Poslovne studije/ Business Studies, 2016, 15-16
Časopis za poslovnu teoriju i praksu UDK 339.727.22:338.124.4
The paper submitted: 16.05.2016. DOI: 10.7251/POS1616141D
The paper accepted: 13.06.2016. Original scientific paper

Milan I.Šušić, graduate engineer[1]
Boris Spasojević, MA[2]

FOREIGN DIRECT INVESTMENT AND THEIR ROLE IN FINANCING GLOBAL ECONOMY

Summary: *From the macro point of view investment are seen as a determinant of overall economic development, but from the micro point of view also of the development of business subjects. Investments constitute an essential element of every economic policy, since their implementation provides a platform not only for economic development, but also for the stability of economic and social trends. Foreign direct investments are very important form of financing in the global economy, and are most frequent in financing the national economies of developing countries and countries in transition. Demand for foreign investments in the global market is large, thus states direct significant activities towards creating a more favourable environment for attracting investors. The paper pays special attention to foreign direct investment in the financing of the global economy, and their importance for the development of the global economy and the impact of foreign direct investments on economic development of Bosnia and Herzegovina, as well as on the activities necessary in order to achieve increased investments.*

Key words: *foreign direct investment, the global economy, economic development, knowledge and technology*

JEL Classification: *F21*

[1] Šušić I. Milan, graduate engineer, Enterprise KORT Derventa, m.susic87@gmail.com
[2] Master of Economics, School of hospitality, tourism and commerce Banja Luka, Mladena Stanojevića 117a Banja Luka, borisspasojevic@yahoo.com

INTRODUCTION

As defined by the International Monetary Fund (IMF) Foreign direct investments are defined as a category of international investment that reflects the phenomenon when a resident located in one country - foreign direct investor or parent company achieves lasting benefits of the company which is a resident of another country – FDI enterprise or an affiliate company or a foreign affiliation.

Foreign direct investments (FDI) are the main form of international capital movement, one of the most attractive forms of international cooperation and realization of development goals of the recipient country. As seen in Figure 1, the realization of foreign direct investment can be achieved by establishing own companies abroad in the form of branches, representative offices, individual companies, joint companies. Direct funding provide large profits and various other direct benefits through circumvent of tariff barriers or the use of cheap labour force.

FDI can be achieved through various forms and in different ways:

Greenfield investment: direct investment in a brand new manufacturing facility in the international market, wholly owned by foreign investors;

Cross-border acquisitions: download or acquisition of existing companies in another country. It can include a takeover of the majority package of shares (majority acquisition) or purchase of the minority portion of the company (minority acquisition) through direct purchase, recapitalization or by conversion of loans into ownership (swop arrangement);

Cross-border mergers: a merger of two equal partners. They can be horizontal, when the two companies in the same sector are linked, and vertical, when companies from different vertical stages of the production process are connected.

Brownfield investments: a hybrid model of combining acquisitions and Greenfield investments. Formally it comes to acquisitions, but essentially they are more like Greenfield investments, since the investor almost completely replaces manufacturing facilities, equipment and production line.

Joint Venture – Joint investments, i.e. agreement of two or more parties to work together on a project and create an entity jointly controlled by:

- joint venture without property rights (contractual investment),
- investment in the form of concessions, B.O.T. systems and time-sharing (Unkovic, Kordic 2012, 17); (Zugic 2012, 43).

Foreign direct investments were the most common in the financing of the national economies of developing countries and countries in transition. In the second half of the eighties there was a stagnated movement of loan capital. After the culmination of the debt crisis, private capital has ceased to go to developing countries in the form of loans because the private sector has refrained from any new lending to developing countries, except in the form of direct investment (Kovac 1987, 275-276).

The role and importance of foreign direct investment on the economic growth of the country cannot be overemphasized and questionable. Even strong and stable economies of the world create a policy that will provide them with a favourable investment climate. Attracting foreign direct investments is a basic condition for increasing the production and exports of the host countries to a level that would allow a stable economic growth as well as successful servicing of the debts, therefore one of the main objectives of economic policy makers is to create an investment climate favourable for attracting foreign investors.

Today, we cannot imagine the economic and social development without investments. The need for investments can be achieved through implementation of various ideas, with more or less invested capital, with better use of the given investment conditions and with different economic and other investment activities. We know that investment capital is a limited resource and it is not possible to meet all investment needs. Therefore, the right investment solutions for investment in development companies do not come naturally, by itself. Investment capital is ensured by long-term savings and rational operations with the help of commercial banks, foreign direct investments and from other sources (Susic 2010, 59).

In the era of globalization, it is important to understand the business logic behind the investment, and the impact that these investments have on the growth of gross domestic product, the development of local economy and society as a whole. In addition, it is important to see the mistakes made by the developing countries in attracting FDI and based upon that to draw

lessons on how to create a more favourable investment environment in the future.

The inflow of funds through foreign direct investment is not only the inflow of capital, but the basis for increase in trade flows, economic growth and development and creating new jobs. Bosnia and Herzegovina, as a country in transition, needs foreign direct investments which would form the main driver of economic growth of the country in the coming period. Given the low level of domestic savings from which the development could be self-financed, lack of modern technology, as well as appropriate management skills, the aforementioned disadvantages can be offset by the arrival of foreign investors, who would bring new knowledge, experience and technological progress. Therefore, attracting foreign investors and their adaptation to the requirements though the accelerated process of reforms is one of the key tasks BiH and its entities are facing.

1. SOME SPECIFICS AND ESTIMATED FOREIGN DIRECT INVESTMENTS BY SECTIONS AND INDUSTRY IN THE GLOBAL MARKET, IN THE PERIOD FROM 1990 TO 2012

The scope and intensity of macro-regional distribution of FDI at the global level in the dimension of time depend primarily on the state of the world economy, but also on many other factors. The dynamics of global FDI scene indicates, particularly in recent years, certain changes in the relation of developed countries – developing countries, which is very evident in Figure 1, and according to UNCTAD data, foreign direct investment in the world in 2012 amounted to 1.237,05 billion US $ and are reduced for 18% compared to 2011, when they amounted to US $ 1.508,6 billion (Figure 2).

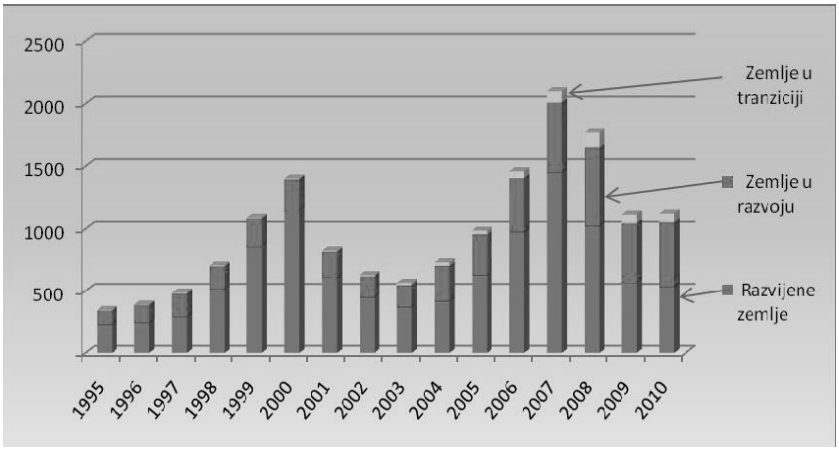

Figure 1. Global dinamics of FDI for 1995 – 2010 (in US$ milliard) (UNCTAD 2011.)

This is a consequence of the instability in the global market and of a still unresolved debt crisis in the European Union, primarily in Greece and Cyprus. In 2011, compared to investments in 2010 FDI achieved an increase of 17%. In doing so, developing countries and transition countries have achieved greater participation in global FDI flows and FDI inflows to these countries. Together they exceed the value of 50% of total FDI flows in the world. In 2010 there was an increase in FDI, while in the remaining years of the observed period there was a decline of FDI in the world recorded. This is a consequence of the global recession and uncertainty in the markets caused by it.

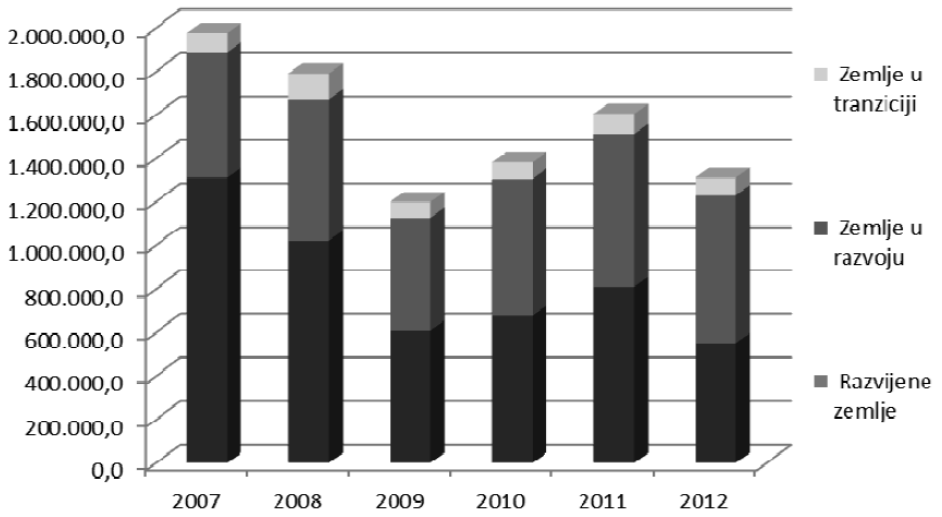

Figure 2. FDI in the world in milliard US$ (UNCTAD 2013.)

The figure shows an overview of FDI in the world in the period from 2007 to 2012, in milliards of US $. What is interesting to explore in this paper is the fact that a large part of foreign direct investment is directed to the developed countries, more than 50% in the given period. A minor part of FDI inflow in the world goes to developing countries, and the lowest proportion to countries in transition. It is interesting that such a trend in the reporting period has changed in favor of countries in transition and developing countries. Such a trend is confirmed by the fact that FDI capital goes where it is safest, thus bypassing insecure areas. In this sense, transition countries are insecure areas for foreign investment due to the unresolved ownership relations. Developing countries are safer in this regard and therefore entitled to the higher volume of FDI inflows. Regardless of the security of investment in the developed countries, extremely high is share of FDI inflows into these countries. However, change of this trend in the reporting period, i.e. increase of the share of FDI in developing countries and countries in transition gives the impression of attempting to equalize the inflow of foreign di-

rect investment in the world. However, on the other hand, it can be seen that the larger share of FDI in developing countries and transition economies in the world is achieved because the smaller volume of FDI is disbursed in developed countries in the reporting period, while the volume of FDI in transition economies and developing countries is virtually unchanged.
Global flows of FDI from 2004 to 2012 with projections for the period from 2013 to 2015, in milliards of US $ are shown in Figure 3.

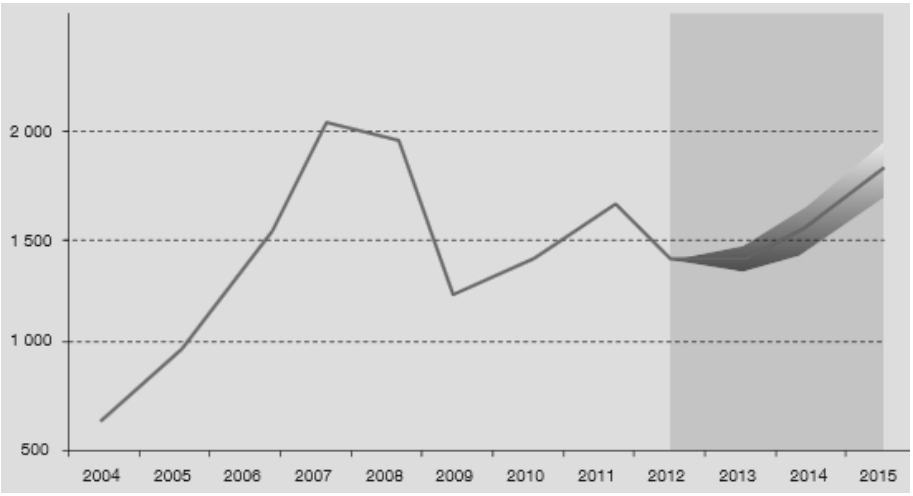

Figure 3. Global flows of FDI, since 2004 to 2012 with the projection for the period 2013 to 2015 in milliards US$ (World Investment Report 2013.)

UNCTAD's projection is that the global FDI flows in 2013 will remain unchanged, and that in 2014 it will rise slightly, and that only in 2015 global FDI flows will record significant growth. It is anticipated that in 2015 global FDI flows will almost reach the level of 2007. According to this projection, global FDI flows will grow in future, and appreciating the projected growth in 2015, a full recovery from the global financial crisis will be achieved at the end of 2015. Table 1 shows estimations of foreign direct investment by sectors and industries, from 1990 to 2012 for the world, based on the UNCTAD source (United Nations Conference on Trade and Development).

UNCTAD is the principal body of the United Nations General Assembly dealing with trade, investment and development issues. The objectives of the organization are "maximized trade, investment and development opportunities of developing countries and assist them in their efforts to integrate into the world's economy on an equal basis."
The primary objective of UNCTAD is to formulate policy that relates to all aspects of development, including trade, aid, transport, finance and technology. The conference usually meets once in every four years, whereas the permanent secretariat is in Geneva.

Table 1. Estimated foreign direct investment by sectors and industry, 1990 i 2012
in million dolar (UNCTAD)

	Years						
	1990			**2012**			
Sector&Industry:	Developed countries	Developing countries	World	Developed countries	Developing countries	Transition countries	World
Total:	**1 633 004**	**445 263**	**2 078 267**	**15 905 431**	**7 030 622**	**368 376**	**23 304 429**
Primary	156 750	24 099	180 849	1 082 493	593 272	63 251	1 739 016
Agriculture, hunting, forestry and fishing	3 600	4 207	7 806	19 915	58 803	2 976	81 694
Mining and quarrying, petroleum	153 150	17 795	170 945	1 052 836	534 460	60 275	1 647 571
Unspecified (primary)	-	2 097	2 097	9 742	10	-	9 752
Manufacturing	**659 895**	**153 422**	**813 317**	**3 831 896**	**1 997 986**	**84 747**	**5 914 629**
Food, drinks and tobacco	72 446	9 711	82 158	467 586	202 237	13 092	682 914
Textiles, clothing and leather	24 001	5 078	29 079	39 142	39 187	869	79 198
Wood and wood products	36 489	5 289	41 778	87 750	33 165	5 152	126 067
Coke, petroleum products and nuclear fuel	54 450	3 038	57 488	233 212	57 393	7 199	297 803
Chemicals and chemical products	130 178	46 716	176 894	755 232	237 893	4 335	997 461
Rubber and plastic products	13 448	1 979	15 427	58 091	33 617	1 464	93 172
Non-metallic mineral products	17 424	2 955	20 378	108 416	32 095	7 232	147 744
Metal and metal products	53 016	15 375	68 391	325 428	93 198	35 044	453 670

Electrical and Electronic Equipment	85 566	17 502	103 067	337 973	189 699	1 535	529 206
Machinery and equipment	55 558	9 689	65 247	195 669	83 706	2 031	281 406
Motor vehicles and other transport equipment	50 029	8 303	58 332	315 718	116 950	3 207	435 874
Other manufacturing	13 011	2 607	15 618	150 113	25 409	677	176 199
Unspecified (secondary)	54 280	25 180	79 460	757 566	853 437	2 912	1 613 914
Services	**807 117**	**166 973**	**974 090**	**10 379 165**	**4 358 311**	**216 624**	**14 954 101**
Electricity, gas and water	6 944	3 145	10 089	429 512	171 182	9 165	609 859
Construction	17 354	4 452	21 806	160 001	125 586	7 691	293 278
Trade	209 931	24 453	234 384	1 564 423	522 249	29 439	2 116 111
Transport, storage and communication	17 305	13 288	30 593	1 013 660	425 013	15 980	1 454 652
Hotels and restaurants	21 811	4 884	26 695	62 022	63 045	2 195	127 263
Finance	295 663	96 120	391 783	4 132 329	1 243 782	40 018	5 416 129
Business activities	131 519	16 211	147 730	2 732 040	1 681 636	107 838	4 521 515
Public administration and defence	-	61	61	17	15 851	0	15 868
Education	97	-	97	5 690	2 173	48	7 911
Health and social services	1 025	0	1 026	15 981	6 105	545	22 631
Community, social and personnal services	13 799	18	13 818	16 311	43 587	3 591	63 489
Other services	51 644	3 004	54 648	36 329	37 233	114	73 677
Unspecified (tertiary)	40 023	1 337	41 360	210 848	20 869	-	231 717
Unspecified	**9 242**	**100 769**	**110 011**	**611 877**	**81 052**	**3 754**	**696 683**

Total investments were extrapolated based on data covering 51 countries in 1990 and 103 countries in 2012, or in the last year. These make up more than four-fifths of FDI in the world in 1990 and 2012. Only countries for which data for the three main sectors were available are included.

The distribution of the share of each industry in these countries was applied to evaluate in every sector and every industry on world level. In the case of some countries for which only approved data were available, the actual data are estimated using the relationship of the implementation of realized FDI and approved FDI (15% in 1997 for Indonesia, 56% in 1994 for Japan, 10% in 1990 and 8% in 1999 for Laos, 39% in 1990 and 34%

in 2005 for Myanmar, 41% in 1990 and 35% in 1999 for Nepal, 62% in 1995 for Sri Lanka, 73% in 1990 and 49% in 2012 for Taiwan). Total investments in 1990 include the countries in transition, although the data by sector and industry are not available for this region.
Wood and wood products include publishing, printing and media playback. Electrical and electronic equipment include optical products and precision instruments. Unspecified secondary involves the repair and installation of machinery and equipment as well as petroleum products, chemicals and medicines. Electricity, gas and water include waste management. Transport, storage and communication include information.
Multinational enterprises (MNEs) play a leading role in technological innovation, research and development of investment and patenting. Using different markets and their size, they often use the economy of scale and have greater financial capacity to invest in innovation, including risky innovative projects. They are in a better position than small and local companies and can attract talents to acquire sophisticated equipment, adopt comprehensive technology management tools, and build scientific networks with suppliers, customers, strategic partners, universities and public research institutes.

Table 2. provides an overview of assessments of FDI inflows in 10 developed countries for 2015 in milliards of dollars.

Table 2. Estimates of FDI inflows in 10 developed countries for 2015 in billions of dollars. (UNCTAD)

USA	Hong Kong, China	China	Nether-lands	Great Britain	Singapore	India	Brazil	Canada	France
384	163	136	90	68	65	59	56	45	44

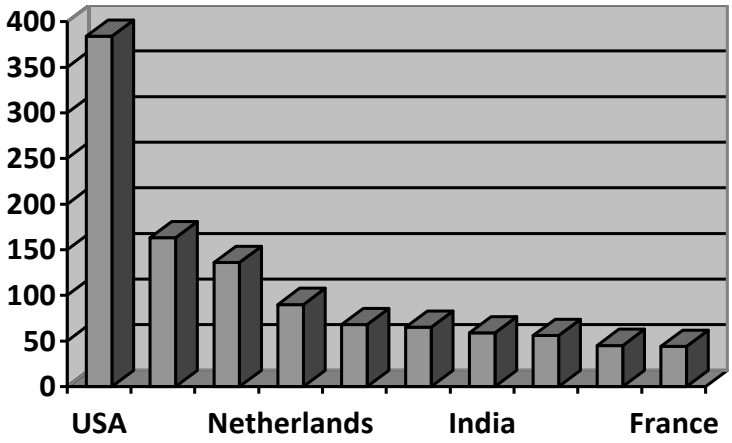

Figure 4. Data from Table 2. presented graphically (author)

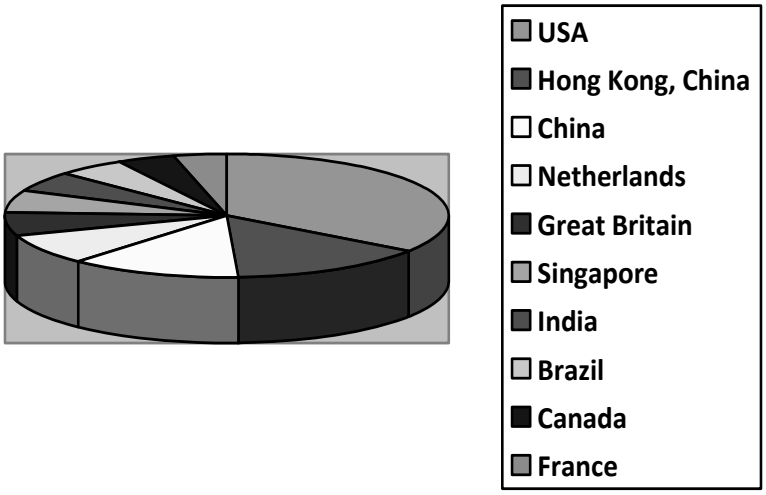

Figure 5. Data from Table 2. presented graphically (author)

However, improving macroeconomic conditions (related to global growth projected to reach 2.9% in 2016 compared to 2.4% in 2015) due to a modest recovery in developed countries, could strengthen investor confidence

and cause their productive investments and to strengthen their business plans. In addition, further depreciation of currencies in emerging markets and possible sale of assets to restructure debt of the company may also incur additional FDI.

2. EFFECTS OF FOREIGN DIRECT INVESTMENT

2.1. Role and importance of foreign direct investment

The growing role and importance of foreign direct investment as a form of financing the world economy has been continuously increasing during the second half of the twentieth century, and especially in his last decade. It is a period of numerous reforms in almost all parts of the world, the fall of the Berlin Wall and the unification of Germany, the cessation of the cold war, the reforms in China, the collapse of the Eastern Block and individual federal states (Soviet Union, Czechoslovakia, Yugoslavia), the transition of these and other countries from centrally-planned to a market economy. The opening of these countries and removing obstacles to the movement of capital, opened up opportunities for investment and intensive funding by inflow of foreign capital around the world. The modern process of globalization tends to erase the borders for flows of goods, people, capital and knowledge, while their main carriers are transnational corporations (Stakic 2007, 293). Foreign direct investment is a part of the international flow of capital, which in the past two decades achieved remarkable growth. Since the beginning of the 90s, the growth trend of FDI was recorded also in European transition countries, when they began the process of transforming their economies. FDI affected the growth of gross domestic product (GDP), generating of growth and stimulating exports of these economies. The experience of transition countries show that companies that are owned by foreign investors, achieve better results than the domestic, have two times higher labour productivity, salaries higher by 20-30%, using modern technology, employing a professional workforce, are more export-oriented and achieve greater profits (Vujic 2013, 77).

In addition to high technology, foreign direct investments bring complementary strengths, such as knowledge and experience in management

and entrepreneurial skills. By its presence, multinational enterprises are forcing local companies to innovate so as to preserve its market share and profit. In addition, they offer well-known brands (*brand names*) and enable access to regional and world market. Numerous studies in developing countries and countries in Eastern Europe have shown that the adoption of new knowledge and technologies affect the existing domestic business entities who acquire new knowledge through cooperation and imitation, fighting for the market. Furthermore, foreign companies send their employees to different trainings outside the country, while they use the acquired knowledge and skills in their country. New standards of business imposed by foreign companies on suppliers, shippers, propagandists, and even consumers themselves, are the ways in which new knowledge reach the domestic companies. Foreign direct investment in new production companies or expansion of existing ones, usually involve the creation of new jobs, which is one of the main priorities of each country.

The inflow of foreign direct investment is clearly seen as a key source of desirable inflow of foreign capital, but it should be noted that this investment can play a decisive role in the transformation of the production structure of the economy and the transfer of knowledge. FDI can significantly improve the export performance of the economy, especially in the case of "vertical" type of investment. So, FDI simultaneously try to "win" the domestic market but also to strengthen the export potential of the domestic economy.

Due to all these advantages brought by FDI (job creation, wage growth, the arrival of new capital, export growth, new technologies, and overall productivity increase) governments around the world establish agencies to attract investment and foreign investment. As the most important factors for investment decisions are the following: political and macroeconomic stability, market size, economic openness, the guarantee of property rights, a qualified workforce, infrastructure, tax and financial policies, the efficiency of public administration and the rule of law.

3. FOREIGN DIRECT INVESTMENT IN BOSNIA AND HERZEGOVINA

The state of Bosnia and Herzegovina on June 16th 2008 signed a Stabilisation and Association Agreement with the European Union and thus became a potential candidate for membership in this economic integration. This Agreement opens the door for Bosnia and Herzegovina when it comes to foreign direct investment and cooperation with the region and beyond.
According to data of the BH Central Bank from August 2015, the total foreign direct investment (state) in Bosnia and Herzegovina, as of December 31st 2014 amounted to 11.643 million or 11.6 milliard (5.953 million or a total of 6 milliard Euros). According to the BH Central Bank, investments in 2014 amounted to 378 million Euros and recorded an increase of 65.8% compared to 2013 (Figure 6). According to the structure of foreign direct investment in this year, the equity relates to 250.2 million KM (or 127.9 million Euro), retained earnings amounted to 84 million KM (42.9 million Euro), while the other capital amounted to 405.3 million KM (207.2 million Euro) .
Thanks to the good reputation and the long industrial tradition in BiH, the most significant amount of foreign direct investment has been invested in the manufacturing sector 36%. A significant share in the overall inflow of foreign direct investment had a banking sector 20% (Figure 7).

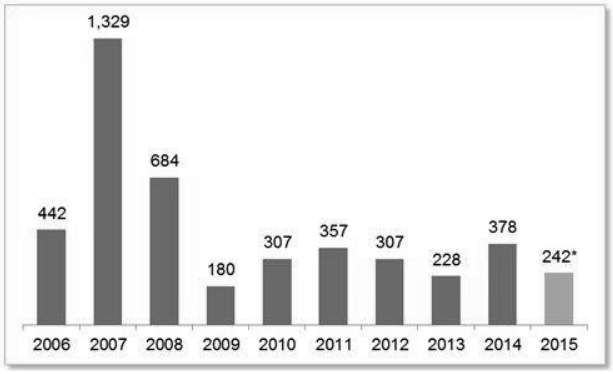

Figure 6: FDI Flows in Bosnia and Herzegovina, annually (in million Euro) (BH Central Bank)
* 2015 preliminary data according to the balance of payments with an estimated retained earnings

The share of FDI by sector in BiH from May to December 2014 is shown in Table 3, a through diagram in Figure 7 and Figure 8.

Table 3. The percentage share of FDI by sector in BiH from May to December 2014.(Author, BH Central Bank)

Production	Banking	Telecommunication	Trade	Intermediation real estate	Services	Other finance services	Tourism	Transportation	Other
36%	20%	14%	11%	6%	4%	2%	2%	1%	4%

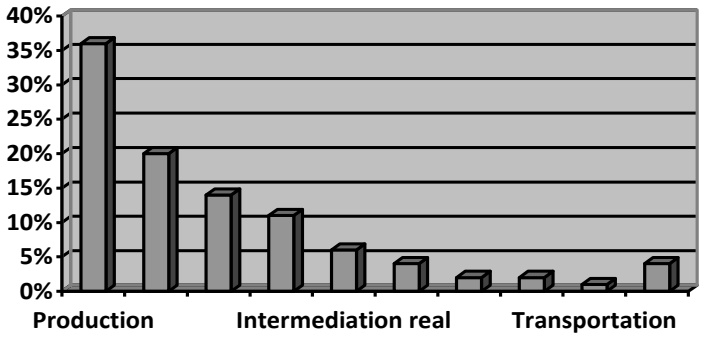

Figure 7: Percentage of FDI by sectors in BiH from May to December 2014 (Author)

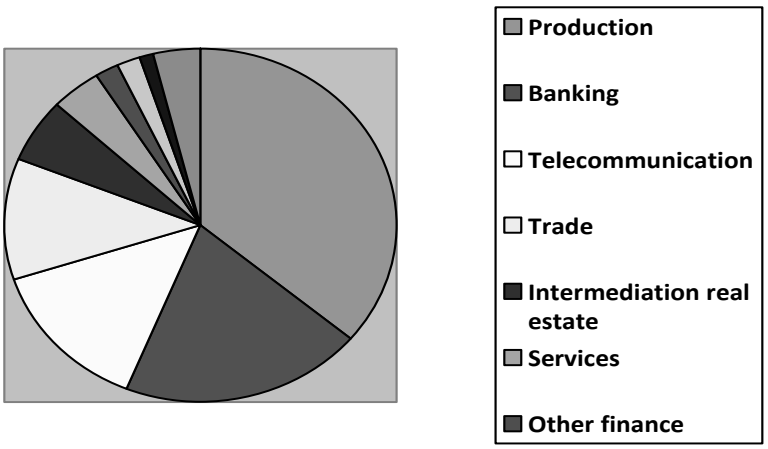

Figure 8: Percentage of FDI by sectors in BiH from May to December 2014 (Author)

1.1 Research using the Model of single linear regression

By applying the model of simple linear regression used to describe the relationship between the two phenomena where one phenomenon changes depending on the occurrence of other phenomenon (Peck & Vining 2012, 25), has only one independent variable which influences only one dependent variable, the dependence of GDP (Yi) from FDI (Xi) for the period from 2009 to 2014 for Bosnia and Herzegovina was researched. This model shows the degree of correlation between the variables. The model is used to determine the direction, intensity, type and form of connections between phenomena. However, relations between phenomena in nature and society are dynamic and constantly changing. The link between these phenomena is usually not functional, because they depend on the laws of probability. This connection between phenomena is called stochastic relationship. Statistical relationships between phenomena differ from deterministic or functional relationships.

Stochastic connection means that the empirical value of an independent random variable (X = x), when a larger number of repetitions of the experiment, corresponds to a greater number of realised values of the dependent random variable ($y = y_1, y_2, ... y_n$), which can be predicted (Petrovic 2006, 173). The form of stochastic dependency of random variables (x, y) is conditionally expressed in mathematical functions, which best describe the outcomes achieved from the dependent random variable (s).

Correlation analysis consists of the application of procedures setting out the statistical indicators of the strength of statistical link between phenomena. Standardized measure of the strength of the statistical link between the phenomena presented by two quantitative variables is the correlation coefficient (Sosic 1998, 269). Since it is defined phenomena, the data can be displayed in the coordinate system. A set of these points is called a scatter plot from which the relationship between variables can be seen.

The correlation between phenomena can be positive and negative. When there is a positive correlation, a linear increase in one variable corresponds to a linear increase in other variable. If this correlation is complete, it takes the value r = 1. When a linear increase in one variable corresponds to a linear decrease in other variable, the correlation is negative. If the nega-

tive correlation is complete, its value is r = -1. However, in practice, it is not possible to get a complete correlation, and correlation coefficient has a value ranging from -1 to 1 and based on that, it is:

– from 0 to ± 0.30 weak correlation (bad influence of independent variable on the dependent one)
– from ± 0.30 to ± 0.70 medium correlation (medium impact of independent variable on the dependent one)
– from ± 0.70 to ± 1 strong correlation (strong influence of independent variable on the dependent).

In the single regression model, the following applies:

– The correlation coefficient (r) cannot be greater than 1,
– The parameters b, b ‘and r are always with the same sign,
– Regression lines intersect into the arithmetic environment,
– When the variable x is changed to 1, then Yc is changed to b,
– When the variable y is changed to 1, then Xc is changed to b.

The model is expressed as follows:

$$y = a + bx \qquad (1)$$

y – dependent variable,
x – independent variable,
a and b - the parameters.

Based on the above stated, using the single linear regression model in this study can be expressed as follows:

$$GDP = f(FDI) \qquad (2)$$

GDP – dependent variable,
FDI – independent variable.

The data used in the application of the single linear regression model are given in Table 4, and were taken from the database of the Central Bank of Bosnia and Herzegovina.

Table 4. The data per for years for FDI and GDP in BiH (Central Bank of Bosnia and Herzegovina) in million EURO

YEAR	Xi (FDI)	Yi (BDP)	XY	X^2	Y^2
2009	180	12.700	2.286.000	32.400	161.290.000
2010	307	13.000	3.991.000	94.249	169.000.000
2011	357	13.400	4.783.800	127.449	179.560.000
2012	307	13.400	4.113.800	94.249	179.560.000
2013	228	13.700	3.123.600	51.984	187.690.000
2014	378	13.900	5.254.200	142.884	193.210.000
2015	375	14.400	5.400.000	140.625	207.360.000
∑	**2.132**	**94.500**	**28.952.400**	**683.840**	**1.277.670.000**

The regression line for the dependent variable (GDP) is:

$$y = a + bx \tag{3}$$

Meaning:

$$a = \bar{y} - b\bar{x} \tag{4}$$

While:

$$\bar{x} = \frac{\Sigma x}{n} \tag{5}$$

$$\bar{y} = \frac{\Sigma y}{n} \tag{6}$$

Including the data in (5) and (6) it can be obtained:

$$\bar{x} = \frac{2.132}{7} = 304{,}60$$

$$\bar{y} = \frac{94.500}{7} = 13.500$$

To calculate B, the next formula should be used for b:

$$b = \frac{\sum xy - \bar{x}\sum y}{\sum x^2 - \bar{x}\sum x} \tag{7}$$

By inserting the data into the formula (7) the following result is as follows:

$$b = \frac{\sum xy - \bar{x}\sum y}{\sum x^2 - \bar{x}\sum x} = \frac{28952400 - 304{,}6 \times 94500}{683840 - 304{,}6 \times 2134} = \frac{167700}{35433}$$

By inserting the data into the formula (4) we receive the following result:

$$a = \bar{y} - b\bar{x} = 13500 - 4{,}73 \times 304{,}6 = 12059 \qquad (8)$$

Based on the above, a linear regression for the dependent variable is:

$$y = a + bx = 12059 + 4{,}73x$$

As stated above, the funcion of GDP is:

$$BDP = a + b \times (FDI) = 12059 + 4{,}73 \times (FDI) \qquad (9)$$

The coefficient of determination is calculated using the formula:

$$r^2 = \frac{a\sum y + b\sum xy - n\bar{y}^2}{\sum y^2 - n\bar{y}^2} \qquad (10)$$

The inclusion of the data in Table 4, into the form (10) we get the following result:

$$r^2 = \frac{a\sum y + b\sum xy - n\bar{y}^2}{\sum y^2 - n\bar{y}^2} = \frac{12059 \times 94500 + 4{,}73 \times 28952400 - 7 \times 182250000}{1277670000 - 7 \times 182250000} = \frac{770352}{1920000} = 0{,}401225$$

$$r = \sqrt{0{,}401225} = 0{,}63$$

Based on the calculated coefficient correlation of 0.63, we can conclude that there is a secondary effect of an independent variable on the dependent. The correlation is positive, whereas a linear regression shows that the increase in foreign direct investment in the fixed assets of 1 million Euros leads to an increase in GDP of 4.73 million EUR.

CONCLUSION

The role and importance of foreign investment in the economic growth of a country cannot be overemphasized and questionable. Even strong and stable

economies of the world create a policy that will provide them with a favourable investment climate. Attracting foreign direct investment is a basic condition for increasing the production and exports of host countries to a level that would allow a stable economic growth, and the successful debt servicing, therefore one of the main objectives of economic policy makers is creating an investment climate favourable for attracting foreign investors. The inflow of funds through foreign direct investment is not only the inflow of capital, but also the basis for increased trade flows, economic growth and development and job creation. Bosnia and Herzegovina as a country in transition, needs foreign direct investments which would form the main driver of economic growth of the country in the coming period. Given the low level of domestic savings from which the development could be self-financed, the lack of modern technology, as well as appropriate management skills, the aforementioned disadvantages can be offset by the arrival of foreign investors, who would bring new knowledge, experience and technological progress. Therefore, attracting foreign investors and adapting to their requests through an accelerated process of reform is one of the key tasks BiH and its entities are facing. In the last seven years, based on surveys, it is evident that FDI in Bosnia and Herzegovina have a medium impact on GDP growth. It is necessary to create a more favourable climate for foreign direct investment so as to increase this impact and make it strong.

REFERENCES

1. Unković, Milorad i Kordić, Ninela. 2012. *Menadžment stranih direktnih investicija*, pristupljeno 12.05.2016.: *http://www.sinergija.edu.ba*
2. Žugić, Jelena. 2012. *Strane direktne investicije u praksi tranzicijskih država*. Podgorica: Univerzitet Mediteran.
3. Kovač, Oskar. 1994. *Platni bilans i međunarodne finansije*. Beograd: CES MECON
4. Šušić, Ilija. 2010. *Projektni i investicioni menadžment.* Banja Luka: Univerzitet za poslovne studije
5. Stakić, Budimir. 2007. *Finansijski i devizni menadžment u turizmu*. Beograd: Univerzitet Singidunum
6. Vujić, Tijana. 2013. *Spoljnotrgovinsko i devizno poslovanje Bosne i Hercegovine*. Bijeljina: Univerzitet Sinergija.

7. Geoffrey Vining, Elizabeth A. Peck, Douglas C. Montgomery Geoffre, 2012. *Introduction to Linear Regression Analysis, 5th Edition.* New Jersey: John Wiley&Sons
8. Petrović, Živorad. 2006. *Poslovna statistika*, Banja Luka: Univerzitet za poslovne studije
9. Šošić, Ivan. 1998. *Zbirka zadataka iz statistike*. Zagreb: Ekonomski fakultet
10. *UNCTAD; World Investment Report 2011, accessed* 07.05.2016.: *http://www.unctad.org*
11. *UNCTAD; World Investment Report 2013, accessed 07.05.2016.: http://www.unctad.org*
12. Central Bank of Bosnia and Herzegovina, *accessed* 12.05.2016.: http://www.cbbh.ba/