

# Transaction Costs in The Institutional- Normal Environment of the Transboundary Region

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## Abstract

The influence of the institutional and customary environment on the development of foreign economic relations in the transboundary region was studied, the systematization of the main informal institutions was carried out, the basic factors operating in the cross-border area were determined. According to the expert estimation of specialists of enterprises participating in foreign economic activity, the level of influence of elements of the customary field on the magnitude of transaction losses during the implementation of foreign economic activities within the boundaries of the transboundary regions between Ukraine and the European Union was revealed. The model, using the fuzzy logic theory, was developed to identify the integrated magnitude of the influence of the components of the customary field on various types of transaction losses. Further research of the above-mentioned problems should be directed towards finding effective ways to increase the competitiveness of the economy of the transboundary region, taking into account the institutional environment.

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## I. INTRODUCTION

The study of the problems of the development of transborder regions formed with the participation of the border areas of Ukraine and the European Union is due to the nature of the institutional cooperation of Ukraine with the neighboring EU member states. In particular, this concerns the conditions for the formation of an institutional and customary environment and the study of the impact of transaction costs on the development of foreign economic activity in the trans-border region.

Analysis of research and problem statement. Problems of institutionalization of the transboundary space were investigated in the works of domestic scientists: V. Borschevsky [1], M.Babiy [2], T.Gaidai [3], V.Demytyev [4], Yu.Konyukhov [5], V.Yakubenko [6], K. Kuzab-Bonk [7] and other

researchers. At the same time, problems with the identification of reserves for improving the efficiency of transboundary regions functioning on the basis of improving the institutional environment and, in particular, informal institutions remained unresolved.

The purpose and tasks of the study. Is to identify the impact of transaction costs on the development of cross-border cooperation between Ukraine and the EU.

Relevance of the research. The study of the problems of the development of cross-border regions formed with the participation of the border areas of Ukraine and the EU have been caused by the nature of institutional cooperation between Ukraine and neighboring countries of the European Union. The intensification of cross-border

cooperation, which takes place during the implementation of the Association Agreement with the EU, is particularly noticeable in the foreign economic activity of the border regions. However, there are problems that impede the use of the potential cooperation with regions on the other side of the border, which increases the attention of the scientific community to the study of this topic.

**Target settings.** Under modern conditions of European integration processes, it has become necessary to study the problems of the formation and development of transboundary regions, mainly in cross-border areas between Ukraine and the EU. In addition, the institutions that form institutional and customary components play an important role in the institutional provision of cross-border cooperation, on both sides of the border, which is necessary to take into account for the development of foreign economic relations between business entities of the border regions of neighboring states.

**Actual scientific researches and issues analysis.** Among the researchers of cross-border cooperation between

Ukraine and the EU there should be noted domestic scientists: V. Borschevsky, V. Budkin, I. Vakhovich, A. Vishnyakov, S. Hakman, V. Yevdokimenko, Y. Macokhon, M. Malskoy, I. Myshyuk, V. Miklovidi, N. Mikuli, V. Lyushenko, A. Mokiya, S. Pirozhkova, S. Pisarenko, S. Romanyuk, V. Chuzhikov, I. Shkoly, and other scientists.

**Defining of uninvestigated parts of general matters.** At the same time, problems with the identification of reserves for improving the efficiency of transboundary regions functioning on the basis of improving the institutional environment and, in particular, informal institutions remained unresolved. Most scholars focus on highlighting institutional, organizational and legal issues by releasing from the field of view the study of informal institutions.

**The research objectives.** To reveal the essence of

institutional cooperation between the border regions of Ukraine of the EU member states, stressing the importance to the formation of an institutional and customary environment. The purpose of the article is to study the influence of informal institutions on the development of foreign economic activity of the cross-boundary region and practical recommendations aimed at using the reserves of intensification of cooperation with the EU countries.

## II. THEORY

An important component of the functioning of the transboundary regions and the formation and development of foreign economic relations within them is the institutional environment. Its main elements are: legal regulation of cross-border cooperation and cross-border economic relations in space, existing formal rules, standards and procedures and customary norms associated with crossing the border, conduct cross-border trade and investment activities in the territory of cross-border regions. [8, p.183].

Institutional support for the development of foreign economic relations in cross-border regions between Ukraine and the EU, according to the canons of institutional theory includes, along with the institutions that exert their effect on its revitalization and formal legal and regulatory institutions, a wide range of informal institutions.

These institutions, in particular, include all those rules and regulations that reflect the socio-cultural and socio-psychological aspects of the economy and society, as well as regulate the behavior of people in the process of economic activity. In the system of informal institutions, a significant role is played by historical and ethnic traditions, the level of jurisprudence, and value factors [9].

Thus, one could argue that in cross-border activities spacious informal institutions based on customary norms and "unwritten rules" that are rooted in social traditions and customs common to residents of adjacent border areas of neighboring countries. As a

rule, this community is generated by the historical past, when, for long periods of time, these territories were part of one state, developing in a single legal, social and mental field. This led to the formation and preservation of a number of uniform rules of customary law among the inhabitants of the border areas of different states.

In the cross-border area between Ukraine and the EU, the role of informal institutions becomes of paramount importance, primarily in terms of the prospect of equalizing economic indicators and quality of life on different sides of the border. For existing stereotypes of economic behavior, cultural and customary patterns of residents of border regions of Ukraine and its neighboring Poland, Slovakia, Hungary and Romania, have a decisive impact on the ability of business in the specified area cross-border business, to establish effective models of economic integration [10, c. 145].

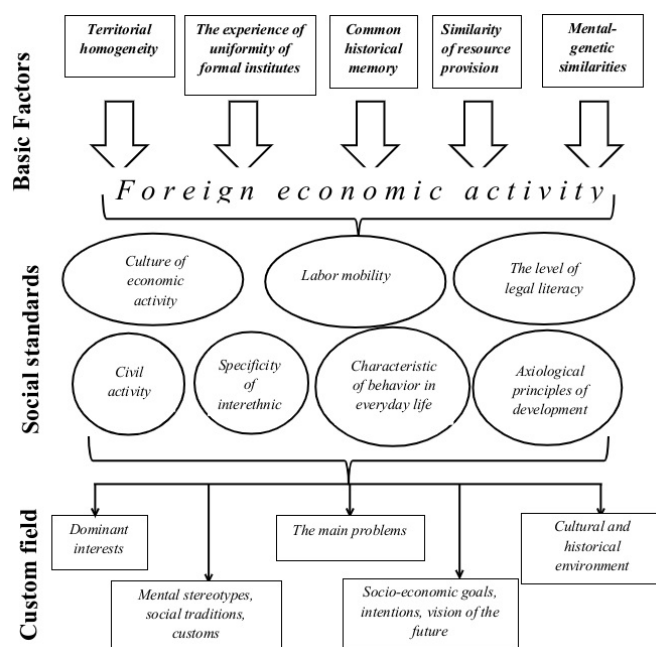
This gives grounds for investigating the institutional and customary environment as an important social background for the development of foreign economic relations in the transboundary regions between Ukraine and the EU. This action of the aforementioned joint informal institutions can have both a positive direction, reducing the transaction costs of cross-border foreign economic activity and negative, due to their increase.

### III. METHODOLOGY

For more in-depth and thorough study of the impact of institutional environment on the customary system of foreign economic relations in cross-border regions formed with border areas of Ukraine and their neighboring administrative units of EU member states, will hold systematization of basic informal institutions that operate in this transboundary space, as well as the basic factors of direct and indirect influence on them (Fig. 1).

The foundations for a common institutional customary environment within the whole cross-border region (as in the border regions of Ukraine

and in the border regions of neighboring EU member states) include a number of basic factors of influence relating to the identity of the natural resource supply area, its location Within the limits of one geo-economic and geopolitical space, historical experience of the use of uniform types of formal institutes, mental-genetic similarity of a large part of the population on both border sides and common historical memory



**Figure 1. Factors of development and components of the institutional and customary environment of the cross-border region. Own development**

The above mentioned basic factors, in the context of carrying out foreign economic activity in the cross-border regions between Ukraine and the EU, determine the nature of the formation of common social standards within the studied transboundary space. First of all, it concerns the culture of economic activity, the mobility of labor resources, the level of legal literacy of the population, its civic activity and the specifics of behavior in everyday life, as well as the axiological principles of development and the nature of interethnic relations. At the same time, attention should be paid to the following peculiarities of social standards operating in the transboundary regions between Ukraine and

the EU under the influence of the above described basic factors:

- peripherality of border areas that form the cross-border area between Ukraine and the EU, which due to their location in the foothills and mountainous areas (Ukrainian, Romanian, Ukrainian, Hungarian and Ukrainian-Slovak cross-border area), and the lines "geopolitical evil" (Ukrainian Polish and Ukrainian-Slovak transboundary regions), led to a high mobility of labor resources, modest behavior in the home, accompanied by low levels of civic engagement and legal literacy of people Eating;
- long life in terms of central planning and economic domination of totalitarian ideology led to the destruction of axiological principles of effective cross-border cooperation and restricted the development of modern forms of business culture in most border regions;
- historical experience of experienced inter-ethnic and inter-ethnic conflicts within the studied transboundary space has created a series of socio-psychological barriers to the harmonization of interethnic relations in all cross-border regions operating between Ukraine and the EU.

In turn, described the social standards of institutional and customary environment investigated cross-border space is a source of relevant elements of customary fields, including: the dominant economic interests and social problems of the residents of border areas and their socio-economic objectives, intentions and common vision, mental attitudes, traditions and customs, as well as the nature of the cultural and historical environment.

Each of these elements directly affects the enhancement of foreign economic relations and the effectiveness of foreign economic activity in the transboundary regions between Ukraine and the EU, defining the amount of transaction costs within each trans-border region. At the same time, these elements can have both a positive and a negative

impact on transaction costs, depending on the strength and direction of their manifestation. For example, the common economic interests of counteragents on both sides of the border and their attempts to resolve the same problems lead to the coordination of efforts and the reduction of transactional costs of foreign economic activity in the cross-border area. Instead, the cultural and historical environment in which the discussion issues concerning the common past or negative mental stereotypes are constantly being actualized is the reason for the growth of cross-border transaction costs.

#### IV. RESULTS AND DISCUSSIONS

While analyzing the current state of the development of institutions in the cross-border region between Ukraine and the European Union, it should be noted that there are many problems related to their functioning, even though in recent years Ukraine has intensified its movement into the European community. First and foremost, these are numerous informal institutions leading to the emergence of institutional barriers.

Studying the mechanisms of the destructive influence of certain institutional –normal barriers on the development of foreign economic relations in cross-border regions between Ukraine and the EU, priority should be given to institutional crises Their occurrence, as a rule, is caused by transformational changes in the economy, which entails structural shifts in the institutional environment, including a decrease in the influence of individual institutions, as a result of which they are in a crises state

## General institutional - normal barriers in the development of foreign economic relations in cross-border regions between Ukraine and the EU

Institutional barriers	Institutional-normal influence on the development of foreign economic relations in cross-border regions between Ukraine and the EU		
	Description of the institutional barrier	Examples	Adverse impact
Institutional crisis	The loss by individual institutions of their public role, their "denomination" in the common law system of the trans-border region	Family institution among migrant workers; training institute for cross-border cooperation	The creation of "social orphanage", the decline in the quality of human capital in the border regions of Ukraine
Dysfunction of institutions	Poor performance of their usual functions by institutions leads to institutional traps or an increase in transaction costs	Institutional-normal security supports of the border crossing process; Institute of Euroregional cooperation; Media institute	Complicating the border crossing process, increasing transaction costs, creating institutional traps: smuggling corruption and Euroregional virtualization
Institutional gaps	The society's refusal of trust in the surrounding institutions turns to their imprisonment on themselves and their "idle" work from the point of view of efficiency and impact on cross-border cooperation	Institute of information-analytical and scientific-technical support of cross-border cooperation; Institute for political support for cross-border cooperation	The need for research and technical development results among the participants of cross-border cooperation, lack of effective political support for cross-border cooperation
Mutation of institutions	Entry of modified traits by institutes changes the way they function and the nature of the impact on cross-border cooperation	border trade institute; institute of cross-border labor migration; institute of cross-border tourism	Increase in transaction costs due to intensification of cross-border trade, labor migration and tourism of illegal forms of cross-border activity
Deformation of institutions	Rooting in the public mind of a number of negative norms of customary law, which entails manifestations of deviant behavior and an increase in transaction costs	institute for cross-border projects under EU Neighborhood Programs; institute of cross-border agreements; institute of joint cross-border development strategies and programs	The lack of effective mechanisms for implementation of cross-border initiatives, reorientation of participants of cross-border co-operation with the solution of real problems of the border areas to receive financial resources from EU sources

During an institutional crisis, the decisions and actions of one institution are ignored by other institutions as well as by individuals. The effectiveness of institutions decreases sharply, the uncertainty of authority and responsibility increases, the feeling of chaos and instability, which entails an increase in transaction costs, is growing. Existing institutions lose their influence, and the rules and norms that they generate cease to act, being replaced by arbitrariness and irresponsibility. The most affected by the institutional crisis in the border regions of Ukraine was the institution of the family, especially in the families of migrant workers and participants in cross-border trade. He ceased to fulfill his traditional functions, which led to the emergence of a number of open and latent institutional-ordinary problems.

Studying the problems of institutional dysfunction in the transboundary space between Ukraine and the EU, priority should be paid to the institutional-normal support of the border crossing process, starting with the queues at the border and ending

with passing a customs inspection.

Institutional gaps are close to the dysfunction of institutions, in terms of their influence on the development of foreign economic relations in cross-border regions between Ukraine and the EU, which are the result of the refusal of society to trust the signals from certain institutions. This is due to the specifics of foreign economic relations in cross-border regions between Ukraine and the EU, in which the bulk of is shuttle trade, illegal labor migration and "grant eating".

These institutional gaps are accompanied by the discrediting of individual institutions, the imposition of some institutions and institutional cultures on others, and the violation of institutional proportions in cross-border regions.

This becomes the basis for the mutation of a number of institutions operating in these cross-border regions. That is, the institute's self-preservation is not due to its effectiveness, but due to a partial change in its essence and content. Examples of mutation of institutions in cross-border regions between Ukraine and the EU are cross-border trade,

cross-border labor migration, and cross-border tourism. Being closely interconnected into a single conglomerate, in the process of socio-economic evolution of the transboundary space between Ukraine and the EU, they altered their internal content, fulfilling a number of unusual institutional functions. Thus, cross-border trade was closely intertwined with smuggling, labor migration from shadow economic activity, and cross-border tourism with illegal transit of labor resources.

This mutation of cross-border institutions has led to a deformation of the institutional-normal framework in cross-border cooperation between Ukraine and the EU. First of all, this concerns the emasculation of the internal content of the signed cross-border agreements between local authorities of the border regions of Ukraine and the EU member states, the implementation of the elaborated strategies for the development of the respective border regions. as well as mechanisms for implementing cross-border projects financed from the EU budget.

To overcome these institutional- normal barriers, information and educational activities in the cross-border space between Ukraine and the EU are becoming increasingly important, as well as strengthening the influence of formal institutions in the context of approximating institutional and legal support for cross-border cooperation with EU requirements and standards.

There is an inextricable relationship between various institutional barriers and mutual influence is observed, as a result of which they reinforce each other, thereby forming a self-organizing system of destructive influence on the development of foreign economic relations in cross-border regions between Ukraine and the EU.

## V. CONCLUSIONS

The main institutional – normal barriers in these cross-border regions are: institutional crises (decreasing the efficiency of the institution's fulfillment of its tasks), institutional dysfunctions

(improper fulfillment by the institutes of their usual functions), institutional gaps (public refusal to trust certain institutions), mutation of institutions (acquisitions by institutions that are unusual internal signs), as well as the deformation of institutions (negative institutional impact on rooting in the public consciousness and harmful stereotypes and manifestations of Deviant behavior).

In order to mitigate the impact and eliminate the above institutional -legal and institutional - normal barriers within the border regions that have developed between Ukraine and the EU, the implementation of an administrative and budget reform in our country is focused on increasing the institutional role and weight of local governments. In addition, the development of border and market infrastructure, the intensification of the training and educational component in cross-border cooperation between Ukraine and the EU, the demonopolization of cross-border markets, as well as the saturation of the information and consulting space in each of the border regions formed with the participation of border territories of Ukraine and neighboring administrative units of the EU member states should be included among the priority measures

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