

POLITICO-ECONOMIC COMPLEMENTARITY AND COMPATIBILITY BETWEEN GUAM MEMBER STATES

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I n t r o d u c t i o n

After the breakup of the U.S.S.R., some of the newly independent states encountered the problem of aggressive separatism. Bellicose rhetoric soon developed into armed conflicts and a whole range of local wars over territory. In some countries (as in Georgia and Moldova), these wars—at least formally—were a confrontation between the central government and armed groups of separatists from the same state. In other countries, they were even formally transformed into interstate wars. In particular, Armenia went into action on the side of the Nagorno-Karabakh separatists, but since it was far superior to them both in terms of the number of combatants

and in terms of armaments, in actual fact Armenia and Nagorno-Karabakh switched roles almost right after the outbreak of hostilities: from now on it was Nagorno-Karabakh that fought on the side of Armenia, which tried to annex (no matter whether formally or informally) a significant part of the territory of Azerbaijan.

“Post-Soviet wars” did not lead to a final resolution of territorial disputes. One of the main reasons for this was that in virtually all cases there was interference by third states which were stronger than the conflicting parties themselves. These states naturally pursued their own interests, mostly by means of assistance to one of the

parties involved and sometimes by encouraging, supporting or preserving the conflict in question.

When the first wave of “post-Soviet wars” came to an end and gave way to a search for peaceful ways of conflict resolution, some newly independent states, prompted by the natural course of history, objectively came to realize that joint efforts based on essentially common positions are, as a rule, more effective than uncoordinated attempts by individual countries to solve their problem single-handedly. The global community is more attentive and considerate to joint political actions by several united states than if each of them had advocated the same ideas on its own.

The advisability of joining forces in the international arena in order to resolve or prevent territorial problems was exactly what induced Georgia, Ukraine, Azerbaijan and Moldova to create GUAM in 1997. It is no accident that ten years later (in October 2007) they once again emphasized in a joint statement of their Vilnius summit that the development and integration of the GUAM countries was still burdened with unresolved conflicts in the territories of Azerbaijan, Georgia and Moldova, and reaffirmed their commitment to finding peaceful solutions to these conflicts based on sovereignty, territorial integrity and inviolability of internationally recognized state borders.¹

¹ See: Statement of the GUAM Vilnius Summit, available at [<http://www.guam.org.ua/181.913.0.0.1.0.phtml>].

One might get the impression that Ukraine does not belong among these countries because it has no armed conflicts in its territory started in order to separate some part of the country’s territory and, consequently, no enclaves “infected” with aggressive separatism. But this is a superficial impression. In actual fact, there are regions in Ukraine which can potentially turn into areas of sharp conflict. It is no coincidence that many Russian experts, when examining the political leverage for pressuring Ukraine and Georgia (whose governments they regard as openly anti-Russian), put support for the separatist regimes in Abkhazia and South Ossetia on a par with the so-called “game being played with regional political elites in Donbas and the Crimea.”² That is why, while supporting the other GUAM countries in their struggle to overcome the consequences of aggressive separatism, Ukraine is simultaneously working to prevent such phenomena in its own territory.

Yet another and, to a certain extent, background prerequisite for the unification of the GUAM countries was that by then they had already established new, direct economic relations among themselves, so that these relations could now be built without external interference (i.e., without the former Soviet “center”) and on a fundamentally new, market basis.

² See, for example: R. Manekin, “SNG-GUAM: ispytanie Ukrainoi?” Political Expert Network Kremlin.org, available at [<http://www.kreml.org/opinions/85607560>].

Main Question

As long as the reasons for the emergence of GUAM hold good (and they, as noted above, are just as relevant today as at the time of its creation), this group, if other circumstances remain the same, will continue its existence, while the relations between its member countries will develop and deepen. There is little doubt about this prospect, at any rate among the GUAM members themselves.

But separatism in the member countries will sooner or later be overcome. The question is whether GUAM will be viable after the final restoration of its members’ territorial integrity and the settlement of territorial disputes with their neighbors in which they are now involved in one form or another. This question can be formulated in more constructive terms: will GUAM be able in the future (possibly, upon the admission of several new states from Eastern Europe and Central Asia) to turn

into a community that would become a kind of democratic axis linking the western and eastern parts of the Eurasian continent?

It should also be borne in mind that GUAM's purposes are by no means confined to overcoming separatism and aggressive nationalism, but cover a much wider range of tasks. The task of ensuring the territorial integrity of the group's member states is present only implicitly among the purposes formulated in its Charter.³

The theory of interstate relations has already proved that regional groupings retain effective incentives to continue their existence and sustainable development only under certain conditions. In order to determine how viable GUAM can be once it achieves the purposes that stimulated its creation, one should establish how well each of these conditions "fits" this group of countries.

Political Interests and Political Compatibility

The identity of political interests associated with the need to overcome the threats to territorial integrity is essentially tactical. At the same time, there are also several circumstances underpinning the strategic community of the GUAM countries' political interests.

First of all, a state's association with other states—provided it takes place on an equal basis and without external interference (i.e., not under pressure from any country)—increases its political influence. The natural urge of nations and states to integrate is what leads the world to further globalization. Even the major powers are constantly in search of friends in order to obtain new political allies, fill the gaps in their economy, and morally enrich themselves through cultural exchanges. It is clear that relatively small countries are even more interested in joining long-term, reliable and effective interstate associations, provided this does not infringe their sovereign rights. In view of the latter, small countries have to exercise particular caution in selecting partners, because their alliances with big and powerful states are rarely equitable and, as a rule, contain many hidden dangers (especially in relations with neighboring powers).⁴ A graphic example of such an "alliance" is provided by the relations between Russia and Armenia, which have turned the latter into an outright satellite of the former. But where small countries manage to avoid these "reefs," entering into effective alliances increases their political weight in the international arena. Moreover, the specific nature of the globalization era is such that even the very *capacity* to unite with other countries has a positive effect on the state's international image.

When viewed from this angle, GUAM meets the long-term interests of all its member countries.

³ The Charter of the GUAM Group, which was adopted in May 2006 and which formalized its new name, Organization for Democracy and Economic Development—GUAM, declared the following as its main purposes: promoting democratic values, ensuring rule of law and respect for human rights; ensuring sustainable development; strengthening international and regional security and stability; deepening European integration for the establishment of a common security space, and expansion of cooperation in economic and humanitarian spheres; development of social and economic, transport, energy, scientific and technical, and humanitarian potential of the Parties; intensification of political interaction and practical cooperation in the fields of mutual interest (see: Charter of the Organization for Democracy and Economic Development—GUAM, Art 1, available at [<http://www.guam.org.ua/267.0.0.1.0.0.phtml>]).

⁴ See, for example: S. Blank, "Russia's Real Drive in the South," *Orbis*, Summer 1995, Vol. 39, No. 3, pp. 369-386; J.W.R. Lepingwell, "The Russian Military and Security Policy in the 'Near Abroad'," *Survival*, Autumn 1994, Vol. 36, No. 3, pp. 70-92; A. Rondeli, "Russia and Georgia: Relations are Still Tense," *The Caucasus & Globalization*, Vol. 1 (1), 2006, p. 68.

Second, GUAM makes it easier for its member states to integrate into European structures. Such integration is the aim of all GUAM countries without exception, and this is recorded in the organization's Charter as one of its purposes ("deepening European integration for the establishment of a common security space"⁵). Moreover, some experts believe that one of the strategic objectives pursued by the GUAM states, even if not declared officially, is to combine efforts for joining NATO.

Third, this kind of association enables member countries to enlist the political and economic support of a number of third states that have a serious influence on global and regional processes. Apart from some West European states, these include the U.S. and Turkey, which are interested in ending or at least minimizing Russia's political and economic influence in the post-Soviet countries.

Meanwhile, this circumstance is what forms GUAM's major area of vulnerability. It is largely because GUAM's pro-American image has become firmly fixed in the Russian public mind that the Russian political establishment treats this organization with great disdain, while some Russian mass media and experts say quite openly that it is "anti-Russian in character."⁶ According to the Russian expert community, GUAM's geopolitical task was formulated in the U.S. and consists in creating a kind of "cordon sanitaire" between Russia and Europe.⁷ What makes the situation worse is that some analysts from the GUAM countries themselves also regard this organization as an alternative to the CIS; the latter, in their opinion, was created by Russia to "colonize" the post-Soviet states.⁸

Given the strong influence Russia has (and will continue to have in the near future) on the former Soviet republics, such stark contraposition of GUAM to Russia and the CIS is hardly in the interests of its member countries. GUAM's future will depend in large part on whether its members continue to enjoy the support of the Western world while taking sufficiently effective measures to neutralize the openly negative attitude of Russia and interstate associations created under its leadership.

The leaders of the GUAM countries evidently realize the importance of such flexible behavior, but in varying degrees. The most consistent advocate of "flexible policy" is President of Azerbaijan Ilham Aliyev. This is evident from his repeated statements that GUAM's creation and activities are not directed against the CIS or any third states.⁹ Even those Russian experts who are agreed that GUAM was created as an alternative to the CIS note that Azerbaijan is the only member of that Organization which continues constructive cooperation with Russia.¹⁰

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Throughout recent history the common political interests of states have provided the main incentive for them to create all kinds of alliances, but in the past few decades the political, economic and cultural compatibility of countries has been an increasingly important condition for entering

⁵ Charter of the Organization for Democracy and Economic Development—GUAM, Art 1.

⁶ See, for example: V. Sergeev, "GUAM oboidiot truboi Rossiiu," *Gazeta RU*, 11 October, 2007, available at [http://www.gazeta.ru/politics/2007/10/11_a_2232166.shtml].

⁷ See, for example: "GUAM—sanitarnyi kordon vokrug Rossii," BBC Monitoring Service: Summary of Russian Press for 23 May, 2006, available at [http://news.bbc.co.uk/1/hi/russian/press/newsid_5007000/5007156.stm#1].

⁸ See, for example: V. Guluzade, "GUAM—alternativa SNG," REGNUM News Agency, 26 May, 2006, available at [www.regnum.ru/news/646903.html].

⁹ See, for example: President Ilham Aliyev's interview with Ekho Moskvyy (Echo of Moscow) radio station on 25 December, 2006 (see full text at: [http://www.mediaforum.az/articles.php?lang=rus&page=02&article_id=20061225011038597]).

¹⁰ See, for example: "Rossiiskie SMI: GUAM—klub obizhennykh na bolshogo brata—Rossiiu," Press review on the GUAM Kiev Summit, available at [<http://www.newsru.com/russia/24may2006/guama.html>].

into alliances. A good example here is the process of Turkey's admission to the European Union: the main arguments of its opponents (at any rate those declared officially) are nearly always confined to Turkey's incompatibility with European standards for certain parameters (economic development level, degree of political freedom, liberalization of the business environment and foreign trade, etc.). In this context, let us take a closer look at the question of political compatibility between the GUAM countries.

Despite fairly significant differences in political systems, particularly in the balance between the legislative and executive branches of power, and also in the authority of various executive agencies, all GUAM countries are presidential republics. After regaining independence, all four countries proclaimed the construction of a secular democratic state as the supreme goal of their official policy. For a number of reasons, the political systems of the GUAM member states are very close. Nevertheless, in terms of some indicators their democratic development levels differ significantly. This is quite evident from cross-country comparative studies.

Among the most popular studies of this kind are the annual reports published by Freedom House,¹¹ in which the level of democracy in different countries is determined based on the degree of protection of political rights and civil liberties. For nations in transit (in the latest Freedom House report, these include 29 countries of the former Soviet Union and the socialist bloc) these studies are conducted in a more detailed form.

The overall democracy score of a particular country is calculated as an average of ratings for the following categories:

- electoral process (EP);
- civil society (CS);
- independent media (IM);
- democratic governance:
 - national governance (NGOV);
 - local governance (LGOV);
- judicial framework and independence (JFI);
- corruption (CO).

For each of these parameters of democracy, countries are rated on a seven-point scale. The higher the rating, the lower the level of freedom. Changes in a country's ratings are made depending on what kind of events and processes (positive and negative) took place in that country during the period under review, with the ratings for the previous year taken as the basis of computation.

Countries with an average score of 1.0-2.5 points are considered to be free; with 3.0-5.0 points, partly free; and with 5.5-7.0 points, not free. Depending on their ratings, countries are also classified by type of political regime: consolidated democracy (democracy score of 1-2 points), semi-consolidated democracy (3 points), transitional government or hybrid regime (4 points), semi-consolidated authoritarian regime (5 points), and consolidated authoritarian regime (6-7 points).

The 2007 report covers the period from 1 January to 31 December, 2006.

It should be taken into account that Freedom House does not assess government activities in the area of "political rights and civil liberties" but estimates their actual level, because freedom can be

¹¹ Freedom House is an international nongovernmental organization set up in the United States in 1941. It positions itself as an independent NGO working to develop and expand democracy throughout the world and supporting new democracies, particularly by lobbying for their interests. It is known for its four annual publications: *Freedom in the World*, *Freedom of the Press*, *Nations in Transit* and *Countries at the Crossroads*.

limited not only by the decisions and activities of state institutions, but also by non-state actors, such as terrorist or other armed groups. Moreover, Freedom House does not equate legislative, including constitutional, guarantees of democracy with their implementation, but takes into account both formal and actual aspects of the problem.¹²

Table 1 shows the ratings and overall democracy scores reflecting the level of democratic development in the GUAM and EurAsEC countries, and also the averages for these interstate associations. EurAsEC was founded in 2000 by five states: Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan. Later on it was joined by Uzbekistan. In effect, GUAM and EurAsEC are the two main interstate associations that have arisen in the space of the former U.S.S.R. Hence the interest in such comparisons.

Table 1

Level of Political Rights and Civil Liberties
in the GUAM and EurAsEC Countries (2006)¹³

Indicators	EP	CS	IM	NGOV	LGOV	JFI	CO	Democracy score	Status	Regime type
Azerbaijan	6.50	5.25	6.25	6.00	6.00	5.75	6.25	6.00	Not free	Consolidated authoritarian
Georgia	4.50	3.50	4.00	5.50	5.50	4.75	5.00	4.68	Partly free	Semi-consolidated authoritarian
Moldova	3.75	3.75	5.25	5.75	5.75	4.50	6.00	4.96	Partly free	Semi-consolidated authoritarian
Ukraine	3.00	2.75	3.75	4.75	5.25	4.50	5.75	4.25	Partly free	Semi-consolidated authoritarian
GUAM average	4.44	3.81	4.81	5.50	5.63	4.88	5.75	4.97		

¹² The methodology and results of the Freedom House study, as well as other cross-country comparisons mentioned in this article, are analyzed in greater detail in: N. Muzaffarli (Imanov), *Reiting Azerbaidzhana*, Kavkaz Publishers, Baku, 2006.

¹³ Compiled from: *Nations in Transit 2007: Democratization from Central Europe to Eurasia*, available at [http://www.freedomhouse.hu/images/fdh_galleries/NIT2007/rating%20and%20democracy%20score%20summary3.pdf], November 2007.

Table 1 (continued)

Indicators	EP	CS	IM	NGOV	LGOV	JFI	CO	Democracy score	Status	Regime type
Countries										
Belarus	7.00	6.50	6.75	7.00	6.50	6.75	6.25	6.68	Not free	Consolidated authoritarian
Kazakhstan	6.50	5.75	6.75	6.75	6.25	6.25	6.50	6.39	Not free	Consolidated authoritarian
Kyrgyzstan	5.75	4.50	5.75	6.00	6.25	5.50	6.00	5.68	Not free	Consolidated authoritarian
Russia	6.50	5.25	6.25	6.00	5.75	5.25	6.00	5.86	Not free	Consolidated authoritarian
Tajikistan	6.50	5.00	6.25	6.25	5.75	5.75	6.25	5.96	Not free	Consolidated authoritarian
Uzbekistan	6.75	7.00	7.00	7.00	6.75	6.75	6.50	6.82	Not free	Consolidated authoritarian
EurAsEC average	6.50	5.67	6.46	6.50	6.21	6.04	6.25	6.23		

It is quite obvious that the overall situation in the post-Soviet countries in the area of political and civil liberties is very unfavorable. In the GUAM countries, it is somewhat better than in EurAsEC. Three of the four GUAM members are included in the category of partly free states with a political regime described as semi-consolidated authoritarian, whereas all six EurAsEC countries are classified as not free states with consolidated authoritarian regimes. The difference between the average democratic development indexes (democracy scores) for GUAM and EurAsEC is quite significant: 1.26 points. The gap is largest for electoral process (2.06) and smallest for freedom from corruption (0.5 points). But the closeness of their scores on the latter parameter is due to the fact that, unfortunately, all the post-Soviet countries are exposed to the pernicious influence of mass corruption. The GUAM countries are also well ahead of the EurAsEC member states in terms of the maturity of civil society (1.86) and media independence (1.65).

It can be said that the degree of political compatibility between the EurAsEC countries is higher than it is within GUAM because these countries, without exception, have the same status regarding

democratic progress and identical types of political regime. The fact that this identity is “identity in the negative,” i.e., that these countries are “equally undemocratic and authoritarian,” makes no difference. It is known that states with roughly similar levels of political and civil liberties find it easier to create long-term alliances. Dictators and authoritarian rulers find it easier to talk and agree among themselves than with leaders of democratic states, although the opposite is true as well: authoritarian regimes are more frequently involved in open (including armed) conflicts with other countries, both democracies and dictatorships. Of course, there are still many examples in today’s world where, in the matter of creating interstate alliances, identity of political or economic interests “outweighs” the contradictions between national political and economic systems, but such alliances, as a rule, are no more than tactical.

The lower political compatibility of the GUAM states is due to the fact that one of the alliance members, Azerbaijan, is classified as a “not free” country and so, in a sense, differs from its partners. It must be admitted that in terms of the level of political rights and civil liberties Azerbaijan is closer to the EurAsEC countries than to the other GUAM states. At the same time, this circumstance gives Azerbaijan a certain advantage: by entering into an alliance with more democratic states, it effectively undertakes an implicit commitment to rise to their level and so has more incentives to improve, in the short run, the situation with political and civil liberties.

A closer look at the GUAM averages shows that the member countries have made the greatest progress in developing civil society (3.81) and the least progress in fighting corruption (5.75). Insufficiently democratic governance, both national and local, also remains a challenging problem for these countries. The best achievement is the level of civil society in Ukraine (2.75), and the worst rating is for electoral democracy in Azerbaijan (6.50). The presidential elections to be held in 2008 provide Azerbaijan with a real opportunity to significantly improve this rating: in these elections, given the lack of a real alternative, the authorities can win without any serious violations of electoral law or electoral process, because there is no well-organized, financially viable or popular opposition in the country, and in the near future (at any rate, before the elections) such an opposition is unlikely to emerge.

Of particular importance in analyzing the political compatibility of transition countries is an examination of the dynamics of democratic change in these countries, as indicated by the degree of agreement between the *directions* of change in the area of political and civil liberties. In this case, such an opportunity is provided by the fact that Freedom House has conducted its investigations over a sufficiently long period: since 1997. Data on changes in the level of democratic freedom (democratic progress) in the GUAM countries during the past eight years are given in Table 2.

Table 2

Democracy Scores for the GUAM Countries (2000-2007)¹⁴

Countries	Years							
	1999-2000	2001	2002	2003	2004	2005	2006	2007
Azerbaijan	5.58	5.63	5.54	5.46	5.63	5.86	5.93	6.00
Georgia	4.17	4.33	4.58	4.83	4.83	4.96	4.86	4.68
Moldova	4.25	4.29	4.50	4.71	4.88	5.07	4.96	4.96
Ukraine	4.63	4.71	4.92	4.71	4.88	4.50	4.21	4.25
GUAM average	4.66	4.74	4.89	4.93	5.06	5.10	4.99	4.97

¹⁴ Compiled from: *Nations in Transit 2007*, available at [http://www.freedomhouse.hu/images/fdh_galleries/NIT2007/democracy%20score%20-%20regional3.pdf], November 2007.

The average indicators for the GUAM countries reflecting the level of political democracy worsened steadily in 2000-2005 and somewhat improved in 2005-2007. General democratic progress in GUAM over the past three years would probably have been even more significant but for the worsening of the situation with political and civil liberties in Azerbaijan in 2003-2007. In the latest Freedom House report, only Ukraine was recognized as more democratic than in the report for 1999-2000. In the other GUAM countries, a comparison of the initial and final periods shows a negative trend, which was most pronounced in Moldova and Georgia.

It should be noted that the reaction to the Freedom House studies in the surveyed countries themselves has been mixed. The assessments of local observers, significantly distorted by their political likes and dislikes, do not—and probably cannot—coincide with the view from abroad, which is also influenced by political factors, although in a totally different form. In Azerbaijan, the conclusions drawn by Freedom House displease government officials. In their belief that an active process of democratization of social life is underway in the country, they reject the conclusions about a rollback in this area.¹⁵ In Georgia, which has somewhat improved its rating in recent years, these studies are criticized, on the contrary, by members of the opposition who believe that Freedom House, fully controlled by the U.S. State Department, artificially boosts Georgia's rating for political freedom in order to convince Georgian society and international public opinion of the legitimacy of its own role in Color Revolutions.¹⁶

However, regardless of how public opinion in various countries perceives the analysis of the level of democracy and its components presented in *Nations in Transit*, this analysis suggests a number of conclusions, two of which are particularly important in the context of the problems examined in this article.

First, in terms of the level of actual protection of political rights and civil liberties the GUAM countries are fairly close to each other and can be regarded as quite compatible. Second, although GUAM as a whole differs positively from the rest of the CIS space, democratization of political life is one of the most important tasks for all its member states (but especially for Azerbaijan) for the next 5-10 years.

Both these conclusions are fully confirmed by other cross-country comparative studies in the field of democratization of governance and public life, including those of the Center for International Development and Conflict Management (CIDCM) of the University of Maryland, the United States Agency for International Development (USAID), and international nonprofit organizations such as Reporters Without Borders, International Research and Exchanges Board (IREX), The Fund for Peace (FFP), and others.

Economic Complementarity and Compatibility

It is well known that economic complementarity ranks among the initial conditions for the stability of any geopolitical arrangements and is expressed, as a rule, in a fundamental identity of their members' economic interests. As applied to GUAM or any other interstate alliance, it should be re-

¹⁵ See, for example: "Ali Gasanov ne soglasen s otchotom organizatsii Freedom House," Interview with electronic newspaper *Day.az*, available at [<http://www.day.az/news/politics/47591.html>]. The government of Uzbekistan has gone further than the rest in demonstrating its negative attitude to Freedom House: in 2006, its office in the country was closed down by decision of Uzbek law-enforcement agencies (see: "Uzbekistan vydvorიაiet Freedom House," available at [<http://www.day.az/news/world/43419.html>]).

¹⁶ See: *Ponedelnik* (weekly of the South Caucasus Institute of Regional Security), No. 22, 2006, p. 7.

garded as the second (but no less important than common political interests) condition of the group's viability.

The economic interdependence of the GUAM member countries is rooted in their common history: for a long time, they were part of the Russian Empire and then of the U.S.S.R. Being no more than regions of a single state, these countries—together with the other Union republics—constituted a single economic space with totally intertwined economies and close cooperation ties between sectors and enterprises. Moreover, the U.S.S.R. economy was basically a closed economy, and international economic relations—in the vast majority of cases—were maintained by central (Union) agencies or, at any rate, through them. Direct economic contacts between the regions (Union republics) and the outside world were limited to a minimum. The Union republics were obliged to fill the gaps in their economy only with the help of other regions of the empire.

That is why, theoretically speaking, the CIS countries, which by the time of the U.S.S.R.'s breakup had roughly equal technological development levels and a common language, initially had ample opportunities for economic cooperation, for maintaining and even deepening economic integration.¹⁷ But this did not happen and disintegration processes prevailed.

It is generally assumed that the reasons for the disruption of cooperation ties between the former Union republics and their enterprises are of a political nature and boil down to the disintegration of the U.S.S.R. as a single state.¹⁸ This is a highly erroneous view. In actual fact, it is just the other way round: the irrationality of economic ties between enterprises and regions in the U.S.S.R., most clearly expressed in absurd intersectoral proportions, was among the main reasons for its disintegration.¹⁹ In the conditions of market regulation of the economy, the structural relationships established by that time could no longer function, which is why many enterprises and even entire industries ground to a halt, unable to provide an economic justification for their existence, although under the administrative-command system they somehow continued to operate.

Consequently, one can say that *the deeper a Union republic's integration into the single national economic complex of the U.S.S.R., the more unfavorable were its starting conditions for economic development after independence*. The GUAM member countries were among such republics, and in two of them (Georgia and Moldova) the volume of trade with other regions of the empire exceeded their gross product.

This circumstance was among the main reasons why, compared to other post-Soviet states, Georgia, Moldova and Azerbaijan experienced a much faster and deeper decline in GDP in the mid-1990s, although territorial wars naturally played an equally important or even a greater role. Among all CIS countries, the economic recession of the mid-1990s was least pronounced in Belarus, which managed (largely due to the retention of administrative-command elements in economic management) to save the main part of the industrial potential accumulated in the Soviet period (Fig. 1).

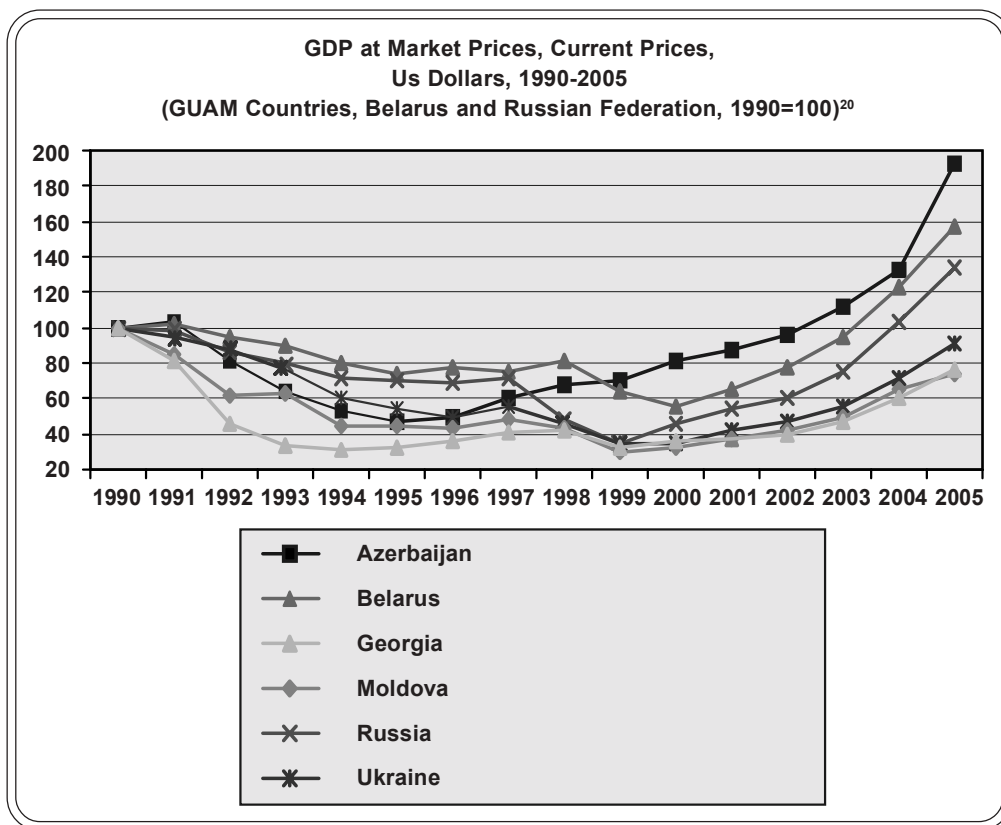
According to the U.N. Statistics Division (UNSD), in 1996 Azerbaijan entered a period of economic recovery, which has particularly intensified since 2003, when the country's new oil strategy began to produce its first tangible results. In 2005, GDP at current prices was already nearly

¹⁷ See: B.M. Smitienko, V.K. Pospelov, *Vneshneekonomicheskaya deiatelnost*, 3rd edition, Akademia, Moscow, 2007, p. 78.

¹⁸ This view is held, in particular, by L. Grigoriev and M. Salikhov, the authors of one of the most systemic studies dealing with the economy of the GUAM countries. Their book contains many interesting conclusions, but these are formulated from the standpoint of the economic development interests primarily of the Russian Federation (see: L.M. Grigoriev, M.R. Salikhov, *GUAM—piat' nadsat let spustia: Sdvigi v ekonomike Azerbaidzhana, Gruzii, Moldavii i Ukrainy, 2001-1006*, REGNUM, Moscow, 2007.

¹⁹ For more detail, see: N. Muzaffarli (Imanov), *Ekonomicheskie etudy*, Shusha Publishers, Baku, 1999, pp. 30-32, 76-80.

Figure 1



double the 1990 level, while the other GUAM countries had, unfortunately, been unable to exceed that level: in 2005, GDP amounted to 90.5% of the 1990 figure in Ukraine, 76.1% in Georgia, and 73.5% in Moldova.²¹ Nevertheless, in recent years all GUAM countries have demonstrated fairly high rates of economic growth. In 2000-2006, according to the CIS Interstate Statistical Committee, GDP increased more than 2.5 times in Azerbaijan, by 56% in Georgia, 55% in Ukraine and 46% in Moldova. In the first three countries, GDP growth rates were above the CIS average.²² As regards Azerbaijan, in 2005 and 2006 it achieved unprecedented economic development (26.4% and 34.5% GDP growth, respectively) and was first in the world rankings with a good lead over its competitors.

The economic future of the GUAM countries will depend in large part on how they build their mutual trade and economic relations. Skeptical experts draw attention to the fact that today each of them has more intensive economic relations with Russia than with its GUAM partners.²³

²⁰ Compiled from the data of the U.N. Statistics Division, available at [http://unstats.un.org/unsd/cdb/cdb_simple_data_extract.asp].

²¹ See: *Ibidem*.

²² See: *Godovye dannye po stranam SNG v tselom*, available at [<http://www.cisstat.com>].

²³ See, for example: O. Fesenko, "Igra v GUAM: chetyre igroka i bol'she?" Independent Analytical Agency Glavred, 31 July, 2007, available at [<http://www.glavred.info/archive/2007/07/31/172908-1.html>].

Indeed, trade interactions between the GUAM countries are relatively small. Thus, in Azerbaijan's total exports in 2006 (\$6,372.2 million) Turkey accounted for 6.1% (\$388.1 million) and Russia for 5.4% (\$344.3 million), while Georgia had 4.5% (\$285.3 million) and Ukraine only 0.6% (\$38.4 million). Moldova's share of Azerbaijan exports is so insignificant that it is rounded down to zero. The same applies to mutual trade between Georgia and Moldova (see Table 3).

True, it should be noted that Russia and other CIS countries are still the main foreign market for Azerbaijan's non-oil products, which are mostly agricultural. It is not difficult to foresee that as oil and gas production and exports increase, the share of the CIS (excluding the GUAM partners) in

Table 3

**Export-Import Operations between the GUAM Countries,
Russia and Turkey in 2006**
(in millions of US dollars and as a percentage of total volume)²⁴

	Azerbaijan	Georgia	Moldova	Ukraine	Russia	Turkey	Total
Exports							
Azerbaijan		285.3 (4.5%)	0.3 (0%)	38.4 (0.6%)	344.3 (5.4%)	388.1 (6.1%)	6,372.2
Georgia	92.2 (9.3%)		0.2 (0%)	57.0 (5.7%)	75.7 (7.6%)	124.9 (12.6%)	991.5
Moldova	4.8 (0.5%)	4.1 (0.4%)		128.8 (12.2%)	182.0 (17.3%)	28.5 (2.7%)	1,051.6
Ukraine	422.0 (1.1%)	312.4 (0.8%)	671.2 (1.7%)		8 650.7 (22.5%)	2 390.0 (6.2%)	38,367.6
Imports							
Azerbaijan		49.2 (0.9%)	4.7 (0.1%)	317.5 (6.0%)	1 181.6 (22.4%)	385.0 (7.3%)	5,267.6
Georgia	318.5 (8.7%)		3.5 (0.1%)	320.1 (8.7%)	558.8 (15.2%)	522.6 (14.2%)	3,674.5
Moldova	1.8 (0.1%)	0.3 (0%)		516.5 (19.2%)	417.0 (15.5%)	113.8 (4.2%)	2,693.2
Ukraine	41.0 (0.1%)	72.4 (0.2%)	122.4 (0.3%)		13 787.2 (30.6%)	769.1 (1.7%)	45,021.6

²⁴ Compiled from the data of the U.N. Statistics Division (COMTRADE Database), available at [<http://comtrade.un.org/db/dqBasicQuery.aspx>]. In this database, the figure for exports from one country to another, as a rule, does not coincide with the figure for the latter's imports from the former (in 2006, for example, Azerbaijan exports to Georgia totaled \$285.3 million, while the figure for Georgian imports from Azerbaijan was significantly higher: \$318.5 million). The COMTRADE Database is compiled using information received from national statistical agencies, and their data usually do not coincide with each other. There are several reasons for this: differences in calculation techniques (for example, imports may be calculated on CIF basis, and exports on FOB basis); exclusion by some governments of data on exports or imports of certain goods from their reports; differences in statistical reporting periods, etc.

Azerbaijan's total exports will decrease, while that of the West European markets will become larger. In 2006, the republic's exports to economically developed countries reached \$4,454.1 million (about 70% of total exports), including exports to EU countries, \$3,643.3 million (57.2%).²⁵ With a proper engineering policy, this will enable Azerbaijan to shift the focus to Europe in machinery and equipment imports as well, which is absolutely necessary for modernizing the non-oil sectors of the economy and for enhancing their international competitiveness. That is why we can assume that in the next few years Russia's share of Azerbaijan's total imports (22.4% in 2006) will tend to decline.

One might get the impression that the country least involved in economic cooperation with its GUAM partners is Ukraine. In 2006, its exports to Azerbaijan, Georgia and Moldova made up, respectively, 1.1%, 0.8% and 1.7% of its total exports, and imports, 0.1%, 0.2% and 0.3%. However, this small share of Ukraine's GUAM partners in its foreign trade is due, in the first place, to the different size of their economies. For Moldova, for example, Ukraine is one of the main trading partners: exports to Ukraine make up 12.2% of its total exports, and imports, 19.2% of its total imports, exceeding the Russian share of Moldova's import operations.

The current state of trade between the GUAM countries characterizes their *actual economic complementarity*. It is undoubtedly very important. At the same time, in order to find out how sustainable this alliance can be in the future and what are the prospects for its operation and development, it is essential to analyze the *potential economic complementarity* of its member states. The latter is particularly important in cases where the initial motives behind the creation of interstate associations are not economic but political, as in the case of GUAM.

We can identify at least three areas which can potentially provide the basis for deepening economic integration between the GUAM countries in the next two decades.

- First, *cooperation in the area of energy supply*. Three GUAM countries are net importers of oil and gas. In 2006, Ukraine spent \$12,633.1 million on imports of fuels and lubricants, which exceeds 28% of its total imports. For Georgia, the figures were \$691.8 million and 18.8%, and for Moldova, \$643.7 million and 23.9%.²⁶ In the same year, Azerbaijan exported mineral resources amounting to \$5,392.7 million, which made up 84.6% of its total exports.²⁷ Moreover, oil and gas exports from Azerbaijan will sharply increase in the next few years. The potential economic complementarity of the GUAM countries on this indicator is quite obvious.²⁸
- Second, *cooperation in the area of transportation of Caspian oil to Europe*. This question, which is closely associated with the first one, is probably the most actively discussed aspect of economic cooperation between the GUAM countries, drawing a fairly sharp response from Russia's official circles and expert community, especially in view of U.S. support for the project.

This project provides for the construction of a pipeline that would link the existing Odessa-Brody pipeline to the Polish city of Plock and then to the port of Gdansk on the Baltic Sea. Its estimated cost is \$700 million. Apart from three GUAM countries (Azerbaijan, Georgia and Ukraine), Lithuania and Poland have also declared their intention to take part in the project. At the so-called Energy Summit in Vilnius in October 2007, these five states signed

²⁵ See: Azerbaijan in Figures 2007, available at [<http://www.azstat.org/publications/azfigures/2007/en/018.shtml>], November 2007.

²⁶ Calculated from: U.N. Statistics Division (COMTRADE Database).

²⁷ See: Azerbaijan in Figures 2007.

²⁸ Azerbaijan, for its part, annually imports about 1 million tons of grain, which has an important place in the commodity composition of Ukrainian exports: in 2006, Ukrainian grain exports stood at \$1,353.7 million (data of the State Statistical Committee of Ukraine, available at [http://www.ukrstat.gov.ua/operativ/operativ2007/zd/din_rik/din_r/dts2006_r.htm]).

an agreement setting up a company to develop the Odessa-Brody-Gdansk project, whereupon the work entered a practical phase. The implementation of the project is complicated by the fact that in order to create a really viable new route for transporting energy resources to European markets the states parties to this agreement require, apart from Azerbaijani oil, Kazakh oil as well, while Kazakhstan, which also took part in the Vilnius summit, is so far somewhat vague on this issue.

An Odessa-Brody-Gdansk oil pipeline would certainly have serious economic and even political consequences, especially from the perspective of reducing Ukraine's and Poland's energy dependence on Russia, but its importance should not be exaggerated, as some experts do. Yu. Makogon, for example, believes that GUAM's whole purpose is to develop a new route for the transportation of Caspian oil bypassing Russia.²⁹ In actual fact, GUAM was created for totally different purposes.

Clearly, interest in the project on the part of Azerbaijan, which currently exports most of its oil to world markets through Turkish territory, is due to its desire to diversify its energy transportation routes. This is probably the reason for Turkey's "lukewarm" attitude to the energy component of cooperation within the GUAM framework.

- Finally, *the third area of successful economic cooperation between the GUAM countries in the short run could be mutual capital investments*. Although this aspect of their economic complementarity is discussed in sociopolitical and academic circles not as intensely as the first two aspects, it is among the most promising ones and deserves closer attention.

In the latest UNCTAD studies of cross-border capital flows,³⁰ Azerbaijan invariably ranks high not only in terms of investment inflows, but also in terms of outflows. In 2004 and 2005, it was first in the world rankings for foreign direct investment inflows (Inward FDI Performance Index), moving to 12th place in 2006, and in terms of capital outflows (Outward FDI Performance Index) it has invariably ranked among the top ten countries in the world (9th place in the 2007 report).³¹ Azerbaijan's high rating is obviously due, in the first place, to large-scale foreign investment in the oil and gas sector, while its rating for capital outflows is due to the construction of the Baku-Tbilisi-Ceyhan and the Baku-Tbilisi-Erzurum pipelines. That is why the country's gradual fall in the world rankings for capital inflows and outflows is quite natural.

Nevertheless, there is no doubt that Azerbaijan is gradually turning into a capital-surplus country. By the most conservative estimate, in the period until 2024 the country's oil export revenues alone will exceed \$200 billion, and its foreign exchange reserves already exceed \$7 billion.

The experience of most oil-exporting countries (Nigeria, Angola, Algeria, Mexico, Venezuela, Ecuador, etc.) shows that domestic investment of oil revenues in order to diversify the sectoral structure of the economy could have a destructive impact. This is connected with inevitable subjectivity in selecting projects (caused, among other things, by corruption), fragmentation of fiscal policy and, as a result, a loosening of consolidated control over total government expenditure, additional pressure on the monetary-financial system, so-called circular financing, etc. That is why

²⁹ See: Yu. Makogon, "GUAM ne sposoben sozdat samostoiatelnyi nefteprovod," Orthodox News Agency Russkaya liniya, 12 October, 2007, available at [<http://www.rusk.ru/newsdata.php?idar=173701>]. In the same interview, Yu. Makogon was very skeptical about the GUAM countries' ability to build an oil pipeline on their own in view of their limited resources. This position does not hold water at all, because such large projects as the construction of oil and gas pipelines are nearly always implemented with the participation of big companies and financial resources from third countries.

³⁰ The United Nations Conference on Trade and Development is an organization created in 1964 to promote the integration of developing states into the world economy.

³¹ See: *UNCTAD World Investment Report-2007: Transnational Corporations, Extractive Industries and Development*, New York and Geneva, 2007, p. 220, available at [http://www.unctad.org/en/docs/wir2007_en.pdf].

the possibilities for effective domestic investment of oil revenues are very limited, while their simple placement abroad in the form of assets, as indicated by an analysis of existing practice, is unprofitable.

In these conditions, Azerbaijan can regard foreign markets as a profitable field of application for its oil revenues. For a number of reasons (roughly equal technical and technological levels of the economy, similar business environments and identical management cultures, a higher—compared to the developed countries—average annual rate of return, absence of language barriers, etc.), the preferable area for investment abroad is undoubtedly the CIS. However, at least two other Commonwealth states—Russia and Kazakhstan—have a surplus of capital (for the same reasons as Azerbaijan and on a much larger scale) and are actively tapping into the markets of the Central Eurasian region.³²

In view of these circumstances, GUAM provides a good political groundwork for foreign investment by Azerbaijani government agencies and private businesses. Georgia, Moldova and Ukraine are countries with a capital deficit and a labor surplus and will apparently remain such in the near future. There are already several cases of large-scale (by the standards of the regional economy) investment by Azerbaijani companies in Moldova and Georgia, but it is clear that the potential for capital investment in these countries remains largely untapped. It should be borne in mind that the GUAM countries' political partnership would also be more durable and longer-lasting if it were underpinned by such economic cooperation.

In formulating its strategy in the area of cross-border capital flows within GUAM, Azerbaijan should take into account the undeniable fact that private investments abroad are usually more effective than public investments. Besides, some countries impose tight restrictions on intrusions by foreign state-owned companies into their economic life. That is why the preferable way for Azerbaijan to invest in the GUAM countries is to stimulate local private companies and, for this purpose, to set up a special agency that would provide loans (either directly or through commercial banks specially selected on a competitive basis) to finance projects carried out by Azerbaijani companies abroad, in this case in the GUAM countries.³³ Naturally, such loans should cover a certain fixed part of investment in each project. Among other things, the agency could determine and announce the priority areas (sectors, spheres and even regions) which, in the government's opinion, should be the main destinations for investment.

All these aspects of cooperation between the GUAM countries clearly point to Azerbaijan's growing economic role in the Organization.³⁴

As a factor to some extent working against the economic complementarity of the GUAM member states, one should note that agriculture in Azerbaijan, Georgia and Moldova has a fairly similar sectoral structure. In particular, winegrowing is a key sector of agriculture in all these countries, and the Azerbaijan market is hardly large enough to accommodate imported Georgian and Moldovan wines and brandies, a major export item in these countries. Suffice it to say that in 1985, when a mass

³² In November 2007, the Central Bank of the Russian Federation announced that the country's international reserves had exceeded \$455 billion, increasing by \$151.5 billion in the first nine months of the year (see: "Mezhdunarodnye rezervy RF pobili proshlyi rekord," *Nezavisimaia gazeta*, 15 November, 2007, available at [<http://news.ng.ru/2007/11/15/1195128795.html>]).

³³ In the absence of a special agency, this function could be performed by the State Investment Company of Azerbaijan.

³⁴ There is nothing accidental about the statements by the Russian newspaper *Nezavisimaia gazeta* that Azerbaijan President Ilham Aliiev is to decide GUAM's future or by *Kommersant* that without Azerbaijan's membership GUAM would have turned into a conventional debating society (see: *Nezavisimaia gazeta*, 24 May, 2006, available at [http://www.ng.ru/politics/2006-05-24/3_kartblansh.html]; "GUAM—sanitarnyi kordon vokrug Rossii"). True, Russian analysts usually add that Azerbaijan's decisions will depend to a significant extent on the results of the geopolitical confrontation between Russia and the United States.

campaign to uproot vineyards was launched in the U.S.S.R. by Mikhail Gorbachev under the slogan of a “fight against alcohol abuse,” Azerbaijan harvested 1,790 thousand tons of grapes compared to Georgia’s 915 thousand tons and Moldova’s 654 thousand tons. At that time, Azerbaijan produced about one-third of the U.S.S.R.’s viticulture products.³⁵ In recent years, vineyards in Azerbaijan are being intensively restored, and a number of modern wineries have been built in the country. This example shows that the problem of economic complementarity between the GUAM countries is not as simple as it may seem at first glance.

On the contrary, an encouraging fact is that in 2006 the GUAM states have effectively reanimated the idea of creating a free trade area. An agreement to that effect was signed back in 2002, providing for the abolition of customs duties and quantitative restrictions in mutual trade, removal of barriers to the free movement of goods and services, and creation of an effective payment and settlement system. Considering their geographical location, the GUAM states pay much attention to the formation of a Europe-Caucasus-Asia transportation corridor and, moreover, regard it as a pivotal element of the economy. In 2007, a special Agreement on International Multimodal Freight Transportation³⁶ was signed in Baku. It is planned to develop cooperation in the area of information and communication technologies, in fighting terrorism, organized crime and drug trafficking, in preventing and eliminating the consequences of emergency situations, and in the field of culture, science, education and tourism.³⁷ The implementation of these decisions will undoubtedly help to enhance the economic complementarity of the GUAM countries.

* * *

The success of economic cooperation between states within the framework of regional groupings depends in large part (though to a somewhat lesser extent than in the case of political partnerships) on the compatibility of their economic systems. On the whole, such compatibility between the GUAM countries does exist, because all of them have declared the construction of a free economy to be their strategic choice and over the past 15 years have implemented market reforms. At the same time, a more detailed analysis of the results they have achieved along this road reveals some differences, which are sometimes very serious.

The best way to determine how far various countries have advanced along the path of reform and how compatible are their economic systems is to analyze their positions in international comparative studies of the business environment.

Ease of doing business. In its annual reports of the *Doing Business* series, the World Bank (WB) analyzes 10 parameters of the business environment: starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business. Cross-country comparisons are made both separately for each of these parameters and for the ease of doing business as a whole. In its *Doing Business 2008* report, the World Bank ranked 178 countries and certain non-sovereign territories. Table 4 shows the rankings of the GUAM countries for the overall indicator and for each of its components in 2006 and 2007. The rankings for 2006 were recalculated with due regard for the changes in methodology made in 2007 and for the increase in the number of countries surveyed.

³⁵ See: *Narodnoie khoziaistvo SSSR v 1990 godu*, Statistical Yearbook, Finansy i statistika, Moscow, 1991, p. 485.

³⁶ The text of the Agreement is available at: [<http://www.guam.org.ua/274.763.0.0.1.0.phtml>].

³⁷ See: *Strategia razvitiia otraslevogo sotrudnichestva GUAM*, available at [<http://www.guam.org.ua/274.762.0.0.1.0.phtml>].

Table 4

**Overall and Component Rankings of the GUAM Countries
on the Ease of Doing Business
in 2006 and 2007³⁸**

Indicators	Azerbaijan		Georgia		Moldova		Ukraine	
	2006	2007	2006	2007	2006	2007	2006	2007
Starting a business	95	64	39	10	87	81	105	109
Dealing with licenses	159	159	27	11	157	153	174	174
Employing workers	79	80	4	4	87	93	103	102
Registering property	58	56	18	11	45	46	134	138
Getting credit	21	26	62	48	94	97	62	68
Protecting investors	105	107	120	33	96	98	141	141
Paying taxes	142	141	103	102	119	111	177	177
Trading across borders	170	173	59	64	118	122	116	120
Enforcing contracts	30	30	42	42	17	17	46	46
Closing a business	71	75	87	105	78	82	139	140
Overall ease of doing business	99	96	37	18	103	92	128	139

According to the World Bank, the most favorable business environment among the GUAM countries has been created in Georgia, which ranks 18th in the world. In the past year, it has improved its positions still further, while in the previous WB report the republic was declared the world's "top reformer," having risen from 112th to 37th place in a single year. In the ranking of the countries of Eastern Europe and Central Asia (EECA), which includes the GUAM countries, Georgia ranks second behind Estonia.³⁹ It is the region's best performer in terms of starting a business, dealing with licenses and employing workers. In the past year, the business environment in Georgia has worsened only on two parameters (trading across borders and closing a business), markedly improving on most of the rest. Its achievements in protecting investor rights are particularly impressive: in one year, the country jumped from 120th to 33rd place.

The worst business environment among the GUAM countries will be found in Ukraine, which in the past year has surrendered its positions still further: today it is 139th in the world and next to last in the region. Azerbaijan and Moldova have somewhat improved their business environment and have risen to 96th and 92nd place, respectively. Despite certain improvements in Azerbaijan's positions on some indicators (especially on the ease of starting a business), it has unfortunately

³⁸ Compiled from: *Doing Business 2008*, available at [<http://www.doingbusiness.org>].

³⁹ The World Bank includes all GUAM countries in the Eastern Europe and Central Asia region (a total of 28 countries).

been unable to carry out reforms that could radically improve the overall business environment in the country.

At the same time, it should be borne in mind that some of the indicators used by the World Bank are in actual fact insufficiently representative for cross-country comparisons. Based on rankings compiled with the use of these indicators, it is hard to draw conclusions or formulate recommendations. We call such rankings tentative (or relative).

Indicators of this kind include, in particular, the ease of hiring and firing employees, because the difficulty of firing workers, when seen from the opposite side, appears as a guarantee of their social protection. It is no accident that a number of developed European countries rank fairly low on the ease of hiring and firing workers. They include Finland (rank 127), Turkey (136), Germany (137), Greece (142), France (144), Spain (154), Portugal (157) and Luxembourg (164). In these countries, government protection of the social interests of workers is among the top priorities of domestic policy. Meanwhile, other economically prospering states intervene in employment processes to a much lesser extent. They include the United States (rank 1), Singapore (2), Australia (8), Denmark (10), New Zealand (13), Japan (17), Canada (19), Switzerland (20) and the United Kingdom (21). These countries espouse a different philosophy of social protection, according to which economic self-regulation is the best form of such protection.

Which of these two approaches is more effective for a given country at each particular historical stage depends on a whole range of factors, primarily the potential for economic self-regulation. For newly independent transition states, a total absence of government regulation in the field of employment is hardly acceptable: almost all these countries have a labor surplus and cannot allow business to fully ignore the interests of wage workers while pursuing its own short-term interests. But since business in these countries is just emerging, excessively broad and tight control of employment is equally unacceptable.

That is why the “middle” position of Azerbaijan (rank 80), Moldova (93) and Ukraine (102) in the rankings on the ease of hiring and firing workers, as in many other tentative rankings, should be regarded as perfectly satisfactory. But it is quite obvious that, generally speaking, Azerbaijan, Moldova and Ukraine could offer their enterprises, as well as foreign investors, a more competitive environment for business activity than the current one.

Level of economic freedom. In contrast to WB reports, which largely focus on bureaucratic barriers to business, the *Index of Economic Freedom* (a joint study by the Heritage Foundation and *The Wall Street Journal*) concentrates on the quality of economic policy. Its authors measure the level of economic freedom from the contrary: by measuring the level of government intervention in the economy.

The overall country index is calculated based on a set of 10 component economic freedoms:

- business freedom (the ease of starting, operating and closing a business);
- trade freedom (absence of tariff and nontariff barriers to exports and imports);
- monetary freedom (combined assessment of inflation and price controls);
- freedom from government (measured by the level of government spending and the share of state-owned enterprises);
- fiscal freedom (freedom from excessive taxes);
- property rights (assessment of the degree of protection of private property rights by the country's laws and actual enforcement of these laws);
- investment freedom (especially foreign investment);

- financial freedom (liberalization of the banking sector and its independence from government control);
- freedom from corruption (level of public perception of corruption in the judicial and administrative systems);
- labor freedom (level of government intervention in economic relations between employers and employees).

In 2007, the *Index* included 157 countries, ranked in terms of both the overall level of economic freedom and each of the above-mentioned specific freedoms. Table 5 shows the overall and specific indicators for the GUAM countries.

Table 5

**Overall and Component Rankings of
the GUAM Countries on Economic Freedom in 2006⁴⁰**

Countries Indicators	Azerbaijan		Georgia		Moldova		Ukraine	
	rank	freedom %	rank	freedom %	rank	freedom %	rank	freedom %
Business freedom	92	58.0	31	78.9	56-58	70.0	111	54.0
Trade freedom	76	67.6	96-98	61.8	40	74.4	54-55	72.2
Monetary freedom	80-82	76.8	70	77.9	137	68.0	134	68.4
Freedom from government	34	86.6	12	91.3	83	71.7	108	61.9
Fiscal freedom	56-57	87.2	13-14	94.2	28	90.4	37	89.1
Property rights	81-138	30.0	81-138	30.0	41-71	50.0	81-138	30.0
Investment freedom	111-148	30.0	43-51	60.0	111-148	30.0	111-148	30.0
Financial freedom	131-143	30.0	18-37	70.0	71-107	50.0	71-107	50.0
Freedom from corruption	137-141	22.0	131-136	23.0	93-101	29.0	111-118	26.0
Labor freedom	69-70	65.4	1	99.9	81-83	61.2	119	51.8
Overall economic freedom	107	55.4	35	68.7	81	59.5	125	53.3

⁴⁰ Compiled from: *2007 Index of Economic Freedom*, available at [<http://www.heritage.org/research/features/index/index.cfm>].

The results of this study generally coincide with the conclusions of the World Bank. In the two reports, the GUAM states are listed in the same order: Georgia, included in the group of “moderately free” countries, is first in both rankings; Ukraine is the worst performer, while Moldova and Azerbaijan are ranked between them. The latter three countries are classified as “mostly unfree” in economic terms. Time series analysis reveals an important positive trend: since 2003, the level of economic freedom in the GUAM countries as a whole has tended to rise.

Quality of the national business environment is one of two parameters (subindexes) used by the World Economic Forum (WEF) to calculate its Business Competitiveness Index for various countries. The latest WEF report covers 127 countries. In the ranking on the quality of the national business environment, Azerbaijan is well ahead of its GUAM partners with 72nd place; Ukraine ranks 82, Georgia 93, and Moldova 101.⁴¹

It is easy to see that the results of this WEF study differ significantly from those of the above studies. This is because, in the first place, the business environment parameters assessed by the WEF also include so-called factor conditions (physical, administrative and technology infrastructure, human resources, capital markets). This is a very important addition, without which an analysis of the business environment cannot be regarded as exhaustive, because even the highest degree of economic freedom granted by the state to enterprises cannot ensure their normal operation without factor conditions (such as access to electricity). Moreover, factor conditions for business activity are basic in relation to all the rest.

That is why Azerbaijan’s higher WEF rankings relative to the other GUAM countries should be seen as a fairly important advantage. The point is that an improvement in factor conditions for business activity requires much more time and resources (including financial resources) than many other components of the economic environment. For example, an improvement in legal guarantees of private property rights and a tightening of their practical implementation (despite their fundamental importance) nevertheless lie within the realm of government economic policy; they can be achieved in a relatively short period and do not require additional resources. The same can be said of most other components of the quality of the business environment as assessed in *Doing Business* and the *Index of Economic Freedom*.

To summarize the results of these three cross-country comparative studies of the quality of the business environment, one can say that despite certain differences (which are sometimes quite significant) between the GUAM countries in a number of indicators characterizing the level of economic freedom, they are now, generally speaking, at about the same stage of economic liberalization. From this perspective, they are quite compatible. All GUAM countries are badly in need of improving both political, economic and especially factor conditions for business activity, and their alliance (given efficiently organized cooperation in the appropriate fields) can and must have a positive influence on this process.

Conclusion

The alliance between the GUAM countries has every chance to become really viable and to continue its existence in the coming decades, because today its member states are quite compatible, i.e., they are at about the same level of political and economic development. The basic political interests of the GUAM countries are clearly unidirectional, and one can speak of the fundamental identity of these interests in both current and strategic terms, whereas the economic complementarity of these

⁴¹ See: *The Global Competitiveness Report 2007-2008*, available at [<http://www.ger.weforum.org>].

countries is more potential than actual. The widely held view that political integration between states is determined by their economic complementarity does not apply to GUAM. In this case, a deepening of economic cooperation is a logical continuation of political partnership.

For a complete analysis, it would be well to consider the sociocultural, including religious, compatibility of the GUAM countries. But this problem is beyond the scope of this article and should be considered separately.