



ECONOMIC RELATIONS OF BOSNIA AND HERZEGOVINA AND ISLAMIC COUNTRIES

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Abstract

The paper analyzes the contemporary economic relations between Bosnia and Herzegovina and Islamic countries. In recent years, there have been major changes in regional development and orientation of foreign trade of Bosnia and Herzegovina due to irregularity of relations in the internal market, rational behavior of most economic activities, impact of economic policies and measures brought in the country, as well as situation and relations in world economic division of labor and international economic and political relations. For a more complex assessment of the importance and role of Islamic countries in the world relations, more precise and more comprehensive research of the economic, social, political, geographical and other characteristics of Islamic countries is needed. This knowledge is absolutely necessary if planning a longer-term strategy of economic cooperation with these markets, or at least aspiring better contacts, exchanges and cooperation.

Keywords

Economy, regional development, policies, Bosnia and Herzegovina, Islamic countries

INTRODUCTION

Possibility of attracting foreign capital investments is a significant segment of economic strategy of each country. In such a situation, there is a common interest of both an investing country which gains control of the whole or part of a company abroad, and a country in which the investment is made, thus creating jobs. Of course, the conclusion of this kind of partnership between countries largely rests on the political interests of both the investor country and the recipient country, so that the good political relations are a desirable condition for the development of economic relations. With this in mind, it can be assumed that the policy of FDI (Foreign Direct Investment) in Bosnia and Herzegovina will be greatly conditioned by the political interests of various interest groups in the neighborhood, Islamic

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countries and beyond. Looking at the individual national communities in Bosnia and Herzegovina as potential exponents of foreign geopolitical interests based on their cultural characteristics and traditional ties, a presumption is created that the spatial distribution of direct investments of Islamic countries will be concentrated in Bosnia and Herzegovina.

There are a number of studies on the foreign investments published at the global, regional and Bosnian and Herzegovinian level (BH level). However, it should be noted that most of the available regional and BH titles that deal with foreign direct investment are related to wider or narrower theoretical discussion on the subject with particular reference to foreign direct investment in transition countries, or in particular in Bosnia and Herzegovina. The titles of general themes include *Foreign Direct Investment in International Trade* by Duško Pavlović (2008), *International Finance* by Oskar Kovač (2002), *Foreign Direct Investment* by Adnan Rovčanin and Sahrudin Sarajčić (2009) and *Foreign Direct Investment* by Mehmedalija Hadžović (2002).

More specifics on FDI in transition countries are discussed in *Foreign Direct Investment and Transition* by Nenad Avramović (2006), *Foreign Investment in Countries in Transition* by Dragana Radenković-Jocić (1997), *FDI in the Transition Countries of South-Eastern Europe* by Jurica Vukušić (2007), *Effects of Direct Foreign Investment in the Economy of the Host Country* by Ismet Velagić (2011) and *Foreign Direct Investment and the Transition: Current Results and Future Prospects* by Sahrudin Sarajčić (2006). Special emphasis on foreign direct investment in Bosnia and Herzegovina, either exclusively in that country or by comparison with the rest of the world is put by *Foreign Investments in Bosnia and Herzegovina and in the World* by Tufik Burnazović (1996), *FDI as a Factor of Economic Development of Bosnia and Herzegovina* by Sahrudin Sarajčić (2004), *Foreign Direct Investment and the Economy of Bosnia and Herzegovina* by Goran Pejaković (2011), *Bosnia and Herzegovina: Post-conflict Reconstruction* by Alcira Kreimer, Robert Muscat, Ann Elwan Margaret Arnold (2000) and *Foreign Direct Investment and Sustainable Development* by Dika Mustafić-Cokoje (2008).

However, as the title may suggest, most of these works present new approaches with clear economic benchmarks, either on a theoretical or on an empirical level. In other words, due to the approach of this paper to the issue of foreign direct investment from the perspective of political geography and related disciplines, relevant literature cannot completely meet the needs of its research subject. An exception is the paper of Joel I. Deichmann (2012) *Historical Legacies and Foreign Direct Investment in Bosnia and Herzegovina*, which the relationship between the investor and the country of Bosnia and Herzegovina as a recipient country establishes, among other things, on the basis of historical relationships and geographic distance, thus significantly coincides with the interests of the paper.



Based on real limitations in the choice of literature to meet the needs of this study, the mentioned methodological approach, which places emphasis on the qualitative and quantitative analysis of available statistical data on foreign direct investment in Bosnia and Herzegovina, is crucial for gaining a more comprehensive insight into meeting the geopolitical interests of the investor country in the territory of Bosnia and Herzegovina. Given that the logic of direct investment as agents of geopolitical positioning must necessarily follow the principle of cost-effectiveness as the basic economic logic of investors, the relevant literature provides the author with an opportunity to acquire a basic level of economic theory and empirical awareness necessary for this primarily non-economic paper. (*Jurica Botić, 2013*)

METHODS AND DATA SOURCES

The methodological approach is imperatively suited to the purpose of work by the modern economic development investment of Islamic countries in Bosnia and Herzegovina. Researches of economic development in Bosnia and Herzegovina are covered by the local and regional areas. In assessing the economic contribution of the development of new areas, quantitative methods are almost exclusively used ranging from deterministic to stochastic. Data for the production of the paper are based on the research of secondary publications of previous researches in this subject and previous research of economic geography by the author, statistical documentation of the Agency for Statistics of Bosnia and Herzegovina (Agency 2008). The sample consisted of about 25 economic activities in Bosnia and Herzegovina. Rating of direct contribution of economic development on local and regional development is a good basis for the definition and application of the model. (*Sarajčić, S, 2006*)

Certainly, it is necessary to point out that we were, while writing this paper, warned by the experts on political and economic situation in Bosnia and Herzegovina of the problems that may arise due to non-compliance of statistical data of various state agencies. By analyzing available data, we have grouped the investor countries according to the criteria of similarity, which allows more vivid display and easier monitoring of any focus-group differences of investors towards certain national communities. Namely, on the basis of statistical data it can quite clearly be ascertained the orientation of certain international geopolitical entities towards exponents of their interests in Bosnia and Herzegovina. Therefore, the investor countries are put into three groups - the neighboring countries, the EU member states and the Islamic countries and others. On the contrary, due to easier comparisons of height of invested capital, we considered it more appropriate in the description and interpretation to use relative values. Similarly, we created a series of parallel graphic drawings using different geographic printing methods. (*Vukušić, J, 2007*)



ECONOMIC RELATIONS OF BOSNIA AND HERZEGOVINA AND ISLAMIC COUNTRIES

In recent years there have been major changes in the regional development of foreign trade of Bosnia and Herzegovina, because of broken relations in the internal market, rational behavior of most economic activities in the country and the situation and relations in the global division of labor and international economic and political relations. (*Burnazović, T, 1996*) These authors, who in their papers discuss FDI in Bosnia and Herzegovina, agree that their level in the country is generally unsatisfactory. Although, it is not the topic of this work, we should mention the fact that most of the authors stated that the amount of direct foreign investments in Bosnia and Herzegovina is far behind the other countries in transition. Deichmann particularly emphasizes that the discrepancy of actual and potential levels of foreign direct investments in Bosnia and Herzegovina is the largest among all transition countries (Deichmann, 2012).

The largest share of foreign capital in Bosnia and Herzegovina was invested through the takeover of companies during the privatization process. In other words, FDI in the form of greenfield investments are generally insufficient, especially in export-oriented sectors (*Velagić, 2011*). Furthermore, among foreign direct investments, especially those who come from European countries and also from Croatia and Serbia, dominate brownfield investments, with rare major investor companies in which the parent state has a significant stake such as Telekom Serbia, which again does not necessarily mean that a particular company on such an investment is not encouraged by a home country (<http://www.telekom.rs/Contents/ContentDefault.aspx?temp=0&sid=1253&id=1254/14.01.2013./>). Among the investments from Islamic countries that do not make up a large share of total FDI in Bosnia and Herzegovina, there is a significantly higher proportion of greenfield investments, and that of the companies in majority state ownership, such as the Saudi Islamic DB or the Turkish banking house TC Ziraat Bankasija (<http://www.ziraatbosnia.ba/turkish/text.Php?Text=16/14.01.2013./>).

Basic characteristic of Foreign Trade of Bosnia and Herzegovina is a gradual reduction of the volume of trade with the developed countries of the West and at the same time increasing the volume and value of trade with Islamic countries and the developing countries. While, in 2014, the participation of developed western countries in total trade with foreign countries amounted to 50.1%, Islamic countries 37.8% and developing countries 15.1%. The share of developed countries in Bosnia and Herzegovina in total trade with the world amounted to 40.8%, European countries 39.3% and developing countries 19.9% (total value of Bosnia and Herzegovina foreign trade in 2014 amounted to 22.308 million US dollars. (www.fipa.gov.ba 2014) It is difficult to estimate or provide more reliable forecasts on how these changes would affect the economic development of Bosnia and



Herzegovina (markets of developed western countries import from Bosnia and Herzegovina not only the technology and raw materials, and other goods of high degree of processing, but also knowledge and a significant pool of capital).

For investors from Islamic countries, the ratio of invested capital by sectors is similar to that found in European investors: 51% of production, eighteen percent of the financial sector), however, particular attention is drawn to a separate category within the service sector vaguely referred to as «services», which takes eighteen percent of the invested capital. In the case of investors from Islamic countries, this is mainly due to various real estate agencies as well as cultural institutions. However, even those investors differ in the industries in which it is invested. As the largest investor in this group of countries, Turkey directs 78% of invested capital to the production. On the other hand, Saudi Arabia invests 44% of capital in the indefinite category of services and 36% in the financial sector. The course should be taken to ensure that investment in intangible sector leaves more room for different speculations about the goals of investors. (*Radenković-Jocić, 2004*)

Islamic countries in foreign trade are ranked in the group of developing countries, although among them there are a few countries that only according to the criterion of national income per capita should be classified as the most developed countries (Kuwait, United Arab Emirates, Saudi Arabia). However, analyzing the other criteria for measuring the level of development of a region or a country, economic structure, population, energy consumption and the value of exports, all Islamic countries can be rightfully aligned with developing countries or underdeveloped countries. For many years, Islamic countries have been a very important economic partner of Bosnia and Herzegovina. The political and therefore economic relations were established with some even before World War II, but more significant trade started only between the fifties and sixties as well as the visits of political and economic representatives from Bosnia and Herzegovina and from Islamic countries. The close cooperation was established with the establishment of the non-aligned countries movement, whose members are almost all Islamic countries. (*Jurica Botić, 2013*)

Merchandise trade between these countries in 2014 reached a value of 1.529 or 21.5% million US dollars but the total imports in Bosnia and Herzegovina in the trade balance reached 2,247 or 22.8 (Table 1 and Figure 1). From Table 1 it is evident that from 2001 until 2014 exports to those countries grew and then by 2014 was in decline. At the same time, the import was constantly increasing, with the exception of 2014 when there was a surplus of 186 million US dollars. However, in 2014, Bosnia and Herzegovina was forced to import expensive oil more precisely from the countries of North Africa and the Middle East due to the problems with the supply of Russian nonconvertible oil, which exactly affected such a high negative balance in trade with these countries. From Islamic countries, Bosnia and Herzegovina today imports about 50% of total oil imports, but also a lot of raw ma-



terials important for the functioning of our economy as cotton, phosphates, iron ore and similar products. However, viewed as a whole, the participation of Bosnia and Herzegovina in foreign trade with Arab countries, given the size of this market and its increasing purchasing power and developmental goals, is very modest.

Table 1 Trade of goods between Bosnia and Herzegovina and Arab countries, 2001-2014

YEAR	EXPORT	% OF TOTAL EXPORT	IMPORT	% OF TOTAL IMPORT
2001	604	10.0	746	9.0
2010	742	12.0	1.104	11.0
2013	1.046	18.0	1.356	13.0
2014	1.529	21.5	2.247	22.8

Source: Statistics of Foreign Chamber of Bosnia and Herzegovina, Sarajevo (2014)

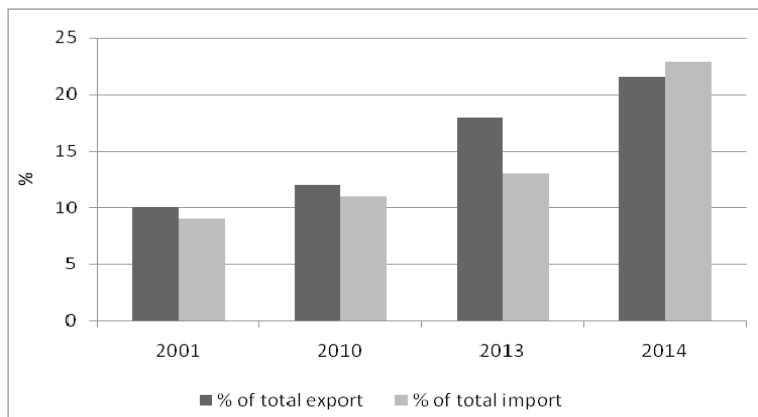


Figure 1

Trade of goods between Bosnia and Herzegovina and Arab countries, in %, 2001-2014

Source: Statistics of Foreign Chamber of Bosnia and Herzegovina, Sarajevo (2001-2014)

In our export, the most part have only Iraq 7%, Libya, Algeria and Egypt between 1-2% of our total exports to foreign countries, while exports to other Islamic countries is much more modest. Similar is with the BH imports where only Iraq and Egypt are directing most of their exports to our country. Five countries, Iraq, Libya, Egypt, Algeria and Iran, account for about 90% of total exports from Bosnia and Herzegovina in the Islamic countries, while our imports are only from those countries from which we import oil. These are Iraq, Libya, Algeria, Egypt, Saudi Arabia, and Iran. Other Islamic countries in our foreign trade, for now, have a marginal place. In the structure of trade, the biggest item in our export are the products of processing industry, and in our imports oil and gas. From products of



processing industry, most exported are chemical products, machinery, and transport equipment, metal products, pharmaceutical goods, beverages, tobacco, raw materials, various types of industrial and food products, mineral fuels, oil, grease and other similar goods. In addition to oil, which in our total imports from that region accounts for 87-90%, Bosnia and Herzegovina from Islamic countries also imported cotton, phosphates, iron ore and agricultural commodities that thrive in the subtropical and Mediterranean zone (coffee, figs and citrus fruits).

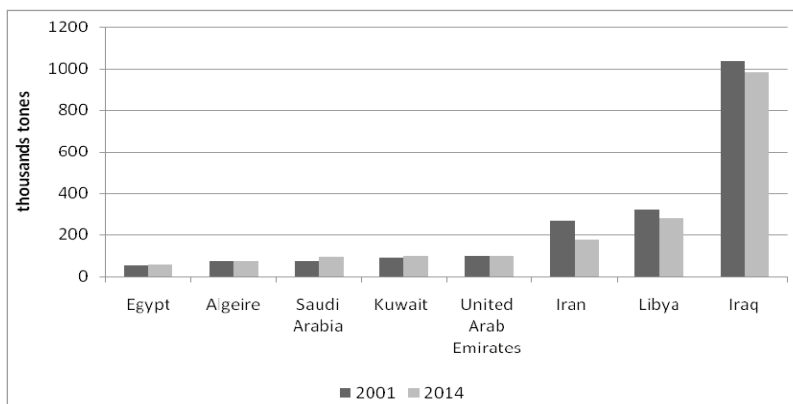
Imports of crude oil in the period 2001-2014 was reduced to 1,858 million tons, or 264 million US dollars, and there was also reduced the share of Islamic countries in total import of BH oil with 59 to 49% (Table 2 and Figure 2). The reason for this lies not only in the reduction of our oil imports, especially from the market with convertible payment, but also in problems in oil production in many Islamic countries. Thus, the reduction of oil imports from Iran and Iraq, our traditional suppliers, was more difficult and still is due to the conflict, and buying oil in Libya and Algeria also varied. Therefore, oil is bought from Kuwait, the United Arab Emirates, and Saudi Arabia.

Table 2 Import of oil in Bosnia and Herzegovina from Arab countries and Iran, 2001-2014

Countries	2001		2014	
	000 tones	000 000 USD	000 tones	000 000 USD
Iraq	1.035	254	983	173
Libya	321	24	276	23
Iran	267	14	175	15
Algeire	75	10	75	10
Egypt	53	9	58	10
Kuwait	90	10	98	11
Saudi Arabia	73	12	95	12
United Arab Emirates	98	10	98	10
Total	2.012	343	1.858	264

Source: *Statistics of Foreign Chamber of Bosnia and Herzegovina, Sarajevo (2014)*

Among other forms of economic cooperation between Bosnia and Herzegovina and Islamic countries, only in recent years, investment cooperation has been developing, and the first steps are being made in the production cooperation and joint ventures. Investment cooperation is mainly composed of exports of capital goods and carrying out investment projects in some Islamic countries (Industrogradnja in Iraq or Hydroelectric power plant in Algeria). Not only Islamic, but developing countries in general are the main market for industrial enterprises carrying out investment projects abroad. However, construction works (construction of dams, housing settlements, hotels, military facilities and roads) make up about 85% and

**Figure 2**

Import of oil in Bosnia and Herzegovina from Arab countries and Iran
in thousands tones, 2001-2014

Source: *Statistics of Foreign Chamber of Bosnia and Herzegovina, Sarajevo (2014)*

construction of complete works 10-15% of all investment projects. There is very little participation of engineering services 2-3%. (*Foreing trade chamber of Bosnia and Herzegovina (EFTA, EU, others) 2010-2014*) In hydro urban facilities, a substantial amount of equipment from Bosnia and Herzegovina was built, but also not sufficient material that is consumed during the execution of these or similar works as well as other goods consumed by the workers during their stay and work in those countries (food and textile products). It is also important to point out that many contractors of investment projects in Islamic countries are not connected enough or do not appear together in these markets which creates unfair competition and harms not only these organizations but also the reputation of Bosnia and Herzegovina in these countries. It would be useful if economic activities from Bosnia and Herzegovina were connected and appeared together in the market of Islamic countries and with foreign companies, especially with companies in developed countries and developing countries. (*Pejaković, G, 2011*)

Of particular importance would be if in the foreseeable future economic activities from Bosnia and Herzegovina entered the market of Islamic countries also with other forms of economic cooperation, in particular to connect with the science, design, engineering and consulting companies in the development of regional, economic and spatial planning in those sectors where certain technology from Bosnia and Herzegovina can be offered to Islamic countries. In this way, we would not only ensure the export of domestic equipment and materials but also the placement of various other products as well as marketing services. For now, apart from trade, other forms of economic cooperation are somewhat more developed only with Iraq, Egypt, Algeria, Libya, Saudi Arabia and Turkey. (*Mustafić-Cokoja, D, 2008*)



The market in Islamic countries is not only spatially large, but also is very important today for the placement of products from Bosnia and Herzegovina. Islamic significant population of potential buyers of products from Bosnia and Herzegovina makes good prospects for cooperation with these countries for their very ambitious plans for economic and social development. Good perspectives for cooperation with these countries open for Bosnia and Herzegovina. Nevertheless, as of now, there is a significant difference in the degree of economic development of Bosnia and Herzegovina and almost all Islamic countries and very good political relations with most of these countries are of a great significance. (*Pavlović, D, 2008*)

THE IMPORTANCE OF OIL IN THE ECONOMIC DEVELOPMENT OF ISLAMIC COUNTRIES

Oil and gas are the largest and the most important economic wealth of almost all Islamic countries. Islamic countries, in total world oil production, participate with about 40% of global exports even with about 75%, and the total oil reserves in these countries are estimated at around 65% of world reserves. Surely, these basic data suggest that the oil wealth determines the specific economic and social development of these countries and puts them in a specific position in international economic but also political relations and events. Oil production in the Islamic countries of North Africa, like other regions in the world, declined in 2008 because of internal problems and due to the decrease in demand for oil and other reasons. However, here, the basic cause of the drop in production was the policy of the Islamic countries which was based on a strategy of moderate but long-term use of oil revenues.

Islamic countries are the largest oil producer in the world and the largest exporters. Based on the large oil and gas reserves, Islamic countries build a long-term policy of exports, and the rational use of resources for long-term economic development. However, the region has still maintained a leading role in world production and export of this energy source. In the total world production, this region accounts for 30.2%, and it is precisely in these countries that there have been found the greatest reserves, especially in Saudi Arabia, Iran, Iraq, Kuwait, and Abu Dhabi. We should not forget that a large part of the area of Middle Eastern countries have not even been investigated yet, especially the underwater world that still gives a greater production than export to the mainland.

Up until the end of World War II, and in some Islamic countries even later, the exploitation of oil and organization of the market was entirely in the hands and under the control of large multinational companies from the UK, France, the Netherlands, Italy, the United States and some other countries. Moreover, it is not only a consequence of the colonial status of Islamic countries in the period up to the World War II, but also the fact that most of these countries did not have and still do



not have a sufficient number of highly qualified personnel, the necessary technology, not even the investments for research, production and placement of oil and gas to the world market. By the end of World War I, the share capital from Great Britain in Islamic countries was 80%, and the US 13%, while today it is the other way round. The share capital of the US in the oil production in Saudi Arabia and Bahrain is 100%, Kuwait 50%, Iraq 22%. What is the influence of American capital can be seen from the data that in all Islamic countries it accounts for about 60%, while the share of Anglo-Dutch fell to just 24%. Interestingly, Japanese capital participation is growing, and also some other developed countries in Europe. (*Foreign trade chamber of Bosnia and Herzegovina (EFTA, EU, others 2010 - 2014)*)

It is not known exactly how large the profits of many multinational companies operating in Islamic countries are. According to some calculations and research, they are definitely twice the size of the income that is generated by the countries in the area where these companies operate. It is well known that Islamic countries in 2014 received 10.5 billion US dollars of its oil, and companies at least 20 billion US dollars. It should be noted that, at the same time, Western European countries have made over 30 billion US dollars only from duties on petrol and tax on naphta derivatives. Using their revenues generated from the export of oil and gas, Islamic countries currently keep a strong pace in raising general and individual standard, building a number of objects, primarily industrial facilities, modern highways, power plants, hospitals, water supply systems and devices for desalination and a significant portion of revenues is set aside for the education of professionals and to develop their own science. Most of the investment projects, surely, are carried out by foreign companies and experts, the technology comes also from developed (mainly western) countries, and thus most of the foreign exchange earned from oil sales in developed countries is returned directly to importers of these raw materials. However, oil is the most important natural wealth of Islamic countries, which allows those developing countries accelerated integration into the global division of labor and is considerably a factor of the political struggle for full economic and political independence of these countries.

CONCLUSION

In the first part of the article, general economic relations of development between Bosnia and Herzegovina and Islamic countries are elaborated, with a focus on oil production and the industry as a dominant branch. In recent years, there have been major changes in the regional development of foreign trade of Bosnia and Herzegovina due to broken relations in the internal market, rational behaviour of most economic activities in the country and the situation and relations in the global division of labor and international economic and political relations. For many years, Islamic countries have been a very important economic partner of Bosnia and



Herzegovina. The political and therefore economic relations were established with some even before World War II, but more significant trade started only between the fifties and sixties as well as the visits of political and economic representatives from Bosnia and Herzegovina and from Islamic countries. The close cooperation was established with the establishment of the non-aligned countries movement, whose members are almost all Islamic countries. The highlights would be relatively favorable development prospects of Bosnia and Herzegovina, with the agricultural production, forestry and livestock hilly Bosnia and Herzegovina and the development of tourism. There were mention the basic data and a period of development of Islamic countries investments in Bosnia and Herzegovina.

The second part of the article refers to the importance of oil and gas in economic and social development of Islamic countries. Oil and gas are the largest and most important economic wealth of almost all Islamic countries. Islamic countries in total world oil production participate with about 40% of global exports with about 75%, and the total oil reserves in these countries are estimated at around 65% of world reserves. Surely these basic data suggest that the oil wealth determines the specific economic and social development of these countries and puts them in a specific position in international economic but also political relations and events. Among other forms of economic cooperation between Bosnia and Herzegovina and Islamic countries, it is only in recent years that investment cooperation has been developed and the first steps in the production cooperation and joint ventures have been made. Investment cooperation is mainly composed of exports of capital goods and carrying out of investment projects in some Islamic countries (Industrogradnja, in Iraq or Hydroelectric power plant in Algeria). Not only Islamic but developing countries in general are the main market for industrial enterprises for carrying out investment projects in foreign countries. However, construction works (construction of dams, housing settlements, hotels, military facilities and roads) make up about 85%, and construction of complete works 10-15% of all investment projects. Basic characteristic of Foreign Trade of Bosnia and Herzegovina is a gradual reduction of the volume of trade with the developed countries of the West and at the same time increasing the volume and value of trade with Islamic countries and the developing countries. While in 2014 the participation of developed western countries in total trade with foreign countries amounted to 50,1%, Islamic countries 37.8% and developing countries 15.1%. The share of developed countries in Bosnia and Herzegovina in total trade with the world amounted to 40.8%, European countries 39.3% and developing countries 19.9% (total value of Bosnia and Herzegovina foreign trade in 2014 amounted to 21 304 million US dollars).



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ABBREVIATIONS

- BH – Bosnia and Herzegovina
- EU – European Union
- FBiH – Federation of Bosnia and Herzegovina
- FDI – foreign direct investment
- KM – Convertible mark
- IMF – International Monetary Fund
- RS – Republic of Serbian
- UNCTAD – United Nations Conference on Trade and Development
- WTO – World Trade Organisation