. At the same time, since the current authorities have so far failed to deal with the exacerbating socio-economic crisis and instead have kept on "tightening the screws", the base scenario could result in further economic collapse, reduced business activities and a worsening quality of life for Turkmenistan's population.

This situation cannot persist for much longer. Either the State launches in-depth structural reforms in all areas, primarily in politics, or it faces the threat of continued decline in all economic sectors. Since the first development is unlikely, the risk of the crisis exacerbating becomes progressively higher.

In such a situation, business might face the following risks:

- › **The market becomes completely shut to foreign actors.** A deteriorating socio-economic situation might prompt the authorities to shut the country's economy completely to foreign business in order to prevent funds being syphoned off and to reduce the risk of information spreading about the true state of affairs in Turkmenistan. Turkmenistan is already isolated, yet it may shut itself off completely to foreign business, mostly represented by companies such as CNPC, Gazprom, Lukoil, and by construction companies, where Chinese investors dominate. Other economic sectors are essentially already closed to foreign investors.
- › **The State revises agreements and business initiatives currently in effect** with a view to re-channelling funds for other purposes or with a view to obtaining more advantageous terms.

Paradoxically, the negative scenario creates more long-term opportunities for foreign businesses since it allows them to hope for positive shifts in economic policies. Yet, this scenario also creates significant risks for businesses in the short- and medium-term:

- › **Turf wars along regional-tribal lines.** If tribal elites do engage in direct confrontation with the Berdimuhammedov clan, an open conflict and a fight for assets could break out. It would primarily affect the energy sector, particularly the gas-producing industry, which is the foundation of the economy. Its principal asset is the gigantic Galkynysh gas field with reserves estimated at 21 trillion cubic metres of natural gas. Control over the Turkmengaz concern, the key gas producing and gas distribution operator, would become the principal goal of inter-clan confrontation.
- › **Redistribution of capital and new players appearing on the domestic market.** The domestic political crisis is provoking continuous and unpredictable changes in all areas, precluding business planning and reliance on arrangements remaining in place. Turkmenistan has never been stable in honoring its contracts. For instance, during the construction of the Garlyk mining and processing works, a conflict broke out between Belarus's [Belgorkhimprom](#) and Turkmenistan, which resulted in the Belarusian contractor filing a lawsuit with the Stockholm Arbitration Court

demanding payment for work done. Other foreign companies, such as Turkey's [SECE Group](#), Germany's [Unionmatex](#), and others, also found themselves in the same predicament.

- › Reduced capabilities of law enforcement and the judicial system to protect business. Domestic political polarisation will reduce their capabilities to a minimum.

RECOMMENDATIONS FOR CORPORATE GOVERNMENT RELATIONS FUNCTIONS

Given the changes and risks described above, the following strategies appear optimal for businesses with interests in Turkmenistan:

- › Establishing contacts with the Halk Maslahaty's key deputies, primarily members of tribal elites.
- › Establishing contacts with Serdar Berdimuhammedov's close circle of associates.
- › Monitoring Turkmenistan's domestic political situation, focusing particularly on possible growth of popular discontent and on the power centres shifting to the regions.
- › Spearheading additional agreements with Turkmenistan's authorities with a view to enshrining current arrangements. As noted above, Turkmenistan's authorities frequently fail to honour their commitments under contracts with foreign contractors. Since there is a risk of domestic political destabilisation and turf wars, foreign investors should work on obtaining guarantees for contracts currently in effect, primarily in the oil and gas sector, such as construction of the TAPI pipeline (Turkmenistan-Afghanistan-Pakistan-India), construction of a gas compressor plant at the Zäkli Derweze gas-treatment system implemented jointly with Singaporean contractors, the Turkmengaz-Mitsubishi Corporation agreement on engineering design of a plant for producing commercial gas, and other high-profile examples.

The current political and social unrest in Turkmenistan suggests an accelerated power transition triggered by the profound economic and food crisis, which is fuelling discontent among the population and tribal elites. An additional risk consists of a further deterioration in Gurbanguly Berdimuhammedov's health.

Longer term, Turkmenistan might launch structural and political reforms. A power transition could provoke an acute domestic political crisis, possibly bringing new players to Turkmenistan's political forefront. In such a situation, a greater role will be required of businesses in terms of monitoring and engagement with the government.

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