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USING TRANSACTION COSTS THEORY IN ATTRACTION FOREIGN DIRECT INVESTMENT BY THE ENTERPRISES

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ВИКОРИСТАННЯ ТЕОРІЙ ТРАНСАКЦІЙНИХ ВИТРАТ ПРИ ЗАЛУЧЕННІ ПРЯМИХ ІНОЗЕМНИХ ІНВЕСТИЦІЙ ПІДПРИЄМСТВАМИ

Formulation of the problem and its connection with scientific and practical tasks. The modern world widely uses the tools for regulation of the foreign investment (FDI). The international competition for FDI has resulted in that more and more governments provide more and more benefits designed to influence on the decision of TNCs on the placement of production. But, competing for FDI, the governments can offer such great benefits which no longer will be justified. There is one more problem: not all the countries have the same opportunities to provide the investment incentives and, as a result, the richer countries have more chances to attract the foreign investment. In particular, the tasks of liberalization, promotion and protection of FDI stipulated the going of regulation beyond the control of individual states to the regional and multilateral levels.

Analysis of scientific publications on the considered problem. The issues of the transaction costs theory and the institutional structure of the economy elaborated in detail in the scientific works of D. North and K. Arrow. Also this issue is considered in the works of: O. Williamson, A. Grechenko, M. Deryabina, A. Chukhno, etc. In recent years, many foreign and domestic scientists are paying special attention to the

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foreign direct investment. At the same time high dynamics and ambiguity of foreign direct investment in the oil and gas sector due to the unstable political and economic situation necessitates further more in-depth analysis of modern aspects of transaction costs theories. Due to the high importance of this issue for the attractive foreign direct investment to the oil and gas sector it needs further review and amendments.

The purpose of the study is to develop the recommendations on promoting the attraction of investments by the oil and gas enterprises of Iraqi Kurdistan based on the transaction costs theory.

Statement of the main results of the study.

The economic theory of transaction costs considers the impact of the institutional environment on the costs associated with the conclusion of contracts and the functioning of institutions. The institutional environment of economic organizations is investigated within the theory of property rights, and the focus is shifted to obtaining the benefit from the clear specification of property rights. The theory of contracts also allows for analyzing the impact of the institutional environment on the signing and execution of contracts. In this case, the dominant are the "rules of the game" based on the formal (constitutional) rules. Although the theory of organizations differs from the other directions but it got its name from the ideas of O. Williamson. Thus, in his view, "the institutional environment means the rules of game determining the context in which the economic activity is conducted" [1, p. 38] and "this is a major political, social and legal norms which are the basis for the production, exchange and consumption" [2, p. 5]. This approach is shared by John Oxley, who believes that the institutional environment shall be interpreted as a set of political, economic, social and juridical (legal) agreements establishing a basis for the production and exchange [3], i.e. introduces in this environment the economic rules, but eliminates the consumption. The followers of the theory of public choice and the theory of property rights also believe that the institutional environment means the fundamental political, social and legal norms within which the processes of production and reproduction are conducted (constitutional law, electoral law, property law, contract law, etc.), i.e. reduce its parts to the subject matter of the law study. Such approach can be also traced in the works of the Russian and Ukrainian researchers [4; 5; 6] that can be explained by the definition of the institutional environment, common for literature which was proposed by L. Davis and D. North, who interpret it as "the set of fundamental political, social and basic legal norms governing the economic and political activities (the rules governing the elections which determine the property and contractual rights are the examples of such basic rules" [7, p. 133]. Taking into account that the institutional environment is mainly interpreted as the formal rules or regulations, the researchers in order to explain the behavior of companies and the constancy of their strategies under certain conditions of "institutional matrix" introduced a set of bureaucratic and political processes which prevent the companies adaptation to the existing institutional environment (K. Oliver [8], P. di Maggio and W. Powell [9], J. Hamilton and N. Biggart [10], etc.). The relation of the strategy of the company as the derivative from the institutional environment is illustrated in the works of K. Andrews [11] and K. Hofer [12]. K. Barlett and S. Khoshal [13] based on the example of European multinational companies have proved that the behavioral strategies of the company built with one "set" of institutional environment become ineffective with another.

Other approach belongs to A. Williamson who proposed a three-level model of research where the first level is represented by individuals (economic agents), and the second – by the institutional coordination (agreements between the business entities that determine the ways of cooperation and competition); the institutional environment acts as a third level which cooperates with the first two. Following L. Davis and D. North [7], A. Williamson proposes to distinguish between the institutional environment and the institutional arrangement [1]. Regarding the latter, it represents a set of rights which are formally established in the contracts, as well as in the numerous informal agreements and the reputation maintenance mechanisms. The institutional arrangement shall provide the common rules and mechanisms which allow for introducing the changes to the laws or the system of contracts. In particular, its existence is evidenced by the trust of all the participants of financial activities with the concluded contracts. Because such transactions are concluded voluntarily and individually, the institutional arrangement is primarily the result of the strengthening of new ethical and legal standards of the financial relations.

According to A. Oleynik [14], the institutional environment (economic constitution, institutional structure of economy, institutional framework) means the characteristics of the external environment that are relevant to the economic activity, a set of values, as well as formal and informal norms affecting the ratio of incentives in the activity and stipulating the achievement of minimum consensus between people. And, as R. Kapelyushnikov says, "it would be a mistake to oppose the formal and informal institutions under the either-or principle"; in the effectively functioning institutional system they do not exclude but rather complement each other (herewith the baseline always consists of the formalized relationships and implicit contracts) [15, p. 139]. This position is shared by the academician A. Chukhno: "... the formal institutions as the most common and fundamental in terms of the functioning and development of the economy determine the nature of informal institutions". However, the result of impact is ambiguous. If the legal regulations reflect the needs of the practice, they affect the informal institutions, in order for the latter, in turn, to meet the needs of the practice. Conversely, if the formal institutions have imperfections, it will negatively affect the informal institutions, contributing to the strengthening of their incompliance with the formal institutions [16, p. 5]. The classical theoretical concepts of T. Veblen, D. North and F. von Hayek and the centuries-long historical

experience prove that the evolution of economic as well as the financial systems is always determined by the one or another ratio of formal rules and informal norms and the nature of their changes.

So, in case of any reform, first it is necessary to take into account the principle of the so-called complementary institutions [17], i.e., the institutions complement each other and the desired economic effect is achieved only based on the interrelated institutional changes. It should be noted that the formal rules can be changed literally “overnight” (change of the constitution and regulatory legal acts, court decisions, etc.) and informal constitute a solid “core” of the institutions and are difficult to change. The latter determine the nature of actions of the citizens, financial institutions, regulatory bodies, and not by chance they are called as “routine”. The term “routine” in relation to the institutions means the normal and predictable patterns of behavior. Herewith, the routine determines a rational, but the only possible behavior, while the real behavior is affected both by the routines and environment. It is essential that, in particular, the routine is used by the institutions when choosing the strategies for solving the problems.

The study of macro-economic aspects of the movement of direct investments in the works of M. Porter is of great interest. The central idea of the theory of competitive advantages offered by M. Porter [18] is a close relationship between the competitive advantage and conditions of the country location (the country where the strategy is developed produces the main part of the production, has the technology and workforce with the necessary skills). Taking into account the existence of absolute the competitive advantage in Kurdistan due to useful natural energy resource (oil and gas), the essential objective is to determine the feasibility of these competitive advantages.

M. Porter largely moved away from theories of D. Ricardo and E. Heckscher – B. Olin. He even replaced the term “comparative advantage” to “competitive advantage” and introduced the concept of “targeted policies”, which is based in the set of directions, including the granting, protectionist measures, target direction of capital, etc. with respect to one or more of the priority sectors [18]

Factors of the competitive advantages formation at the international market according to Porter are as follows [18]:

1. Possibility of the rapid accumulation of specialized resources and skills in the country of location;
2. More accurate and accessible information about the prospective and current needs of potential buyers;
3. The competitiveness of supplying enterprises at the international market;
4. Favorable national system of the support and development of competitive advantages.

It is worth noting that the international competition has a significant impact on the countries with more open economies, or when the national goods are close to the substitutes of foreign ones. In addition, the researchers distinguish the important role of the international competition in increasing the inflation at the domestic market [19, p. 10].

In general, the political and legal environment of the oil and gas industry of Iraqi Kurdistan is not fully favorable to attraction of the investment to this sector.

Turkey and Kurdistan in November 2013 concluded a number of contracts that will allow for Kurdistan to export the oil and gas by the pipelines at the territory of Turkey. The supplies of oil by the pipeline at the territory of Kurdistan connected to the Kirkuk-Ceyhan pipeline, which will provide for Kurdistan oil the exit to the global markets [20].

In addition, Turkish Energy Company (TEC) established specifically for work in Northern Iraq has signed a contract for geological exploration of 13 sites, about half of which will be operated together with the American ExxonMobil [21]. The contracts also provide the construction of oil pipeline and gas pipeline that will allow for Kurdistan to increase the oil exports to 1 million barrels per day by 2015 and start the gas exports in early 2017. The payments for Kurdistan oil will be kept on a deposit in the Turkish state bank. After the payments to the contractors the balance will be placed on deposit until the parties agree on the distribution of revenues.

At the same time, the central government in Baghdad claims the rights to all the oil revenues, including the ones received from the sales of oil extracted at the territory of Iraqi Kurdistan. Kurdish authorities argue that Kirkuk deposit shall be not under the control of the central government, but of the regional body, arguing that it is provided in the constitution of the country.

Regarding the possibilities of the gas supplies to Europe, the state of the Kurdistan gas industry in this aspect is estimated by the experts in terms of the existence of the original plan of the gas pipeline Nabucco, where the southern segment of the pipeline to the gas fields of northern Iraq has been marked by the dotted lines. Then, this segment was removed due to the internal conflicts in Iraq and the strategic policy of consortium “Shakh – Deniz”. In the context of the growth of the demands of Turkey and European for gas and the growing power of Azerbaijan as the only supplier of gas, it seems reasonable to restore this line on the plan. Apparently, the competitors in this project will be Genel Enerji, Gazprom Neft and ExxonMobil [20].

The transportation by road lost the relevance in January, when the Kirkuk – Ceyhan oil pipeline was opened. Turkey has agreed to accept the Kurdish oil and store it separately from Iraqi oil. Seven of 12 tanks in Ceyhan were allocated for this. The Iraqi government has filed a lawsuit against Turkey in the International

Chamber of Commerce in Paris. The spokesman for the Iraqi Oil Ministry, Asim Jihad said that one more lawsuit is filed in Iraq against the Kurdish Ministry of Natural Resources [21].

Thus, Turkey, through which the Kurdish oil is transported, considers the exports from Kurdistan through the Mediterranean port of Ceyhan as the legitimate and will continue it. In general, according to the Turkish experts, 100-120 thousand barrels of oil per day comes from northern Iraq; herewith about 2.3 million barrels are stored in Ceyhan.

Against the background of the struggle for the oil revenues the active discussion of issues of the historical affiliation of Kirkuk which has acquired the fundamental importance was started actively. But even without Kirkuk the Kurdistan oil reserves according to the estimates make up 45 billion barrels, i.e. a quarter of Iraqi reserves. After the US invasion to Iraq in 2003, Kurdistan announced his own right to transport the oil independently from its territory. In 2004, Kurdistan signed the agreement on the sharing oil revenues with the central government in Baghdad. However, several key issues remain unresolved, including the fate of Kirkuk and the sharing of undeveloped oil fields.

Thus, from the standpoint of the competitive advantages theory, in general, Kurdistan has great potential in terms of fuel reserves, so the leading energy companies demonstrate the interest in it. The political and natural factors analyzed in the article together ensure the greatest influence on the processes of direct foreign investment in Iraqi Kurdistan.

In general, Kurdistan has great potential in terms of fuel reserves, so the leading energy companies demonstrate the interest in it. The political and natural factors analyzed in the article together ensure the greatest influence on the processes of investment in Iraqi Kurdistan.

Summary and conclusions.

Thus, summing up, it should be noted that the industry of Iraqi Kurdistan shall observe and use the effective investment policy which does not create the market distortions. For the industries of Iraqi Kurdistan which have the intention to attract the FDI associated with a significant transfer of technology the creation of infrastructure that fosters the strengthening of technological partnerships and enhancement of the positive effects of technological borrowing is of great importance. The adaptation of human resources to the technical progress and increase of their role in the spread of technology is one of the necessary conditions for more efficient use of the foreign technology. This requires the organization of appropriate training, development of direct and reverse communication of the affiliates of foreign companies with local companies.

Some sectors of the economy of Iraqi Kurdistan may not be able to attract FDI in the desired amount and of desired quality according to the current national economic or some of the following main reasons: a lack of adequate information for TNCs and high operating costs. Under the certain macroeconomic factors the host country receives less significant FDI inflow than it would like; it should focus on the formation of its own image and, if necessary, try to change the view of potential investors by providing of additional and better information. In some cases, the targeted work with investors – in general, in a particular industry or with certain companies - can become an effective approach that justifies the corresponding costs. One of the important measures taken by many countries to minimize the costs for the foreign investors became the establishment of the unified investment promotion agency which can provide the consulting support to the foreign investors and assist them in obtaining the necessary approvals.

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