Turkmenistan Trade Brief

Trade Policy

Following its independence in 1991, Turkmenistan has opted for a gradual transformation from a planned to a market economy. Turkmenistan authorities have recently implemented several trade liberalizing measures, such as reducing duty and excise taxes. However, economic activity continues to be dominated by the public sector, and the trade system is still relatively restrictive as all trade transactions have to be registered with the Turkmen State Commodity Exchange. Nonetheless, based on its 5.1 percent simple average of the MFN applied tariff in 2002, the latest year for which internationally comparable tariff data is available, Turkmenistan had a regime more open to trade than an average Europe and Central Asia (ECA) (9.5 percent) or lower-middle-income (15.8 percent) country. Similar to the majority of countries in its comparator groups, Turkmenistan is more protective of its agricultural goods (12.8 percent tariff) than of its non-agricultural ones (3.9 percent tariff). Moreover, the 80.1 percent share of tariff lines with zero MFN tariff in 2002 was by far the highest in the region, where the average was 14.7 percent.

In response to the global crisis, Turkmenistan’s president signed a decree in October 2008 which allows the Ministry of Finance to establish a stabilization fund as a cushion against the impact of the global slowdown.1

External Environment

The simple average of the overall rest of the world tariff (including preferences) faced by the country’s exports is 9.8 percent. When its trade flows are taken into consideration, it is apparent that Turkmen exports have good access to international markets, especially in comparison to its comparators. Turkmenistan’s weighted average rest of the world tariff (including preferences) is 1.5 percent, lower than the regional and income group averages of 2.1 and 2.9 percent, respectively. Different from the majority of countries in the region, Turkmen agricultural products face a more favorable trading environment (0.8 percent tariff) than non-agricultural products (1.5 percent tariff). An observer at the WTO, Turkmenistan signed a trade and investment framework agreement with the United States on June 1, 2008.2

In January 2009, the Central Bank redenominated the national currency, the manat, with the new manat equivalent to 5,000 old manat.3 This followed the depreciation of the Russian ruble against the U.S. dollar in the second part of 2008, which put Turkmenistan at a competitive disadvantage since Russia is its main trading partner and the weaker ruble meant that imports from Russia became cheaper while exports to Russia became more expensive.

Behind the Border Constraints

The limited capacity of the existing natural gas pipelines and lack of alternative natural gas export routes (two thirds of gas exports go to Russia’s Gazprom) are constraining the country’s natural gas export potential and making exports vulnerable to disruptions. Despite the fact that freight forwarding, warehousing, and other logistics-related services have been almost entirely privatized, major constraints to economic and export diversification include the poor development of telephone and Internet infrastructure as well as the gradual deterioration of the quality of education and basic health services. Public sector management appears to be very fragmented and nontransparent; the country ranked 197th (out of 203) on the World Bank’s 2007 Governance Overall Index, with a particularly low score on regulatory quality.

Trade Outcomes

Turkmenistan’s imports grew by 57 percent in nominal U.S. dollar terms in 2008. However, this was more than offset by a 50 percent increase in exports,
resulting in a trade surplus of 50 percent of its GDP in 2008. The country’s largest exports are hydrocarbons, accounting for about 90 percent of total exports. Cotton fibre used to be an important export good as well; however, its share in exports revenue has fallen from around 10 percent in the 1990s to only 1 percent. Due to the fact that it is relatively insulated and thanks to its supply contract with Russia, the recent global crisis is not expected to have a big impact on Turkmenistan. The value of Turkmenistan’s exports should not be influenced by the fall in commodity prices, as the contract price for Turkmenistan’s gas exports is rising. According to Turkmenistan’s president, the country’s trade turnover increased by 76 percent in January and February of 2009, compared to the same period the year before. However, the volume of exports has recently been influenced by the halt of almost all exports of gas to Russia after a pipeline explosion in April 2009.

Notes

References