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LEGAL ASPECTS OF FOREIGN DIRECT INVESTMENT IN THE REPUBLIC OF SRPSKA

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Abstract

Foreign direct investment is in the function of the growth and development of a national economy. After the economic crisis that hit the whole world, Bosnia and Herzegovina and other countries in the Region were looking for ways for fast economic recovery and opportunities for intensive business cooperation with partners from around the world. Foreign investments contribute to the improvement of the existing investment environment because fresh capital motivates new investors. The paper analyzes the important characteristics and features of foreign investment. In the Republic of Srpska there are a limited number of research papers and significant practices that deal with this issue and therefore this paper point out to some arguments in favor of positive impact of FDI. The paper aims to clarify the role and importance of foreign direct investment from the legal aspects. Comparative analysis of the structure of foreign direct investment in the region and in Bosnia and Herzegovina makes it possible to determine the degree and extent of direct foreign investments in various industries including, among others, investments in the development of tourism in the Republic of Srpska in recent years and point out the existing constraints and future prospects.

Key Words: *foreign direct investment, foreign investment, tourism, capital, economy.*

JEL classification: *K20, K33, Z30.*

Introduction

Modern business conditions have considerably changed under the influence of world globalization. The economic effects of globalization cannot be ignored because they constantly accelerate the pace of changes

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in the market. Globalization involves a whole chain of political, economic and social activities on the basis of modern information technology and it intensifies the various interactions within and between countries and enterprises. Customizing business by the challenges of globalization becomes a requirement for the connection of the national economy or the company with the world. The most important goal is to effectively connect business partners, i.e. companies, consumers and information flows as quickly as possible regardless of the geographical distance. Foreign direct investment is a response to the globalization of business and the indicator of the strength of a national economy to attract funds or to invest.

By providing various benefits and incentives for foreign investors, the Republic of Srpska aims to create a favorable environment for expansion of foreign investment, and this is done through the institutions of the Republic of Srpska and Bosnia and Herzegovina. The goal of any country is to ensure the most favorable conditions for foreign companies to gain, as part of their business, as much profit as possible, because profit is the main motive for foreign investors to invest in a country. These conditions are in the first place of well formed fiscal, monetary and trade policy.

By improving work conditions, or taking certain measures, the Republic of Srpska should become an attractive destination for foreign investment, especially given that in recent decades there has been a sudden increase of competitiveness in this economic sector. In the Republic of Srpska and Bosnia and Herzegovina a number of measures have been taken in the direction of economic and administrative reform to improve the investment climate, improve the competitiveness of the economy, but also to protect the rights of foreign investors.

Concept and types of foreign investment

Taking into account that the level of investment in capital is one of the main criteria to determine the level of development of a country, including its place in the region, it is in the best interest of every country to attract more investment, both local and foreign. This is particularly evident during the still ongoing economic and financial crisis. In fact, foreign investment yields a number of positive effects, such as job opening, the application of new, modern technologies, market development, strengthening of market competition, higher tax revenues for the state budget and the like. Of course, the decision of investors to

invest capital in an investment stems from the analysis and verification of a series of parameters that determine the decision (Popović, 2006). Foreign direct investments come on the basis of open investment opportunities in jobs related to the use of natural resources and/or opportunities formed in the process of privatization (Krstić, 2016).

It is not easy to determine the scope of the concept of foreign investment, or investment in general. As in every similar case, too broadly defining the scope of the concept of foreign investment carries with it the danger that this term could imply some cases that could not be classified as foreign investment, while the narrow determination of foreign investments could consider the unnecessary omission of important determinants of this term. This is particularly important, given that foreign investments have a very complex nature and represent a synthesis of legal and economic activities.

Bearing in mind that foreign investment is the specific subject matter of the modern age, a number of definitions of foreign investment are imposed. Foreign investments can be defined as the transfer of funds or other material assets from one country (countries exporting capital, country of origin) to another country (host country, receptive country) with the aim of using these funds in business in this country, and whose ultimate intention is direct or indirect participation in the profits of the enterprise (Ćirić & Đurović, 2005a, Ćirić & Đurović, 2005b). In addition to the movement of money capital, cross-border movement of investments includes transfer of movable or immovable property from one country to another, in order to therein be used to create wealth under full or partial control of the investor. In this way, the concept of foreign investment also includes the transfer of physical property, or equipment and facilities (Popović & Vukadinović, 2007).

According to some authors, foreign direct investment means the transfer of all types of capital from one country to another with an aim of the owner to use a business enterprise under its full or partial control to make profit (Trifković, 2000). Also, in literature, the foreign direct investment stands for every kind of investment in a particular company, or any form of a company financing, by which the investor (the financier) acquires ownership control over it (Stojadinović & Jovanović, 2013), or other forms of investment in which an investor provides the right of ownership, control and management of the company in which they invested assets due to the realization of any economic interest (Grgurević, 2013).

Regarding the definition of foreign investment, it is important to emphasize the definition of the OECD, by which foreign direct investment, and foreign investment implies the categories of investment that reflects the objective of establishing a lasting interest by a company resident in one economy (direct investor) in an enterprise of direct investment, which is a resident in the economy besides the direct investor (OECD, 2017). In addition to the definition of the OECD, we should mention the definition by UNCTAD, according to which the foreign direct investment represents an investment performed in order to achieve a permanent interest of the enterprise that operates outside of the economy of investors (UNCTAD, 2017). Thus, it can be noted that there are many definitions of foreign (direct) investment. Of course, it would not be purposeful to specify all the existing definitions of foreign direct investment, but the above mentioned indicate the complexity of the concept of foreign direct investment.

Given the complexity of the concept of foreign investment, there is a need to define its types. The reason for this approach lies in the necessity to include as many foreign investments, given their many forms in practice. In theory, there are several criteria by which foreign investments are classified. Thus, given the kind of economic value to invest, there are material investments (tangible) and investments in rights (intangible). Material investments include equipment, land or other property. Investments in rights include investments using financial resources for purchase of shares with the right to property and property shares, the transfer of rights to dispose of intellectual property and investments through loans (Cvetković, 2007). Investments in rights have a significant impact on the application of regulations relating to the protection of intellectual property rights. This is especially important in foreign investment in the industry, which is dominated by high technology, so that the principle of professional secrecy and arrangement of regulations that protect the patentable invention, the data that patent does not cover or which cannot be patented, are a very significant factor that will impact foreign investors to place funds in a particular country (Krstić & Trakilović, 2014).

According to the criterion of ownership character of the capital invested, different types of private and government investment can be distinguished. Thus, with regard to whether it is about foreign capital that enters directly from abroad, or the one of foreign origin gained from the profits of the existing investment in the host country, there is the

distinction between investments that are made by using fresh capital and investment made by capital to be reinvested. This division is important because investment legislation gives preferential treatment to investors who reinvest their profits in the host country, rather than carrying out the repatriation (return to the country of origin) (Cvetković, 2007).

Bearing in mind the intensity of the influence of foreign investors to manage their investments, there is a distinction between foreign direct investment, portfolio investment and contractual forms of investment. In this sense, the foreign direct investment represents an investment ratio of permanent character between foreign investors and the companies in which the investment is made, or which is established by the capital of foreign investor. One way of placement of foreign direct investment is generated by transnational companies, whose main characteristic is the establishment of subsidiaries abroad, and transferring production system abroad. On the other hand, portfolio investment is a special form of foreign investment, which is implemented through the international capital market and buying securities. The goal of portfolio investment is to generate income in the form of dividends, where it has no intention of carrying out entrepreneurial activities. Furthermore, portfolio investment does not establish a lasting relationship, as opposed to foreign direct investment. It is an investment that is implemented by purchasing stocks, bonds or by borrowing. Portfolio investors are primarily interested in the safety of their capital, the likeliness of increasing its value and return of investment. In doing so, they estimate the perspective of activity in which they invest and characteristics of potential host country, by changing the direction of movement of their capital in accordance with the changes of those determinants (Krstić, 2016).

In addition, the management of the company includes the underwriting business failures and losses. The aforementioned risk is greater in foreign direct investment than in the portfolio investment. In the first, the investor has many obligations to the host country resulting from the need to respect the legal framework for carrying out economic activities. These obligations are of a different kind, contractual obligations, credit arrangements and obligations imposed by peremptory norms of the receptive country. Therefore, in the case of foreign direct investment, the need for legal certainty is expressed in a much greater extent in relation to portfolio investor, who risks only a loss of dividends. In addition, these investments are short-term, reversible, and have a short term return on investment, after which the profitable exploitation begins. In foreign

direct investment this deadline is related to the establishment of production and conquering the market process that takes several years, and the return of the basic investment and the start of generating profit is considerably longer than is the case of portfolio investment (Krstić, 2016).

The literature offers the division of investment in foreign direct investment, portfolio investment and the so-called "new forms of investment," while the criterion for division is the intensity of the influence of foreign investors to manage their investments. In this regard, the direct foreign investment implies a long-term international capital transfer to the host country through enterprises operating in the country, with the aim of achieving economic gain and with a direct impact of investors on entrepreneurial activity and bearing the entrepreneurial risk. On the other hand, new forms of investment are forms of investment resulting from various forms of cooperation between developed and developing countries from the beginning of the seventies, and whose subject is the transfer of new technologies and services in the host country, using contractual instruments. New forms of investment are usually manifested in practice through licensing agreements, enterprise management contracts, service contracts, "turn-key" contracts. Whether the new form of investments would be regarded as foreign direct investment or commercial transaction depends on the intentions of investors. If sale of services or know-how is intended only, the focus will be on trade. On the other hand, legitimate authority of investors in company management indicates the existence of a relationship characteristic of foreign direct investment (Čirić & Đurović, 2005a, Čirić & Đurović, 2005b).

The structure of foreign direct investment in the Region and beyond

The movement of foreign investments is, by the rule, bidirectional, in terms of the inflow of foreign investment in the host country and outflow of foreign investment from the country that exports foreign capital. When it comes to the inflow of foreign investment that term is almost exclusively reserved for countries in transition, i.e. developing countries; however, when we talk about the outflow of foreign investment, those are mainly developed countries. In order to reach the best possible observations on the character of foreign investments in the Republic of Srpska, attention should be first paid to the balance of investments at the global level, and then move to the lower territorial entities. Also, it is

important to show the geographical origin of foreign investments, which possibly may point to certain political aspects of foreign investment, and the fact that the movement of capital is not only caused by financial reasons and gaining profit, but the wider range of interests.

What gives a more complete picture of the situation of foreign investment in the Republic of Srpska is the comparison of the inflow of foreign investment with neighboring countries in the Region, as well as investment in various sectors of economy of the Republic of Srpska.

Table 1: *Foreign direct investment by region (billions of dollars)*

Countries	Foreign investment - inflow						Foreign investment - outflow					
	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
World	1186	1328	1563	1402	1467	1228	1101	1366	1587	1283	1305	1354
Europe	437	404	489	400	325	288	400	565	586	376	316	315
European Union	391	358	444	364	333	257	352	459	519	316	285	280
North America	166	226	269	208	301	146	327	312	448	365	378	389
Latina America and the Caribbean	83	131	163	178	186	159	13	46	36	43	28	23
Africa	54	44	47	56	53	53	6	9	6	12	15	13
Asia	323	401	425	400	427	465	214	284	313	299	335	431
Australia	31	36	57	55	54	51	16	19	1	5	-3	-0,35

Source: *UNCTAD, 2017*

The table above shows foreign direct investment flows by world regions. As expected, according to the amount of outflow of foreign investment, developed economies are leading, i.e. Europe and North America. Last year (2014) of the observed period (2009 - 2014) expressed a downward trend in the inflow of foreign investment, and this was particularly obvious in North America (52%), while the negative trend seen in foreign direct investment in Europe was at a level of 12%.

In the initial years of the period (2004 - 2012) inflows and outflows of foreign direct investment flows in the EU is constantly increasing (Table 2). If we take 2004 as the base year, it is notable that there was a sharp increase in the outflow of foreign direct investment in 2005 from 369,134 million Euros to 669,041 Euros, while the inflow increased from 244,179 million to 591,234 million Euros. Dynamic upward trend continued until 2007.

Table 2: *Flows of foreign direct investment (EU-27) (millions of Euros)*

Year	Outflow of FDI	Share %	Inflow FDI	Share %
2004	369,134	5.73	244,179	4.69
2005	669,041	10.40	591,234	11.36
2006	879,818	13.67	726,462	13.96
2007	1,278,121	19.87	1,065,473	20.48
2008	919,366	14.29	582,517	11.20
2009	612,534	9.52	512,626	9.85
2010	585,530	9.10	480,892	9.24
2011	725,924	11.28	652,062	12.53
2012	392,379	6.10	345,096	6.63
Total	6,431,847		5,200,541	

Source: *European Commission, 2017*

In 2008, the world economic crisis drastically influenced the global economy and affected all segments including foreign direct investment. The trend of enormous drop of inflows and outflows of foreign direct investment continued in 2009 in which the crisis had taken the highest toll. In 2010, negative flows continued, and in 2011, for the first time since 2007, the growth of foreign direct investment was noticed. In 2012, there was again a decline in flows of foreign direct investment, all of which caused the second wave of the global financial crisis, which included the individual EU member countries (27), which among other things was seen in macroeconomic indicators in the period from 2007 to 2014 (Krstić & Jović, 2016).

Table 3: *Flows of foreign direct investment in South East Europe (2007-2012) (millions of dollars)*

Country	2007	2008	2009	2010	2011	2012
Albania	669	974	996	1,051	1,038	957
Bosnia and Herzegovina	1,818	1,025	149	324	380	633
Croatia	5,041	6,220	3,329	432	1,602	1,251
Serbia	3,439	2,965	1,969	1,329	2,709	362
Montenegro	934	960	1,527	780	558	610
Macedonia	693	586	201	212	468	135
Total	1,3187	13,257	8,577	4,592	7,202	4,235

Source: *UNCTAD, 2017*

The amount of foreign direct investment in 2012 in the SEE countries compared to 2011 was almost halved due to an overall reduction in the

volume of investments from the EU countries, which were faced with the consequences of the global financial crisis.

Table 4: *Foreign direct investment in Serbia (millions of Euros)*

Year	Amount	Share (%)
2007	3,219	19.03
2008	2,711	16.03
2009	2,100	12.41
2010	1,278	7.55
2011	3,544	20.95
2012	1,009	5.96
2013	1,548	9.15
2014	1,500	8.87
Total	16,909	

Source: *SIEPA, 2015*

In Serbia, as Table 4 shows, in the initial years of the period, if 2007 is taken as the start year, there was a reduction in the amount of foreign direct investment, and the negative trend was interrupted in 2011 with a sudden increase of 3,544 million Euros. Then, by the end of the observed period, there was a continuous decline with the exception of a small increase in inflows in 2013.

Table 5: *The structure of FDI in Serbia by sectors*

Sectors	Share %
Financial Services	17.4
Telecommunications	16.4
Food industry	12.0
Retail	8.8
Automotive industry	8.6
Oil and gas	6.7
Real estate	5.4
Tobacco industry	4.7
Construction	3.8
Pharmaceutical industry	3.4

Source: *SIEPA, 2015*

According to the values expressed by sectors (Table 5), it is evident that the primacy was held by financial services and telecommunications sector, followed by the food industry with significant participation, as well as the automotive industry and the retail sector.

Table 6: *Foreign direct investment in Croatia (mil. Euros)*

Year	Amount	Share %
2009	2,277.60	23.8
2010	1,049.20	10.98
2011	1,010.20	10.57
2012	1,109.20	11.6
2013	735	7.69
2014	2,876.10	30
2015 (first half)	498	5.21
Total	9,555.3	

Source: *The Croatian National Bank, 2017*

The largest amount of foreign investment in Croatia (Table 6) was recorded in 2014 (2876.10), and the smallest one, as the above table shows, in 2013 (735). In the period from 2000 to 2011 (Table 7), most foreign investments were in the financial sector (36.7%), followed by the manufacture of refined oil products (7.5%) and in the sector of real estate (7.3%).

Table 7: *The structure of FDI in Croatia (2000 - 2011)*

Sector	Share %
Financial operations	36.7
Wholesale trade and commission trade	11
Real estate	7.3
Post and telecommunications	4.1
Manufacture of coke and refined petroleum products	7.5
Manufacture of chemicals and chemical products	2.9
Retail	5.3
Manufacture of other non-metal products	2.4
Other activities	22.9

Source: *The Croatian National Bank, 2017*

The data on foreign investments in the Republic of Srpska and Bosnia and Herzegovina are monitored through several instruments, each of which is different in character. The data of the Central Bank of Bosnia and Herzegovina relate to quotas and the amount of foreign capital in a given period. On the other hand, the data from the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina are based on the actual registration of foreign companies and their capital at commercial courts. The data of commercial courts usually contain lower amounts than in the Central Bank of Bosnia and Herzegovina.

Table 8: *Direct foreign investments in BiH (in millions of Euros)*

Year	Amount	Share %
2006	442	10.5
2007	1,329	31.5
2008	684	16.2
2009	180	4.25
2010	307	7.4
2011	357	8.4
2012	307	7.4
2013	228	5.4
2014	378	8.95
Total	4,212	100

Source: *The Central Bank of Bosnia and Herzegovina, 2017 & Foreign Investment Promotion Agency of Bosnia and Herzegovina, 2017*

In 2007 Bosnia and Herzegovina had the largest inflow of foreign direct investments in the observed time period of 1.3 billion Euros. In 2008, the downward trend in the inflow of foreign direct investment (684 million Euros) can be seen, while the global financial crisis caused a sudden decrease in 2009 (180 million Euros). The upward trend is noticeable in the next two years, and until the fall in 2012 and 2013. A jump of 60.31% compared to the previous year, is seen in 2014, where foreign direct investment amounted to 378 million Euros.

Table 9 shows the data by the most important investor in the period 1994 - 2014. From the above table we can see that for the given period the most important investor was Austria with a share of 21.06%, followed by Serbia (17.69%), Croatia (13.10) and so on.

Table 9: *Main foreign investors in Bosnia and Herzegovina (1994-2014) (millions of Euros)*

Countries	Amount	Share %
Austria	1,254	21.06
Serbia	1,053	17.69
Croatia	780	13.10
Russia	518	8.70
Slovenia	462	7.76
Germany	326	5.47
Switzerland	278	4.67
Netherlands	235	3.94
United Kingdom	180	3.02
Luxembourg	169	2.83
Other countries	697	11.71

Total	5,952	
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Source: *The Central Bank of Bosnia and Herzegovina, 2017*

Traditionally, the most significant percentage of foreign direct investment is in the manufacturing sector (36%). In addition, a significant share of (20%) was also recorded in the banking sector (Table 10).

Table 10: *Balance of foreign direct investment per sector (1994-2014)*

Sector	Share %
Manufacture	36
Banking	20
Telecommunications	14
Trade	11
Transmission estate	6
Services	4
Other financial services	2
Tourism	2
Transport	1
Other activities	4
Total	100

Source: *The Central Bank of Bosnia and Herzegovina, 2017*

The following table provides an overview of registered foreign investments in the Republic of Srpska by sectors (the old classification of activities from January 1, 2008) from 1 January 2006 to 30 June 2010.

Table 11: *Foreign investments in RS by sectors/activities (from June 2006 to June 2010) (000 BAM), old classification*

Sectors	Amount	Share
Telecommunications	1,279,507	50.34
Manufacture	807,015	31.75
Trade	222,929	8.77
Banking	176,703	6.95
Services	16,439	0.65
Insurance	14,057	0.55
Traffic	6,105	0.24
Tourism	4,171	0.16
Finances	2,523	0.12
Other investments up to 100 000 BAM	14,081	0.55
Decrease in capital	-1,956	-0.08
Total	2,541,574	100

Source: *The Republic of Srpska Government, Ministry of Economic Affairs and Regional Cooperation, 2017*

The above table shows that the largest share of foreign investment refers to investment in telecommunications (1.27 billion BAM). The industry sector is the next by the amount of investment, by 807 million BAM. The trade sector is in the third place with the amount of 22.9 million BAM, followed by the banking sector and the services sector with 176.67 million BAM and 16.4 million BAM. More than half of the total foreign investments in the Republic of Srpska were investments from Serbia, dominated by investments in telecommunications. In the second place were the investments from Russia, followed by Slovenia with more investment projects (metal industry, banking and trade) and so on (Ministry of Foreign Trade and Economic Relations and Commercial Courts RS IN (2009 - 2013)). When considering the geographical origin of the foreign investments in the Republic of Srpska, the highest inflow of foreign capital came from Serbia (1.534 billion BAM). In the second place by the amount of foreign investment was Russia with 527 million BAM, which was largely related to investments in oil refinery in Bosanski Brod and oil refinery in Modriča, which were privatized in 2007. Among the important foreign investments in the Republic of Srpska, after Serbian and Russia, there were Slovenia (155 million BAM), Austria (132 million BAM) and Great Britain (130 million BAM).

Table 12: *Foreign investments in the Republic of Srpska by sectors / activities from 2011 to 2014 (000 BAM)*

Sectors	Value					
	2011	2012	2013	2014	Total	%
Mining and quarrying	906	68.06	88.317	106.278	263.561	50,48
Trade	41.73	19.603	535	42.156	104.024	19,92
Financial and insurance activities	15.198	-1.777	-	31.38	44.801	8,58
Manufacturing industry	17.278	905	26.238	-1.958	42.463	8,13
Construction	17.23	2.546	2.69	1.09	23.556	4,52
Production and distribution of electricity, gas, steam and air.	5.342	3.379	9.809	1	18.531	3,56
Information and communication	613	1.783	11.076	398	13.87	2,66
Agriculture, forestry and fishing	2.12	614	756	8	3.498	0,67
Arts, entertainment and recreation	-	-	1.03	1.525	2.555	0,49
Distribution of water, sewage, waste and managing environmental remediation activities	18	872	1.057	1	1.948	0,37
Professional, scientific and technical activities	965	52	175	221	1.413	0,27
Real estate		6.072	-4.995	1	1.078	0,21
Transportation and storage	3	678	2	-135	548	0,1
Administrative, support and service activities.	206	30	4	4	244	0,04
Activities providing accommodation preparation and serving of food and hotels and catering	63	6	15	1	85	0,01
Education	2	1			3	0
Activities of healthcare and social work	1	-	-	-	1	0

Other service activities		2	-100		-98	-0,01
TOTAL	101.675	102.826	136.609	180.971	522.081	100

Source: *Republic of Srpska Government, Ministry of Economic Affairs and Regional Cooperation, 2017*

Table 12 shows the investments by sectors in the Republic of Srpska for the period from 2011 to 2014, which shows that in the observed period the largest share of foreign direct investment had the sector of mining and quarrying in the amount of 50.48% and the sector of trade in the amount of 19.92%. Other sectors (activities) compared to the previous two had a very small share where the activity related to finance and insurance (8.58) should be pointed out. The tourism sector, which includes the activities of providing accommodation, food, hospitality and catering, is on a very low scale of investment, which implies a consequence of small revenues from the sector of tourism.

Direct foreign investment in tourism

Current and long-lasting financial and economic crisis are reflected in the stagnation of all economic sectors including tourism, both in the Republic of Srpska and the whole territory of Bosnia and Herzegovina. This situation necessitates conceiving major interventions in institutional adjustment and defining strategic orientation in economic policy and in finding ways and means of its most effective implementation. All countries in the Region (Western Balkans) have the same strategic goal, which is to join the European Union. That goal is at the same time supported by the European Union, which launched the Stabilization and Association Process in 1999 for all countries in the Region with the aim of strengthening political and economic ties between the countries that are in the process of joining the European Union, as well as a framework for the establishment of cooperative relations between the countries in the Region before their entry the EU. Completion of this process to a large extent would have an impact on the development of tourism, both in the Republic of Srpska and the Region.

The advantages for foreign investment in the tourism sector are (Republic of Srpska Government, Ministry of Economic Affairs and Regional Cooperation, 2017):

1. Investment opportunities in mountain, spa, eco and adventure tourism;
5. Investment opportunities in hotels and real estate;

6. Concession investments;
7. Preservation of natural environment and rich cultural heritage;
8. Transit (Republic of Srpska links Central Europe with the Adriatic Coast);
9. Unexplored and open market;
10. Competitive workforce;
11. The new offer in the tourism market in Europe and the world.

The two leading forms of tourism in the Republic of Srpska are spa and mountain tourism. Spa tourism generates the highest volume of tourism marketing and has a tendency to increase, and is based on the use of thermal, thermo-mineral and mineral waters, which the Republic of Srpska is abundant of. However, this kind of tourism would be even better developed but it lacks quality of accommodation facilities that would provide customers a service in line with contemporary needs and tendencies. The situation is similar when it comes to mountain tourism. Increasing the investments in the sectors of tourism, as well as in the health tourism, there would be an increase in employment, the inflow of funds in the budget and improvement of the overall economic situation (Republic of Srpska Government, Ministry of Economic Affairs and Regional Cooperation, 2017). As a result of the strategic orientation of the country and institutional and investment activities, sustainable benefits can be provided for both the region and the sector of investment, and for investors in the long run. Foreign direct investment would contribute to creating a positive image and recognition of the Republic of Srpska as a tourism and business destination in the region and beyond, which would in the future allow further promotion of the Region and promotion of national identity, reputation and business environment.

Conclusion

Foreign direct investments include the concept of economic stability of a country, and this is the basis for transfer of foreign capital in particular activity, because foreign investments include the acquisition of income on the basis of invested capital and not investment in the development of the economy of a country with a social component. From the above, as well as from the concept of foreign direct investment, it appears that it is necessary to provide all conditions for attracting foreign investors, especially in the sectors which, in the observed period, had very small inflow of foreign investment, and which could with their potential greatly contribute to the development of the entire economic activity of the

Republic of Srpska. Specifically, the provision of the necessary conditions would be desirable especially in the food industry and agriculture, as well as in tourism, where we already have traditionally good natural (climatic and geographical) conditions for further progress and economic development of the Republic of Srpska.

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