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# TABLE OF CONTENTS

INTRODUCTION ................................................................................................................................. 1  
1 THEORETICAL PERSPECTIVE ON FOREIGN DIRECT INVESTMENTS ........ 2  
1.1 FDI as a phenomenon ............................................................................................................... 2  
1.2 FDI theories ............................................................................................................................... 7  
1.3 Importance of FDI ..................................................................................................................... 10  
1.4 FDI and globalization .............................................................................................................. 12  
2 PATTERN OF FDI FOR DIFFERENT COUNTRIES AND SECTORS ............... 15  
2.1 Global FDI inflows ................................................................................................................... 15  
2.2 FDI inflows in Bosnia and Herzegovina .................................................................................... 19  
3 COUNTRY IMAGE ..................................................................................................................... 22  
3.1 Country image as a phenomenon ............................................................................................ 22  
3.2 The impact of the country image on economies ....................................................................... 25  
3.3 Elements of the country image ............................................................................................... 26  
4 THE IMPACT OF COUNTRY IMAGE ON FDI IN BH AND SOUTHEAST EUROPE COUNTRIES ................................................................. 31  
4.1 Relationship between country image and FDI ....................................................................... 31  
4.2 Country image of Southeast Europe countries ....................................................................... 35  
4.3 The country image of Bosnia and Herzegovina ...................................................................... 49  
4.4 The role of BH’s country image in attracting FDI ................................................................... 54  
CONCLUSION ................................................................................................................................. 59  
REFERENCE LIST .................................................................................................................... 62  
APPENDIXES
LIST OF FIGURES

Figure 1: International movement of capital ................................................................. 7
Figure 2: Global FDI inflows, average 2005 – 2007 and 2007 – 2010 (billions of dollars) .... 16
Figure 3: FDI inflows, global and by group of economies, 1980 – 2010 (billions of dollars) .. 16
Figure 4: Global FDI inflows, top 20 host economies, 2009 and 2010 (billions of dollars) ... 17
Figure 5: FDI inflows to developing and transition economies, by region, average of 2005 – 2007 and 2008 – 2010 (billions of dollars) ........................................ 18
Figure 6: FDI outflows from developing and transition economies, by region, average of 2005 – 2007 and 2008 – 2010 (billions of dollars) ......................... 18
Figure 7: Flow of FDI in Bosnia and Herzegovina, by years, million ......................... 19
Figure 8: Top investor countries in Bosnia and Herzegovina, May 1994 – December 2010 ... 20
Figure 9: FDI by industry, May 1994 – December 2010 ............................................. 21
Figure 10: Place marketing strategy ........................................................................... 28
Figure 11: Exchange rates of SEE6 (EUR, average) .................................................. 42
Figure 12: FDI of countries SEE6 at the end of 2011 in US $ .................................... 49
Figure 13: FDI per capita of the countries SEE6 in the end of 2011, in US $ ............... 50
Figure 14: SWOT analyses of investments in BH ..................................................... 53
LIST OF TABLES

Table 1: Registered FDI according to sectors – activities, May 1994 – June 2010 ...............20
Table 2: Annual inflation rates (consumer prices), 2011 .....................................................41
Table 3: Real economic growth (in %), 2009-2011 ................................................................41
Table 4: Tax rates, in % ...........................................................................................................43
Table 5: The corruption perceptions index, 2012 ...............................................................45
Table 6: Unemployment rates, in % ......................................................................................46
Table 7: Free trade agreements ...............................................................................................48
Table 8: Grades given to certain image aspect of Bosnia and Herzegovina .........................54
Table 9: Key features of philosophy paradigm alternatives .................................................56
Table 10: Different research strategies and their application ................................................57
INTRODUCTION

Foreign Direct Investment (further FDI) represents one of the most important questions regarding economic politics of one country. They are defined as any investment in some other country which is performed by private companies or individuals. The positive role of foreign investment is seen through rapid rate of developing countries, such as Bosnia and Herzegovina (further BH). Namely, attracting FDI represents priority for development of one’s country foreign economy. In this moment there is no country which does not compete for overrunning FDI.

Political environment towards FDI is more open than ever. However, there are various barriers which stand as an obstacle to FDI. The main obstacles are seen through negative image of the country, such as: political instability, citizen strikes, bureaucrat argues, long administrative procedures, inadequate energy and telecommunication powers, firm and conservative banking system, lack of good bank services and correct information for making business decisions.

Research question in this paper is: “How the image of Bosnia and Herzegovina and other countries SEE6 does influences the attraction of FDI?” If the image of one country is good, then that county attracts FDI more. In order to give adequate answer, economic growth of these countries, their GDP and privatizations are being analyzed in comparison FDI and FDI per capita.

The main purpose of every study should be to promote the ideals of common good and advanced knowledge (Saunders, Lewis, & Thornhill, 2009). This research aims to explore and to define the relationship between FDI and country image. This research aims to help understanding how this relationship influenced the concrete case of BH. This dissertation will provide an overview of facts which will show how BH’s official institutions attracted FDI’s. In terms of concrete case, the study will show how country image of BH influenced the amount of FDI.

The importance of FDI is seen through the foreign investment enterprises which are studied by numerous authors. One of the most common conclusions is that the major factors for attracting FDI are: ownership, internationalization and localization advantages. It is the location or locations of specific factors of attraction, one of the decisive motives for investment. The availability of natural resources, market size, geographical location, economic status, cultural and political environment, transportation costs, etc. are just some specifics that motivate foreign investors.
Maintaining focus throughout the research will be achieved by following three main objectives. These objectives will be achieved through an extensive primary and secondary research. The defined objectives are: to identify the presence or absence of the relationship between country image and FDI in the case of BH. FDI contributed in great measure in changing production structure and export in countries of Middle and East Europe. FDI enabled usage of modern technology based on innovations which influences growth of export competitiveness and additional value as the base of export income growth. That is why it is necessary to show how image of BH influences attraction of FDI.

This paper consists from four different parts. In the first part, THEORETICAL PERSPECTIVE ON FOREIGN DIRECT INVESTMENTS, FDI is being represented through theoretical aspect. Different definitions about FDI are being given, but also the influence of globalization on the FDI flow. The second part, FDI INFLOWS FOR DIFFERENT COUNTRIES AND SECTORS, in the first place represents global FDI flows, and then the FDI inflows in Bosnia and Herzegovina. In the third part, COUNTRY IMAGE, term country image is being described. Then, it is explained how the country’s image affects one country’s economy. Next, elements of country’s image are being described. In the end of this part, image of Bosnia and Herzegovina is given. The fourth part, THE IMPACT OF COUNTRY IMAGE ON FDI, explains the relationship between country’s image and FDI. Then, some countries are represented and the influence of their country’s image on the FDI attraction. In the end of this part, the impact of country’s image in the FDI attraction is being described. The fifth part is given under the title RESEARCH ON THE IMPACT OF THE COUNTRY IMAGE ON FDI: THE CASE OF BOSNIA AND HERZEGOVINA. In this part problems and aims of the research, research questions, samples, research philosophy, approach and strategy are being defined. Data analysis research results are presented.

1 THEORETICAL PERSPECTIVE ON FOREIGN DIRECT INVESTMENTS

1.1 FDI as a phenomenon

FDI is the process whereby residents of one country acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a company in another country (the host country). The International Monetary Fund’s (further IMF) Balance of Payments Manual defines FDI as an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor’s purpose being to have an effective voice in the management of the enterprise. The United Nations (further UN) 1999 World Investment Report (UNCTAD, 1999) defines FDI as an investment involving
a long term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise or foreign affiliate). The term “long term” is used in the last definition in order to distinguish FDI from portfolio investment, the latter characterized by being short term in nature and involving a high turnover of securities.

FDI is a category of international investment involving a long-term relationship and reflecting a lasting interest in and control by a resident entity in one economy (foreign direct investor or parent enterprise) of an enterprise resident in a different economy (FDI enterprise or affiliate enterprise or foreign affiliate). Capital transferred from the parent firms add to local stock and contribute to increase the host country’s production base and productivity through a more efficient use of existing resources. Foreign investments promote the diffusion of new technologies, know-how and managerial and marketing skills through direct linkages or spillovers to domestic firms. FDI may also contribute to improve external imbalances due to their greater propensity to export with respect to domestic firms (Kokkinou & Psycharis, 2005).

The main aspects of the benefits that FDI confers on the recipient country can be summarized to the following points (Kokkinou & Psycharis, 2005):

- FDI brings in financial resources;
- FDI can attract and support the transfer of managerial skills and advanced technical expertise (know-how);
- FDI introduces improved and adaptable skills and new organizational techniques and management practices in the host economy;
- FDI bring in modern technologies, which could contribute in raising the efficiency;
- FDI transnational activities may provide improved access to export markets;
- FDI cause spillovers of technologies, management experience and skills.

From a macroeconomic point of view, FDI is a particular form of capital flows across borders, from countries of origin to host countries, which are found in the balance of payments. The variable of interest is: capital flows and stocks, revenues obtained from investments. The microeconomic point of view, tries to explain the motivations for investment across national boundaries from the point of view of the investor. It also examines the consequences to investors, to the country of origin and to the host country, of the operations of the multinationals rather than investment flows and stock (Denisia, 2005).

FDI is a component of a country’s national financial accounts. FDI is investment of foreign assets into domestic structures, equipment, and organizations. It does not include foreign
investment into the stock markets. FDI is thought to be more useful to a country than
investments in the equity of its companies because equity investments are potentially “hot
money” which can leave at the first sign of trouble, whereas FDI is durable and generally
useful whether things go well or badly (Raghunathan, 2012).

The experience of many countries indicates that FDI inflows needed better channel by
accumulation compared to taking classic credit in the international financial market. When
analyzing the status of the payment balance sheet and growth rates achieved in the seventies,
we can see there is a group of countries that relied more on FDI and are developed more
quickly (Obstfeld, 2007).

When we take into account the macroeconomic point of view, the benefits of FDI are reflected
in the following: improving the trade and balance of payments in the country, there is a faster
and more efficient integration of national economies in the world market, improving the
supply of domestic markets, increases the number of new jobs, etc. At the microeconomic
level, domestic firms have the following benefits: faster and cheaper way to get modern
technology, introducing modern work organization, know-how in the field of marketing, etc.
(Moosa, 2002).

FDI is a form of investment for the investor who provides the right of ownership, control and
management of the company in which the funds are invested to achieve a long-term economic
interests. Duce (2003) wrote and elaborated FDI as the following: FDI reflects the aim of
obtaining a lasting interest by a resident entity of one economy (direct investor) in an
enterprise that is resident in another economy (the direct investment enterprise) (Saunders,
Lewis, & Thornhill, 2009). The “lasting interest” implies the existence of a long-term
relationship between the direct investor and the direct investment enterprise and a significant
degree of influence on the management of the latter.

Direct investment involves both the initial transaction establishing the relationship between
the investor, the enterprise and all subsequent capital transactions between them and among
affiliated enterprises, both incorporated and unincorporated. It should be noted that capital
transactions which do not give rise to any settlement, e.g. an interchange of shares among
affiliated companies, must also be recorded in the Balance of Payments and in the
International Investment Position (further IIP) (IMF, 1993). The fifth edition of the IMF’s
Balance of Payment Manual defines the owner of 10% or more of a company’s capital as a
direct investor. This guideline is not a fast rule, as it acknowledges that smaller percentage
may entail a controlling interest in the company (and, conversely, that a share of more than
10% may not signify control). But the IMF recommends using this percentage as the basic
dividing line between direct investment and portfolio investment in the form of shareholdings (IMF, 1993).

Thus, when a non-resident who previously had no equity in an enterprise from a resident purchases 10% or more of the shares of that enterprise from a resident, the price of equity holdings acquired should be recorded as direct investment. From this moment, any further capital transactions between these two companies should be recorded as a direct investment. When a non-resident holds less than 10% of the shares of an enterprise as portfolio investment, and subsequently acquires additional shares resulting in a direct investment (10% or more), only the purchase of additional shares is recorded as direct investment in the Balance of Payments. The holdings that were acquired previously should not be reclassified from portfolio to direct investment in the Balance of Payments but the total holdings should be reclassified in the IIP.

Article by Masso, Roolaht, and Varblane (2010) shows one theory and explains why we can define it like phenomenon. In order to immerse into driving forces and consequences of FDI, one needs to have a clear idea of activities that complex phenomenon embrace. Hence, foreign investments are generally referred to investments made by individuals or enterprises that have their centre of economic interest in an economy other than the economy in which they invest. These international capital flows take two major forms: Foreign Direct Investments and Foreign Portfolio Investments. Foreign Direct Investment is a flow of lending to or purchase of ownership in, a foreign enterprise that is largely owned by residents of the investing country. Direct investment implies long-term relationship between the direct investor and the enterprise, and a significant (full or partial) degree of control by the investor over the management of the enterprise and, usually, physical presence of foreign firms or individuals in the host country. Conventionally, FDI is established when a resident in one economy owns 10 per cent or more of the ordinary shares or voting power of an enterprise in the foreign country, unlike Foreign Portfolio Investment, which includes a variety of instruments traded in the organized financial markets (Tvironavičienė, Kalašinskaitė, & Šimelytė, 2009).

The positive contribution of FDI to home country productivity can occur either through the own-firm effect of increased productivity in companies with foreign owners, or through spill-over effects with increased productivity in non-FDI companies due to the presence of FDI in the same industry, or in downstream and upstream industries. However, as Stiebale and Reize (2008) have argued, a better way to estimate the technological performance of foreign owned companies relative to domestic companies would be not to study productivity but rather the differences in the innovation input and output indicators such as spending on research and development (further R&D), or more broadly on various kinds of innovation; the sources of information used for innovation; the patterns of cooperation in innovation; and product and
process innovations. Alternatively, the main reason for the differences in productivity could be differences in knowledge (Criscuolo, Haskel, & Slaughter, 2005) and studying the impact of FDI through a production function approach may tell us little about what the specific mechanisms are, and how knowledge spillovers from foreign to domestic companies occur (Knell & Shrolec, 2006). Alternatively again, Vahter (2010) explains that most of the literature on FDI spillover effects has treated the transfer between FDI and domestic companies as a kind of a black box with no specific channels of knowledge transfer.

In addition to creating knowledge spillovers, FDI inflow may also affect the work on innovation of local companies through stronger competition, which may either stimulate or impede innovation among local companies given the non-linear relation between competition and innovation (Aghion et al., 2005), while at company level the inflow of FDI may reduce financing constraints and so increase innovativeness. We should stress that both the home- and host-country effects of FDI need to be considered, so we also need to distinguish between foreign and domestic multinationals, as knowledge transfer also occurs from the foreign subsidiaries of multinationals to the home country (Navaretti & Venables, 2004).

FDI are attracted by several factors such as market size and natural resources. Business climate is also one of the most important FDI determinants. Usually, international organizations and multinationals establish a sort of short-list of countries where investment is the most convenient. Generally, this list is constructed on the basis of countries’ business climate. The FDI – business climate relation is crucial for countries development and attractiveness. However, FDI are also attracted by exogenous factors such as natural resources endowment. Those factors do not depend on government decisions and institutions’ quality, and then they cannot be incorporated into the business climate components. Hence, isolating the FDI endogenous part would be essential to compare business climate of several countries (Lahimer, 2007).

The movement of capital from one national economy to another is a process of economic theory and practice, often defined as an international capital flow. The term international capital movement is an objective and widely used in economic theory, as well as more direct and better quality reproduction.

The international movement of capital, primarily as an institute of economics, was at first the inflow and outflow of capital in terms of funding deficits or investing surplus current account balance of payments of the state. Somewhat later, the idea of financing the current account, which is essentially competitive character, was expanded and the majority trade global capital markets, which has the relevant independent character under the influence of the essential
functions of capital – the necessity of reproduction. The term "international movement of capital" means the three general forms (Perovic, 2005):
- the international movement of loan capital (loans and grants),
- portfolio investments (bonds without action and the right to administer the company),
- direct investments (forms of investment with the right management) (Figure 1).

1.2 FDI theories

Many theories have been used in order to explain investment location decisions. The most cited determinants are cost factors, transport factors, market factors, labor factors as well as tax regimes and regulations. Generally speaking, we can include all of them into one concept: the business climate. Many countries, states, public officials and businessmen have placed emphasis on the business climate concept as a fundamental factor in attracting industry and promoting growth. However, the definitions and components of this concept are elusive and ambiguous due to the divergence of interests between economic and political actors. As far as firms are concerned, business climate is considered as an inevitable component of attractiveness. Its evolution is crucial for firm’s operations success or failure. The business climate is also felt by the country chosen by firms. The location decision of a single firm may
exert a little real impact on an area, but the sum of many decisions over time is tangible and potent (Lahimer, 2007).

Theories of FDI may be classified under the following headings (Denisia, 2005):

- **Production cycle theory of Vernon.** Production cycle theory developed by Vernon in 1966 was used to explain certain types of foreign direct investment made by U.S. companies in Western Europe after the Second World War in the manufacturing industry. Vernon believes that there are four stages of production cycle: innovation, growth, maturity and decline. According to Vernon, in the first stage the U.S. transnational companies create new innovative products for local consumption and export the surplus in order to serve also the foreign markets. According to the theory of the production cycle, after the Second World War in Europe has increased demand for manufactured products like those produced in USA. Thus, American firms began to export, having the advantage of technology on international competitors. If in the first stage of the production cycle, manufacturers have an advantage by possessing new technologies, as the product develops also the technology becomes known. Manufacturers will standardize the product, but there will be companies that you will copy it. Thereby, European firms have started imitating American products that U.S. firms were exporting to these countries. US companies were forced to perform production facilities on the local markets to maintain their market shares in those areas. This theory managed to explain certain types of investments in Europe Western made by U.S. companies between 1950 and 1970. Although there are areas where Americans have not possessed the technological advantage and foreign direct investments were made during that period.

- **The theory of exchange rates on imperfect capital markets.** This is another theory which tried to explain FDI. Initially the foreign exchange risk has been analyzed from the perspective of international trade. Itagaki (1981) and Cushman (1985) analyzed the influence of uncertainty as a factor of FDI. In the only empirical analysis made so far, Cushman shows that real exchange rate increase stimulated FDI made by USD, while a foreign currency appreciation has reduced American FDI. Cushman concludes that the dollar appreciation has led to a reduction in U.S. FDI by 25 %. However, currency risk rate theory cannot explain simultaneous FDI between countries with different currencies. The sustainers argue that such investments are made in different times, but there are enough cases that contradict these claims.

- **The internalization theory.** This theory tries to explain the growth of transnational companies and their motivations for achieving foreign direct investment. The theory was developed by Buckley and Casson, in 1976 and then by Hennart, in 1982 and Casson, in 1983. Initially, the theory was launched by Coase in 1937 in a national context and Hymer in 1976 in an international context. In his Doctoral Dissertation, Hymer identified two major determinants of FDI. One was the removal of competition. The other was the
advantages which some firms possess in a particular activity (Hymer, 1976). Buckley and Casson, who founded the theory demonstrates that transnational companies are organizing their internal activities so as to develop specific advantages, which then to be exploited. Internalization theory is considered very important also by Dunning, who uses it in the eclectic theory, but also argues that this explains only part of FDI flows. Hennart (1982) develops the idea of internalization by developing models between the two types of integration: vertical and horizontal. Hymer is the author of the concept of firm-specific advantages and demonstrates that FDI take place only if the benefits of exploiting firm-specific advantages outweigh the relative costs of the operations abroad. According to Hymer (1976) the MNE appears due to the market imperfections that led to a divergence from perfect competition in the final product market. Hymer has discussed the problem of information costs for foreign firms respected to local firms, different treatment of governments, currency risk. The result meant the same conclusion: transnational companies face some adjustment costs when the investments are made abroad. Hymer recognized that FDI is a firm-level strategy decision rather than a capital-market financial decision.

- The eclectic paradigm of dunning. The eclectic theory developed by professor Dunning is a mix of three different theories of direct foreign investments (O-L-I):

1) “O” from Ownership advantages: This refer to intangible assets, which are, at least for a while exclusive possess of the company and may be transferred within transnational companies at low costs, leading either to higher incomes or reduced costs. But TNCs operations performed in different countries face some additional costs. Thereby to successfully enter a foreign market, a company must have certain characteristics that would triumph over operating costs on a foreign market. These advantages are the property competences or the specific benefits of the company. The firm has a monopoly over its own specific advantages and using them abroad leads to higher marginal profitability or lower marginal cost than other competitors. There are three types of specific advantages:
   a) Monopoly advantages in the form of privileged access to markets through ownership of natural limited resources, patents, trademarks;
   b) Technology, knowledge broadly defined so as to contain all forms of innovation activities;
   c) Economies of large size such as economies of learning, economies of scale and scope, greater access to financial capital;

2) “L” from Location: When the first condition is fulfilled, it must be more advantageous for the company that owns them to use them itself rather than sell them or rent them to foreign firms. Location advantages of different countries are de key factors to determining who will become host countries for the activities of the transnational corporations. The specific advantages of each country can be divided into three categories:
   a) The economic benefits consist of quantitative and qualitative factors of production, costs of transport, telecommunications, market size etc.;
   b) Political advantages: common and specific government policies that affect FDI flows;
c) Social advantages: includes distance between the home and home countries, cultural diversity, attitude towards strangers etc.;

3) ‘I’ from Internalization: Supposing the first two conditions are met, it must be profitable for the company the use of these advantages, in collaboration with at least some factors outside the country of origin. This third characteristic of the eclectic paradigm OLI offers a framework for assessing different ways in which the company will exploit its powers from the sale of goods and services to various agreements that might be signed between the companies. As cross-border market internalization benefits is higher the more the firm will want to engage in foreign production rather than offering this right under license, franchise. Eclectic paradigm OLI shows that OLI parameters are different from company to company and depend on context and reflect the economic, political, social characteristics of the host country. Therefore the objectives and strategies of the firms, the magnitude and pattern of production will depend on the challenges and opportunities offered by different types of countries.

1.3 Importance of FDI

Thinking about why and whether we need foreign investment is largely divided. It can be argued that the inflow of foreign capital requires the increase of rates, acceleration of structural reforms, improvement of the external financial situation in the country, increase of foreign exchange reserves, less limitation in the current balance, liberalization of foreign exchange restrictions and favorable credit rating. On the other hand, there are also negative effects of FDI which are related to the growth of trade deficit, bypassing tax liabilities, etc.

FDI provides a major source of capital which brings with it up-to-date technology contributing to the economic growth. It would be difficult to generate this capital through domestic savings, and even if it were not, it would still be difficult to import the necessary technology from abroad, since the transfer of technology to firms with no previous experience of using it is difficult, risky, and expensive (Duce, 2003).

There are several forms of investment capital in the form of FDI which are sorted by their importance (Neelankavil & Rai, 2009):

- **Greenfield FDI** because of the benefits brought by the development of the economy in which it invests and their direct affects on the micro and macro aspects of the domestic economy. These are investments that imply the construction of completely new manufacturing capacity that are 100% owned by the investor, which means that he decides the fortune of these funds. The construction of new factories and enterprises, through Greenfield FDI, are directly contributing to the increasing the productive capacity of land and hiring new workers. Also, Greenfield investment has a significant effect on the increase in total investment as it gives a positive signal to other potential investors. These
investments are particularly important for countries in transition. However, it is difficult to attract them because Greenfield investments are the most sensitive to the investment environment, and they are so rarely an option for countries in transition because of the higher risk investors, and the unstable economic conditions.

- **Brownfield FDI** implied purchase of existing buildings, warehouses and office space by foreign investors. Abandoned and derelict sites and buildings in urban areas are particularly challenging for investors. Unused urban land for a long period of time becomes ecological, social and aesthetic problem of the city, and therefore it should stimulate investors to enable them to use existing industrial facilities and sites where there is already a supporting infrastructure. For countries in transition this type of investment is more often than Greenfield investments, because in these countries there are a lot of unused capacity and large companies from the socialist period, which for example, are waiting for the process of privatization or bankruptcy.

- **Mergers and acquisitions** are a vital part of any healthy economy and importantly, the primary way that companies are able to provide returns to owners and investors. Merger is a combination of two or more companies in which the assets and liabilities of the selling firm/firms are absorbed by the buying firm. Although the buying firm may be a considerably different organization after the merger, it retains its original identity. Acquisition is the purchase of an asset such as a plant, a division, or even an entire company. On the surface, the distinction in meaning may not really matter, since the net result is often the same: two companies (or more) that had separate ownership are now operating under the same roof, usually to obtain some strategic or financial objective. Yet the strategic, financial, tax, and even cultural impact of a deal may be very different, depending on the type of transaction. A merger typically refers to two companies joining together (usually through the exchange of shares) as peers to become one. An acquisition typically has one company – the buyer – that purchases the assets or shares of the seller, with the form of payment being cash, the securities of the buyer, or other assets of value to the seller. In a stock purchase transaction, the seller’s shares are not necessarily combined with the buyer’s existing company, but often kept separate as a new subsidiary or operating division. In an asset purchase transaction, the assets conveyed by the seller to the buyer become additional assets of the buyer’s company, with the hope and expectation that the value of the assets purchased will exceed the price paid over time, thereby enhancing shareholder value as a result of the strategic or financial benefits of the transaction (Sherman & Hart, 2006).

  a) **Mergers** imply joining two or more separate and independent international companies into one new entity. A merger extinguishes the merged corporation, and the surviving corporation assumes all the rights, privileges, and liabilities of the merged corporation.

  b) **Acquisitions** mean the buying of companies abroad and its purchase. The foreign company gets merged with the new owners and new management. With the mergers and acquisitions
there is a change of ownership of existing resources, this form of investment does not lead to an increase in forms of production and employment. It happens that in the initial period there is a reduction in capacity and the cuts of employees. However, mergers and acquisitions can affect the increase in total investment in the future and contribute significantly to economic growth of the country through the improvement of business firms and technology transfer. Also this type of investment can solve the survival of domestic firms that are facing bankruptcy.

- **Joint venture investments** (joint ventures) happen when foreign company takes a significant share of newly-established local company. Basically it’s an agreement between two or more companies to cooperate on a specific initiative. The joint venture may involve marketing a product, offering a service, or expanding into a new geographical territory. Often, companies undertake joint ventures with companies in other countries as a way to expand into new markets. While the local company will have the business relations and current business operations, the foreign company may bring a brand name and managerial skills.

FDI is considered better and the fastest way to recover countries in transition, as well as the main driver of growth and development. Among them, Greenfield investments are considered the most important ones, and they are seen as the main way of entry of capital into the countries of Southeast Europe. FDI as one of the cornerstones of the international movement of capital is a great opportunity to improve the state economy in developing countries. On the other hand, it offers investors a chance to make bigger profits, which is the basic motive of transnational companies to undertake investments abroad.

**1.4 FDI and globalization**

FDI has become even more important than trade. In last decade we assisted a third wave of globalization where the economic linkage between countries has been strengthened mainly by FDI flows. Despite the role of trade the multinational firms have chosen this way internalization and FDI has increased significantly over the last decade outpacing the expansion of the trade in the same period (UNCTAD, 2011).

Direct abroad investments represent the riskiest shape of international capital movement. However, as it is known that with greater risk there is greater profit, this shape of international capital movement experienced remarkable expansion. After 1945 FDI became prevailing shape of international capital movement and today they make approximately ¾ of whole international capital movement. Their constant expansion started from the beginning of XX century onwards. In this period China reforms started, the Cold War stopped, The Berlin Wall was destroyed and Germany was reunited, the eastern Block disappeared, and majority of
federal states (Soviet union, Czechoslovakia, Yugoslavia) fall apart into smaller countries. Transition of great number of countries has started, and great openness of countries towards the development of the world. These changes removed the obstacles for capital movement, opened investment possibilities throughout the world and brought to spreading of FDI in all parts of the world (Stojadinovic, 2009).

Globalization has brought the interdependence of countries and their economies, with a clear acceleration of this in the past three decades. Globalization involves enlargement of the sphere of economic and direction of movement through which it influences the development of world technology and economy, while standardization is reduced to a universal norm of labor and social relations. Technological globalization is based on the general regulation of the materialization of scientific knowledge through which they create new technologies and their diffusion is done in an increasing number of countries. In this process, it has the leading role of information technology, which contributes to the implementation of accelerated development of all other business and technology services.

Economic globalization is the trend of integrating the development of world economy through the action of certain international organizations (IMF, World Bank, World Trade Organization, etc.). Work standardization boils down to defining the shape and quality of products and services, as well as the unification of the working relationship, which is also achieved through a variety of international institutions (The International Organization for Standardization, the International Labor Organization and other). Finally, standardization of social relations includes selective insistence on respect for certain norms of human rights, freedoms derived from international conventions (UN Charter) and the context of market economy.

FDI is a big part of globalization and we should understand it like one of the major source of external finance (Singh, 2005). Important characteristic of FDI today is that it has become a prominent source of external finance for developing countries. Leaving aside other characteristics of FDI (to be discussed later), we shall consider it here first simply as a source of finance, and examine its implications for the balance-of-payments and for macroeconomic management of the economy.

In orthodox analyses, FDI, apart from all the other supposed advantages, is regarded as a stable source of finance (Alexander & Dhumale, 2012). In contrast to portfolio investments, FDI by definition is supposed to reflect a long term commitment as it involves normally a stake of 10% or more in a host country enterprise, together with managerial control. In view of the latter element, the presumption is that the inflow of foreign capital in this form will be
more stable than portfolio investments. The latter are easier to liquidate and following an internal or external shock, investors may quickly withdraw such funds from the host country.

However, there are important arguments to suggest that the presumption of stability in net FDI inflows may not be correct. First, the distinction between FDI and portfolio investment has become much weaker with the growth of derivatives and hedge funds. Because direct investors hold factories and other assets that are impossible to move, it is sometimes assumed that a direct investment inflow is more stable than other forms of capital flows. This need not be the case. While a direct investor usually has some immovable assets, there is no reason in principle why these cannot be fully offset by domestic liabilities. Clearly a direct investor can borrow in order to export capital, and thereby generate rapid capital outflows (Alexander & Dhumale, 2012).

Another reason why FDI may be volatile is because a large part of a country's measured FDI according to the IMF balance-of-payment conventions usually consists of retained profits. As profits are affected by the business cycle, they display considerable volatility. This also prevents FDI from being anti-cyclical and stabilizing unless the host and home country economic cycles are out of phase with each other. That may or may not happen. Further, there is evidence that, like other sources of finance, FDI flows can also at times come in surges. Apart from their contribution to volatility, these FDI surges, as those for example of portfolio investment can lead to equally undesirable consequences such as exchange rate appreciation and reduced competitiveness of a country's tradable sector.

Arango (2007) quote the World Bank definition of FDI and he explained why we can say that FDI and globalization are connected. Global institutions have designed ranking tools to assess different topics which measure a country competitiveness year on year, generating reports with rich information on different topics and areas. Such a report is Doing Business, co-published by The World Bank and the International Finance Corporation (further IFC), which says:

“Doing Business provides a quantitative measure of regulations for starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business – as they apply to domestic small and medium-size enterprises. A fundamental premise of Doing Business is that economic activity requires good rules. These include rules that establish and clarify property rights and reduce the costs of resolving disputes, rules that increase the predictability of economic interactions and rules that provide contractual partners with core protections against abuse” (The World Bank, 2012).
2 PATTERN OF FDI FOR DIFFERENT COUNTRIES AND SECTORS

2.1 Global FDI inflows

FDI are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments.

FDI measurement is defined like something that is crucial for investors to decide to invest in country by her rating (OECD, 2008). The measurement of FDI has to rely on clear and unambiguous rules. At the same time, statistics should reflect the changes and new developments implemented by market participants, even though they may result in some breaks in historical statistical series. At the center of these changes are the complexes structures which are put in place by Multinational Enterprise (further MNE) for financing and managerial purposes and that are leading increasingly to the distortion of FDI data. These aspects need to be considered for the analytical presentations of FDI statistics. In addition, the borderline between different types of investments may be blurred because it is not always easy to differentiate FDI from other types of cross-border investments or services.

Within a proper policy framework, FDI assists host countries in developing local enterprises, promotes international trade through access to markets and contributes to the transfer of technology and knowledge. In addition to its direct effects, FDI has an impact on the development of labor and financial markets, and influences other aspects of economic performance through its other spill-over effects.

FDI position measures the equity and debt financing provided by direct investors and excludes any such financing that may have been provided by other owners or lenders. Similarly, direct investment income includes the direct investors’ shares in the earnings and the interest payments of direct investment enterprises, but it excludes the shares of others. Measures of inputs used and output produced by direct investment enterprises, such as employment and value added, fall outside the scope of FDI statistics.

Global FDI flows rose modestly in 2010, following the large declines of 2008 and 2009. They reached an estimated $1.244 billion, which is 5 per cent higher than in 2009, when FDI was $1.185 billion. This growth is the result of higher flows to developing countries, which together with transition economies absorbed more than half of FDI flows. Also, the share of developing and transition economies in both global inflows and outflows reached record highs (UNCTAD, 2011) (Figure 2).
FDI inflows to developed countries and transition economies contracted further in 2010, but those to developing economies recovered strongly. Developing economies, together with transition economies, surpassed the 50 per cent mark of global FDI flows. FDI flows to developing economies rose by 12 per cent in 2010 because of their relatively fast economic recovery (UNCTAD, 2011) (Figure 3).

The changing pattern of FDI inflows is confirmed also in the global ranking of the largest FDI recipients or top host economies: United States, China, Hong Kong, Belgium, Brazil, Germany, United Kingdom, Russian Federation, Singapore, France, Australia, Saudi Arabia, Ireland, India, Spain, Canada, Luxembourg, Mexico, Chile and Indonesia (Figure 4). The
United States and China maintained their top position, but some European countries moved down in the ranking. Also, Indonesia entered the top 20 for the first time (UNCTAD, 2011).

Figure 4: Global FDI inflows, top 20 host economies, 2009 and 2010 (billions of dollars)

Note: The number in bracket after the name of the country refers to the ranking in 2009. British Virgin Islands, which ranked 12th in 2010, is excluded from the list.


FDI rose in the developing countries during the period 2005-2010. Some of the poorest regions continued to see declines in FDI flows, and the least developed countries and landlocked developing countries continued to fall. Major emerging regions, such as East Asia, South-East Asia and Latin America experienced strong growth in FDI inflows (Figure 5). FDI flows to South, East and South-East Asia picked up markedly. Similarly, strong economic growth drove FDI flows to Latin America and the Caribbean. Inflows to Africa continued the downward trend which started in 2009. FDI flows to West Asia despite the steady economic recovery registered by the economies of the region. The transition economies of South-East
Europe and the Commonwealth of Independent States registered a marginal decrease in FDI inflows in 2010 (UNCTAD, 2011).

Figure 5: FDI inflows to developing and transition economies, by region, average of 2005 – 2007 and 2008 – 2010 (billions of dollars)


Major FDI outflows were from investors from South, East and South-East Asia and Latin America. Outflows from Hong Kong and China increased by more than $10 billion each. Also, countries from Latin America increased their acquisitions abroad. Outflows from West Asia fell significantly. FDI outflows from transition economies grew by 24 per cent (UNCTAD, 2011) (Figure 6).

Figure 6: FDI outflows from developing and transition economies, by region, average of 2005 – 2007 and 2008 – 2010 (billions of dollars)

2.2 FDI inflows in Bosnia and Herzegovina

Commitment to invest foreign capital is essential for the country. FDI will enable faster restoration and rebuilding of the war-torn country. Foreign capital has to encourage reconstruction and reversal of those industries with which BH has successfully exhibited to the world market. Investment of foreign capital should speed up the process of transforming the current social into private forms of ownership. It will further be reflected in the constitution of faster money and capital markets, especially stock markets. Foreign investment could reduce extremely high unemployment rate and create highly skilled workforce.

In BH, tax reliefs should be induced in order to revise production expenses and to achieve profit in the long run. Furthermore, BH should provide good basic infrastructure, economic relationships with other countries, political stability and stability of tax system. According to the Central Bank of BH (CBBIH, 2011), inflow of FDI in 2010 amounted to 339.7 million, or 1.4% of GDP, which is approximately the same level as in 2009. These figures suggest the continued inflow of investments, but the effects of the recession on FDI are not yet decreased. Also, BH has been unable to attract investment to the level where they were before the recession. Figure 7 shows the flow of FDI in BH from 2001 to 2011. Significant growth of FDI was in 2007. Value of FDI was the lowest in 2001 (Figure 7).

![Figure 7: Flow of FDI in Bosnia and Herzegovina, by years, million €](source)

The structure of FDI in equity is approximately 363.7 million, and in other for capital 245.1 million KM, while the amount of retained earnings was negative (-269.2 million), which is caused by losses in the consolidated companies with direct investment, and it happens for the second consecutive year (CBBIH, 2011).
FDI is presented in the following chart according to sectors. The largest amount is seen in the production, traffic, banking, trade, service and tourism sector.

Table 1: Registered FDI according to sectors – activities, May 1994 – June 2010

<table>
<thead>
<tr>
<th>Activity</th>
<th>Investment value, in 000 KM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
</tr>
<tr>
<td>Production</td>
<td>3,562,092</td>
</tr>
<tr>
<td>Traffic</td>
<td>1,539,370</td>
</tr>
<tr>
<td>Banking</td>
<td>890,082</td>
</tr>
<tr>
<td>Trade</td>
<td>587,789</td>
</tr>
<tr>
<td>Services</td>
<td>303,583</td>
</tr>
<tr>
<td>Tourism</td>
<td>101,526</td>
</tr>
<tr>
<td>Other investments</td>
<td>627,277</td>
</tr>
<tr>
<td>TOTAL INVESTMENTS</td>
<td>7,611,009</td>
</tr>
</tbody>
</table>

Source: Foreign Trade Chamber of Bosnia and Herzegovina, *Foreign Direct Investments*, 2013

In terms of geographical distribution countries that are the biggest investors in BH are presented in Figure 8, from May 1994 to December 2010. Total amount is 4.9 billion € in this period, and the most investments were from Austria (960 million €), Serbia (878 million €) and Croatia (690 million €) (CBBIH, 2011).

Figure 8: Top investor countries in Bosnia and Herzegovina, May 1994 – December 2010 (%)


The bulk of investment is realized in manufacturing activities, especially in the production of base metals, where the investment is 176 million KM. In areas that have attracted the most investment in recent years the trend has changed, so decreased for the field of retail trade recorded a decrease of 32 million KM, while financial intermediation 33 million KM. Total
balance of direct investment at end of 2010 amounted to 9.54 billion KM, while the maximum amount still applies to Austria (1.88 billion KM) and Serbia (1.72 billion KM) (CBBIH, 2011).

When it comes to industrial part, FDI refers in greater part to production (37%), banking (20%) and telecommunications (17%) according to the information from the period of May 1994 until December 2010. FDI in BH are presented according to industries in the Figure 9.

Figure 9: FDI by industry, May 1994 – December 2010 (%)

The most important investors in BH for 2010 year are divided into four categories:
- "Eco Line Ltd. Petrovo" was chosen for the most important investor in the category – "Greenfield" (completely new venture). This company established by foreign investor – Dutch de Bommel Group from the Netherlands and it manufactures the solid oak furniture.
- "Al Shiddi Group" is selected as the most important investor in the category – "Privatization / purchase", privatization in the Bristol Hotel Sarajevo.
- "Al Shiddi Group" as the most important investor in the category – "Job creation", because this company successfully opened new working places.
- "Sisecam Soda", the company's most important investor in the category – "Joint Venture". This company established by Turkish Soda Sanayii and it is dealing in production of light and heavy soda and of other products from soda (FIPA, 2012a).

According to information about FDI in the first half of 2010, the Greenfield investments have the major role in BH. That implies building of new factory or section, hiring new people and placing new product on the market. These investments influence the increasing of international enterprise competitiveness. One of the preconditions for the rapid progress of
BH, the improvement of business conditions and opening of the new working places is the increasing income of FDI, either through Greenfield or Brownfield investments, mergers and acquisitions.

Agency for promotion of foreign investments has very important role in attracting foreign investments. This agency promotes BH as a country with a natural resources and industrial potentials (metallurgy, mining, forestry, food industry and tourism). BH is facing tough competition in the exercise of its policy of attracting FDI since most countries have made many significant advances in terms of overall economic reforms during the past 15 years.

Many neighboring countries in the region have established a strong agency for the promotion of investments that have marketing and sectorial core knowledge. The advantages of the market of BH in relation to other countries in the world is that there are high-quality human resources as a result of quality education, language skills and in many cases gained experience working abroad. Based on the success of implemented investments in our country, BH can be optimistic regarding the inflow of FDI in the future. Expectations of Foreign Investment Promotion Agency of Bosnia and Herzegovina (further FIPA) are that FDI is going to grow in the coming years, and the same expectations are based on investment opportunities, natural resources, expressed interest and announcements of foreign investors, as well as the privatization of strategic companies.

3 COUNTRY IMAGE

3.1 Country image as a phenomenon

Country image is very complex concept and important for any country and therefore it is considered as a phenomenon. Each country has its brand and image. Before the foreign or individual investors invest in certain country, almost every company does a research on market and functioning of foreign companies which already invested in that particular country. Furthermore, the accepting of new ideas on the market is also being analyzed. The readiness of domestic companies to accept the entry of foreign company on the market is crucial.

Positive and negative corporate image has great influence on company’s profit and loss accounts, and a country’s or a nation’s images has impacts on encouraging trade, tourism and inward investments of that country. In that perspective, a positive national image becomes an essential for all countries. A country image is defined as the total of all descriptive, inferential and informational beliefs one has about a particular country. An image of a place is defined as the sum of all those emotional and aesthetic qualities such as experience, beliefs, ideas,
reccollections and impressions that a person has of a place. In this definition, it is evident that individuals form an image based on their personal frame of reference. A common social image of a place can be established because individual images are constantly being socialized through the use of common languages, symbols and experiences. Images can be classified on a public and private scale according to whether the image is shared by others or is peculiar to the individual. Public images consist of the shared images of many individuals and are those of interest for marketing purposes. Images of certain nations, however right or wrong they might be, develop through a very complex communication process involving varied information sources. The process starts with one's experiences in early life; in school; in children's books, fairytales and other leisure literature; the theatre and so on, and may include accounts by relatives, acquaintances, and friends. But radio and TV transmissions of international programs, newspapers and magazines, cultural exchange programs, sports, books, news services, and so on are probably the strongest image shapers (D Space, 2013).

Countries, to protect their images, and to change the ones which they are not pleased into the provided ones and make it last for years – spend too much time on this issue. But besides that all those efforts help the countries to promote themselves as a whole. In this context, the aims of the promotion activities can be summarized as:
- To form an opinion in the target audiences who have no idea or conscious about the subject.
- To develop or improve an image.
- To confront a negative image and to change it into positive image (D Space, 2013).

As Fetscherin (2010) says in an increasingly complex and tightly-linked world, not only companies but also countries are engaged in competition at every level. Anholt (2002) states, “globalization is turning the world into a gigantic supermarket” where countries compete to stimulate exports, attract tourism, FDI, and immigration. Governments are engaging to branding techniques to differentiate their country on the global stage in order to establish a competitive edge over rival countries in the belief that a strong country brand can contribute to the country’s sustainable development (Nebenzahl, 2006). Branding may also restore flawed international credibility, increase international political influence, and stimulate stronger international partnerships (Fetscherin & Marmier, 2010). As many countries have gained awareness of the importance of their country brand, they have adopted country branding projects. A few have even passed laws to promote their brand and establish special organizations charged with coordinating private-public partnerships. Switzerland, for example, established the Presence Switzerland organization in order to coordinate and establish priorities among different entities such as ProHelvetia, location Switzerland, OSEC Business Networks, and Swiss Tourism.
Dinnie (2007) has stated that country branding is an exciting and complex but controversial phenomenon; it is exciting because there is currently little theory, but a significant amount of a real-world activity. It is complex because it encompasses multiple levels, dimensions, and disciplines beyond conventional branding. Since it is highly politicized activity that generates conflicting viewpoints and opinions, it can be controversial. Country brand can also be influenced in the short- or long-term by major events. China’s country brand, for example, was deeply affected by the 1989 Tiannanmen Square event, the SARS epidemic in 2003, the 2008 earthquake in China and, later that year, the Olympic Games, and then the Chinese milk scandal which was a food safety incident. Some studies (Papadopoulos & Heslop, 2002) have investigated the influence of major events on the country image. In their opinion, place branding (also known as destination branding or place promotion) is a relatively new, so-called umbrella-type of approach to country branding, regional branding and city branding.

The small number of longitudinal studies suggests that country image may shift slowly over time, even in the absence of the major events (Darling & Kraft, 1996; Anholt, 2006). The majority of those studies, however, conclude that major events can help to speed up or hinder the process of country image change (Papadopoulos & Heslop, 2002).

As stated above, we can conclude that the country image and brand of the country that belongs to the public domain is a very complex and diverse discipline. If a country has a bad image, that will have a significant influence on the opinions and satisfaction of foreign investors and their investment decisions. Regarding the impact on the very image of the country, we can say that almost all the public functions performed by the politicians, statesmen, directors of public companies through officials influence on the creation of public opinion, or states in which country finds itself.

Universal formula for measuring the image of one country does not exist. Therefore, we should create the best possible atmosphere within the country in order to make the country image better. In some cases, governments of member states may collaborate with each other in order to build supranational region brands (Dinnie, 2007).

The proposed country brand strength index (further CBSI) in United States (further USA) helps to advance country brand research since it is the first index of its kind that provides objective measurement rather than survey perceptions. It provides organizations and governments with a tool to measure the strengths of a country brand, identify any weaknesses, and then revise the country brand strategy. This is especially important because countries, like companies, need to build, manage, and protect their brand (Fetscherin, 2010).
3.2 The impact of the country image on economies

As the name of the chapter suggests, question arises: “How much impact the image of a country affects the economy of a country or its economic growth?” When we take into consideration, as stated in the previous chapter, that the image of a country is extremely important and that without a positive image of the state there is no large and secure investments, than we can say that the image is of great importance for a developing country. If the country has a very good organizational structure and natural resources, then surely this country has to have a bright future.

Country's image has a big impact on production and quantity of export. If a country has a positive rating, or if its name links to the relevant product in a positive way, that will greatly affect the product and its production. Let's take China for example. It is generally known that the most successful and world-leading companies just moved their production to the China, but not because of the quality of Chinese manufacturing but because of cheap labor. So China has created a world image of wholesale power in economic terms concerning the production. It’s built her place at the top by allowing huge FDI with their money and great support, in desire to bring their country to the top (considering production).

In most of the shops in the world, one can find at least one product that is manufactured in China. No matter that they build themselves an image of top production country, they still have a problem. When someone mentions that the product is manufactured in China, most of the people think it is a copy of something or is sustainable or very low quality product.

In this example of China author tried to show that if a country has a strong will, and the regulated internal structure and not so strong resources, it may still attract big investments and thus create a favorable environment. China builds an image of a country where it is almost guaranteed that if you start production you will automatically be open up to the world market to export almost any product that you can imagine.

Demirbag, Sahadev and Mellahi (2010) in their work link the product and country image. For example when the Turkish group Ulker acquired Godiva chocolates brand, the group tried to downplay the country of origin in order to overcome country image problems. This issue is more pronounced in consumer products industry (Aguiar et al., 2007). These developments have created situations where products produced by corporations based in, and hence, identified with emerging economies selling their brands/products in developed markets (Aguiar et al., 2007). Brands from the same country share images or associations, which is referred to as country equity. Brands originating from a particular country can create intangible assets or liabilities in consumers’ minds, shared by other brands originating from...
the same country. Country equity is believed to be derived from the association of the product with a country. For example, brands such as Toyota, Mitsubishi and Suzuki could share certain associations, such as ‘reliability’, because of their common home country of Japan. Also, country equity might be product category specific. Country’s image could influence (positively or negatively) the equity of brands originating from that country, in a selected product category. That is, when consumers know that products bearing brand names such as Toyota, Mitsubishi and Suzuki, which are usually associated with Japan, are made in countries such as Malaysia or China, the consumer-based equity of these brands is likely to change significantly (Pappu, Quester, & Cooksey, 2007).

While several developed MNEs, such as Apple, HP, Dell and Nike, source their products from emerging economies through manufacturing tie-ups, these brands are still identified with their parent companies and their countries of origin and not with their countries of manufacture. Even when these developed country brands are sold in a developing country, the country of origin of their parent company is actively promoted. However in the case of developing country brands, there is still a reluctance to promote the countries of origin in developed country (Demirbag, Sahadev, & Mellahi, 2010).

Consumer brand images change as the brands are made in different countries. For example, brand image of Japanese cars suffered erosion when production was shifted to South Korea. Similarly, Sony suffered brand image erosion when made in the USA, whereas GE’s brand image improved when made in Japan. Also, there is a link between country and brand images. Further, a country’s image in a given market might be affected by the performances of major brands originating from that particular country. Thus the marketing literature suggests a bidirectional relationship between country image and brand image. Given that a brand image is a set of consumer brand associations organized in a meaningful way, the literature would appear to suggest a relationship between country image and consumers’ brand associations (Pappu, Quester, & Cooksey, 2007).

### 3.3 Elements of the country image

Country image is a multidimensional term. The ‘identity prism’ of the country (like the concept of corporate identity) consists of physical (geography, natural sources, demography), cultural (history, culture), personal (name, flag, celebrities), relational (with governments, international organizations) and controlled (conscious formation of country image) elements (Kaynak, Papadopoulos, & Heslop, 1993).

Concept of country image has been under constant research by academics and students at most of the Economics Business schools in Europe and the rest of the world. Researchers agree that
one country must have very strong image to attract new investments and investors. Even if it’s done a lot of research on country image, no one can define or give strict formula to calculate the country image. All one can do is try to use some country elements like geographical position, policy of the country, climate, economy, science etc. When we are talking about country image we can also it merge with the country brand image which is part of a concept of "country value". So if the country brands are measurable, the country image should be measured as well by country elements that we mentioned earlier in some way.

Country image is formed on the basis of experience and opinions about the nation or country and on, primarily, information received through the various channels. Possible channels are politics (internal affairs and foreign policy), telecommunication, entertainment (movies) and rumor. Country image comprises many elements: national symbols, colors, clothing, typical buildings, objects, tunes, pieces of literature, specialties of the political system, customs, historical heritage and many more (Jenes, 2005). It's very important that one country first builds its internal and external country image. Internal country image is opinion created by the opinion of its citizens. When citizens of one country have positive opinion of domestic products and when they prefer to use domestic products because of the quality and because its home product, then we can say that the citizens of the country have very strong and positive will to use home ground products. In that way they show that they believe in their country and they will use most of the products which are domestic. We can use also the example of tourism, atmosphere of politicians and all other things that are of public interest. External image is image which is created by the opinion what other people say about our country (Jenes, 2008).

Also very important aspect which is essential is lifestyle and quality of living. Lifestyle image of the people who are living in one country is a very important aspect. In order to have good lifestyle, all cities in one country must improve their activities, have work places, good education etc. One city should have some kind of good reputation for quality of life to attract new investors or generally new citizens to come to the city. People should stay there and bring their money to city. When we are talking about lifestyle as a factor of country image, we can say that one city must have planning methods, and future plans that will attract population to their place (Winfield-Pfefferkorn, 2005). Every city in one state is part of creator of country image. If one city has good reputation, that will affect the image of country. If we take Germany for example this country has great automobile industry. It is obvious that their country image will be seen through automobile industry, which is of good quality. Majority of products which are made in Germany are of high quality.

An image is set of individual beliefs, while stereotype is a set of common beliefs about a certain destination, which is a direct consequence of long-term country image. In some cases
that these two elements should be considered as one, and thus define image as an expression of objective knowledge, impressions, prejudices, thoughts and emotional thoughts of an individual or a group towards a particular place. The elements that define country image are: exports (country-of-origin effect), countries’ politics, its citizens, the attractiveness towards FDI, culture exports and tourist experiences in that country. A tourist, for example, in deciding where to spend his vacation, will definitely take into consideration previous positive experiences from other tourists, quality of products coming from that particular country, its culture, etc. (Brkic et al., 2012).

Country image is a sum of belief and impressions that people have about one place (Kotler, 1993). Images represent a simplification of a large number of associations and pieces of information connected with the place.

Figure 10: Place marketing strategy

![Place marketing strategy diagram](image)


With low implementation strategy and low strategic ability a place is a “loser”. These places have no capacity to take action in the implementation or the strategy work. “Expanders” are good in strategy and implementation. There is leadership for the long-term strategy supporting action plans. “Frustrators” get frustrated because they lack implementation skills although they have good strategic skills. “Gamblers” lack the strategic eye, and with luck and hard work gamblers may get some short-term success. The place marketing process should consist of a balanced mix of strategic and implementation efforts. That process comprises place marketing projects formed of place marketing practices. A project is often part of a larger unit of work, a program, which delivers a stream of new products, one from each project (Rainisto, 2003).

Attractive elements of country image for foreign investors, which will be analyzed in this paper, are:
- low inflation,
- economic growth,
- low exchange rate risk,
- good policies towards FDI,
- favorable tax regimes which means significant tax incentives for foreign investors,
- the transparency of legal regulations,
- low scale of corruption,
- labor market legislation,
- low level of crime,
- political stability,
- free trade.

Inflation causes many distortions in the economy. It hurts people who are retired and living on a fixed income. When prices rise these consumers cannot buy as much as they could previously. This discourages savings due to the fact that the money is worth more presently than in the future. This expectation reduces economic growth because the economy needs a certain level of savings to finance investments which boosts economic growth. Also, inflation makes it harder for businesses to plan for the future. It is very difficult to decide how much to produce, because business cannot predict the demand for their products at the higher prices they will have to charge in order to cover their costs. High inflation not only disrupts the operation of a nation’s financial institutions and markets, it also discourages their integration with the rest of the world's markets. Inflation causes uncertainty about future prices, interest rates, and exchange rates, and this in turn increases the risks among potential trade partners, discouraging trade. As far as commercial banking is concerned, it erodes the value of the depositor’s savings as well as that of the bank’s loans. The uncertainty associated with inflation increases the risk associated with investment and production activity of firms and markets (Gerolamo, 2013).

Foreign investment is essential for a country’s economic growth and prosperity. Specifically, investment by multinational corporations leads to an increase in standard of living of individuals. Multinational corporations demand high volumes of a product; products are generally labor intensive, leading to an increase in the demand for workers and thus allowing for the availability of more jobs (University of Michigan, 2013).

Exchange-rate risk is the risk of receiving less in domestic currency when investing in a bond that is in a different currency denomination than in the investor’s home country. When investors purchase a bond that is designated in another currency other than their home countries, investors are opened up to exchange risk. This is because the payment of interest and principal will be in a foreign currency. When investors receive that currency, they have to
go into the foreign currency markets and sell it to purchase their home currency. The risk is that their foreign currency will be devalued compared to the currency of their home countries and that they will receive less money than they expected to receive (Investopedia, 2013).

Since foreign investors have to pay extra costs in the form of bribes in order to get licenses or government permits to conduct investment, corruption raises the costs of investment. Such additional costs decrease the expected profitability of investment and so corruption is generally viewed as a tax on profits. Moreover, corruption increases uncertainty because corruption agreements are not enforceable in the courts of law. Corruption has a negative impact on the level of investment and economic growth, on the quality of infrastructure and on the productivity of public investment, on health care and education services, and on income inequality. All those factors are found to be important determinants of FDI location. Therefore, foreign investors would tend to avoid investing in countries with high levels of corruption (Al-Sadig, 2009).

Labor market regulations and standards decrease FDI inflows through the cost channel, but they increase FDI inflows through the productivity channel. Allowing for a non-linear relationship between different indicators of labor market flexibility and FDI inflows revealed that some degree of labor market standards and regulations may be attractive for foreign investors. Foreign investments to and from different countries and in different sectors are affected differently by different aspects of labor market standards and regulations (Parcon, 2008).

A high level of crime can have a negative impact on country image. It has a negative impact on the investment climate and can deter or delay both domestic and foreign investment, and hence growth. Also, it leads to higher cost of doing business, because of the need to employ different forms of security, and diverts investment away from business expansion and productivity improvement, and may lead to a less than optimal operating strategy. A high level of crime leads to business losses, arising from looting, arson, theft, extortion and fraud. It leads to loss of output because of reduced hours of operation (including avoiding night shifts) or loss of workdays arising from outbreaks of violence, and avoidance of some types of economic activity. It also reduces output because of the temporary (from injury) or permanent (from murder) exit of individuals from the labor force. In the latter case, the loss is not just current output, but the output in the remaining years of the individual’s working life. It can also cause a permanent shut-down of firms or relocation to less crime-prone countries (World Bank, 2013a).

Visual identity, country’s slogan, national brands, specific product type, airports, highways and total country’s infrastructure contributes to the total brand value of one country. Term
country’s image is explained through tourism, where image is seen as impression which people have about the country they live in. Also, the image of touristic destination is one of the key factors in the process of making decisions connected to the tourism together with the approach, population concentration, infrastructure and possibilities they offer. Location image has important impact on the location choice and the place where you will spend your holiday. Therefore, measuring and management of that image should be priority for marketing and communicational staff in hotels, resorts and national touristic offices.

4 THE IMPACT OF COUNTRY IMAGE ON FDI IN BH AND SOUTHEAST EUROPE COUNTRIES

Since two concepts FDI and country image are already discussed and overviewed, we will see how they are depending from each other. When we unite these two concepts, and compare how the county image affects FDI, we will see that they are in a dependent relationship. Therefore, state cannot attract foreign investment and investors if there is no built country image as we have already established in previous part of this work. In the chapter that follows we will adapt to connect these two terms and try to show how they affect the economy of a country, and how is that reflected on the other life goals of everyday situations. To achieve this, we will use a variety of literature and statistics, which are offered by the relevant agencies.

We will also look at examples of countries that implement this strategy successfully and impacts of the image on FDI, and we will also present some statistics that are consistent with our statements. Developing countries that know how to take advantage of positive country image and attract foreign investment will certainly much easier and better refresh their economic condition.

Regarding the situation in BH we will give a special attention and show the current state in our country, what the agency for the promotion of the state has done so far, and how BH is trying to attract foreign investors. Also certain statistics will show the current situation in BH when it comes to FDI.

4.1 Relationship between country image and FDI

It is necessary to develop a better understanding of the role of the image of countries as locations for investment, and of the potential influence of this image on investors’ decisions. The subject is significant for countries interested in enhancing the effectiveness of FDI promotion programs, investors who want to improve their decision-making process about investment locations, and researchers with interests in the role of country images in buyer
choices. From the FDI perspective, countries are “products” whose image may affect the choices of investors, as “buyers”, among alternative locations (Papadopoulos & Heslop, 2002).

Over and above the creation of a business-friendly environment, it may be important for a potential host country to actively undertake investment-promotion policies to fill in information gaps or correct perception gaps that may hinder FDI inflows. A commonly used definition of investment promotion is “activities that disseminate information about, or attempt to create an image of the investment site and provide investment services for the prospective investors”. Any investment promotion strategy must be geared towards the following: image building activities promoting the country and its regions and states as favorable locations for investment; investment generating activities through direct targeting of firms by promotion of specific sectors and industries, and personal selling and establishing direct contacts with prospective investors; investment-service activities tailored to prospective and current investors’ needs; and raising the realization ratio (Wells & Wint, 1990).

Branding a country to attract FDI is concerned with creating an attractive image of a country as a place to invest. As such, branding is usually carried out by a promotion agency and is regarded as one of three promotion techniques, the other two being providing information to potential investors and providing services to prospective investors, respectively. Branding for FDI is not new, but it has definitely intensified as globalization has brought about an unprecedented growth of foreign direct investment. Branding plays a meaningful role in so far as other tools available to countries to attract foreign investment (i.e. tax incentives, infrastructure investments, government grants, export processing zones) can be easily imitated and can sometimes exceed the benefits the country might get.

Countries also have to deal with competition from sub-national governments at the state, province and city-levels, which may pursue their own self-interests. As this phenomenon expands, investors are increasingly likely to think of places other than countries. This is already the case of world cities such as New York, Paris and London. Therefore, countries need not only benchmark against external competitors but also coordinate the approaches of individually marketed regions or cities within a country so as to effectively leverage the country brand (De Vicente, 2004).

Many countries, developed and developing, as well as cities, countries, and states, are devoting resources to promoting investments in an effort to bridge the information gap. Companies also recognize the imperfections of markets and for this reason establish marketing programs, even for industrial products that will be sold to other firms.
Some countries may not need to promote investment. China, for example, has never had a national promotion effort. But when the joint venture law opening China to FDI was implemented in 1979, businessmen flocked to China in droves. Policy change itself generated publicity and interest. China's huge population also inspired visions of huge markets, which was enough to induce a number of firms at least to look, even though the policy framework was still rudimentary. Russia has had similar advantages, but has not yet capitalized on them. The same cannot be said for Morocco and Tunisia, two Mediterranean countries that have markedly improved their investment policies. Both countries need intensive promotion campaigns like Singapore's, Malaysia's, and Ireland's to get attention (Weigel, Gregory, & Wagle, 1997).

The working assumption nowadays is that in a relatively non-distorted domestic policy environment, FDI brings in much-needed capital, technical know-how, organizational, managerial and marketing practices and global production networks, thus facilitating the process of economic growth and development in host countries. FDI can complement local development efforts by (Rajan, 2004):
- increasing financial resources for development,
- boosting export competitiveness,
- generating employment and strengthening the skills base,
- protecting the environment and social responsibility, and
- enhancing technological capabilities (transfer, diffusion and generation of technology).

Technology transfer from FDI in turn operates via four related channels (Rajan, 2004):
- vertical (backward and forward) linkages with suppliers or purchasers in the host countries,
- horizontal linkages with competing or complementary companies in the same industry,
- migration of skilled labor, and
- the internationalization.

Over and above the creation of a business-friendly environment, it may be important for a potential host country to actively undertake investment-promotion policies to fill in information gaps or correct perception gaps that may hinder FDI inflows. Any investment promotion strategy must be geared towards the following (Rajan, 2004):
- image building activities promoting the country and its regions and states as favorable locations for investment;
- investment generating activities through direct targeting of firms by promotion of specific sectors and industries, and personal selling and establishing direct contacts with prospective investors;
- investment-service activities tailored to prospective and current investors’ needs; and
raising the realization ratio (i.e., percentage of the FDI approvals translated into actual flows).

For one country's image it can be said that it represents storehouse of trust which becomes more important as choices are getting bigger. Building the country's image is of special value for countries which are new when it comes to attracting FDI, and which undergo big political and economic reforms or they are geographically really small. Making image better in the world is the first step for attracting FDI. One country's image is important for successful internationally positioned countries and for individual business subjects. Factors which influence changing of image are: globalization, multinational companies, outsourcing, strengthening of corporative and productive brands, country's branding.

It is necessary to highlight marketing approach in defining the word image, because that is very important when it comes to attracting FDI. According to that approach the image of country represents the general perception of consumer from one country which is formed according to previous perception of strong and weak sides of that country. The country’s image is shaped by huge number of different determinants such as: representative products, national characteristics, economic surrounding, political surrounding, history and tradition. These determinants can, but they don’t have to be under direct control of country’s institutions (Skoko, 2012).

Most countries always have certain international image which influences on the attraction of FDI. One country’s international image is possible to change because country’s strategies and international circumstances change all the time. Many countries changed in relatively short period of time and in that way they affected changing their own image and attracting FDI. Some of these countries are: Ireland, Slovenia, Singapore, New Zealand, Spain, Russia, Liverpool, Beijing, and others. In order to understand image of one country, another concept of brand has been introduced. The value of country’s brand represents emotional value which is the result of the existence of brand's consumers association with the name of country’s origin. The country which is connected with the brand mostly influences on the consumers’ attitudes. Companies which originate from the countries with the negative brand may have significant problems when competing on world’s market.

FDI may not be good for all companies, and positive past experiences may not carry over to future investments. Vahter, Masso and Varblane (2007) find that it is only the most productive companies who become multinationals and only the most talented firms that have the knowledge and managerial skills to undertake profitable outward FDI projects. This means that the results cannot be directly transferable to all companies. Also, it is likely that the
companies which stood to benefit the most from investing abroad did so first and reaped the greatest benefits – perhaps the remaining firms will not gain so much from investing abroad.

However, the experiences of highly productive firms might lead to better functioning investment projects in the future. That suggests that there are positive spillovers from investing firms to other firms in the home country. This could, for example, be due to managerial and technological spillovers or because outward FDI improves the image of the country abroad and thus paves the way for other companies (Sunesen, Jespersen, & Thelle, 2010).

4.2 Country image of Southeast Europe countries

Benchmark countries are the countries, against which the performances of other countries are compared, especially in economic analysis. A benchmark country may be chosen on basis of population, industrial base, and other similarities to other countries (United Nations, 2010). In this paper benchmark countries are: Serbia, Montenegro, Albania, FYR Macedonia and Kosovo. We will call them SEE6 (South-Eastern European 6), with the Bosnia and Herzegovina included. They were chosen on regional basis, basis of similar growth and the fact that all these countries are transition countries like Bosnia and Herzegovina. The elements of country image which will be compared bellow are mentioned before in the paper: inflation, economic growth, exchange rate risk, policies towards FDI, tax regimes, transparency of legal regulations, scale of corruption, level of crime, labor market legislation, political stability, free trade.

Table 2 presents the annual inflation rates of these six countries at the end of 2011. The lowest annual inflation rate was in Montenegro, than Albania and Bosnia and Herzegovina. FYR Macedonia is at the fourth place, than Kosovo, and the worst is Serbia with the highest level of annual inflation rate of 11.2 %.

<table>
<thead>
<tr>
<th>Country</th>
<th>Annual inflation rate, in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>3.5</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>3.7</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>3.9</td>
</tr>
</tbody>
</table>
The main measure of economic development is GDP growth. Serbia, Albania and Montenegro have achieved the most dynamic growth, nearly doubling their GDP per capita.

After average annual growth of just 2% in 2010 and 2011, and mirroring Eurozone developments, in the first half of 2012 SEE6 countries entered recession. Led by Serbia, which accounts for almost half of SEE6 GDP, regional economic activity faltered in part because of the severe winter but also because of severely shrinking demand, both external and domestic (World Bank, 2012) (Table 3).

<table>
<thead>
<tr>
<th>Country</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>3.3</td>
<td>3.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>-2.9</td>
<td>0.7</td>
<td>1.3</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>-0.9</td>
<td>2.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Kosovo</td>
<td>2.9</td>
<td>3.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Montenegro</td>
<td>-5.7</td>
<td>2.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Serbia</td>
<td>-3.5</td>
<td>1.0</td>
<td>1.6</td>
</tr>
</tbody>
</table>


The banking systems in the SEE6 region are relatively healthy, even so with financial sector difficulties that parent banks are facing currently. But the tools available to central banks in SEE are limited. Most can set a key policy rate (usually some kind of short-term repo rate), which in turn affects interest rates elsewhere in the economy; they can vary the reserve requirement rate (with differential rates depending on the denomination and maturity of the deposit); and they can use foreign reserves to intervene on the foreign exchange market to defend the currency. Central banks also have used a combination of these policies in the period of crisis (Anastasakis, Bastian, & Watson). In the figure below there is a comparison of average exchange rates in SEE6 from 2007 to 2011. Montenegro and Kosovo uses the euro as their currency. We can see that FYR Macedonia has the most stable currency because its
exchange rate is falling down. Albanian and Serbian exchange rate is rising during these years, and the Bosnian exchange rate is fixed.

The successful transition experience of Central European countries and the Baltic, attributed to some extent to their ability to attract large amounts of foreign investment at an early stage, has drawn attention to the importance of the policy environment and catalyzed efforts to encourage FDI flows in SEE6. The policy environment in Southeastern European countries has been steadily improving in recent years. All countries have made significant progress in bringing down inflation; promoting private sector development through privatization, deregulation, and a better business environment; and improving public administration. These policies are doubtless encouraging foreign investment. Weaknesses, however, still remain in a number of areas. Perhaps the most fundamental relate to governance and the business environment. All SEE countries, each to a different degree, need to make further efforts to simplify complex tax and customs laws and regulations, facilitate access to land and construction permits, strengthen the judiciary, accelerate the resolution of commercial disputes, and eliminate remaining discriminatory provisions against foreign investors. For reasons both political (the need to expand regional cooperation following the wars of succession of former Yugoslavia) and economic (the desire to avoid a “beggar-thy-neighbor” policy to attract FDI through tax and other incentives), Southeastern European countries have adopted a regional approach to shaping the investment environment. These policies are desirable in them and may have generally beneficial effects on the economies of Southeastern Europe (Demekas, Horvath, Ribakova, & Wu, 2005). Southeastern European countries have agreed to work toward (Demekas, Horvath, Ribakova, & Wu, 2005):
- unifying FDI registration and approval procedures with those for domestic firms;
- allowing acquisition of real estate by foreign investors for FDI purposes;
- minimizing FDI-related requirements on statistical reporting, work and residence permits;
- eliminating discrimination in access to government procurement contracts; and
- removing obstacles to FDI in financial and professional services.

Tax and tariff regime in the countries of SEE6 consists in a package of laws, directives, regulations and tax agreements with other countries included in the tax system of these countries. Comparison of tax rates of SEE6 is presented in the table below.

<table>
<thead>
<tr>
<th>Country</th>
<th>Personal income tax rate</th>
<th>Corporate tax rate</th>
<th>Value added tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>10</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>10</td>
<td>10</td>
<td>17</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>10</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td>Kosovo</td>
<td>0-10</td>
<td>0-10</td>
<td>16</td>
</tr>
<tr>
<td>Montenegro</td>
<td>9</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>Serbia</td>
<td>15</td>
<td>10</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Tax Rates, Tax Rate Guide and Tax Help Website, 2013, pp. 1-20

Albanian tax legislation is dynamic and prone to constant changes, making it easier and less costly for the companies to penetrate into the domestic market. That is why Albania keeps being a magnet for the foreign investors. 2011 is further confirming that. Characteristic of this year is the amendment of laws, decrease of social security contributions and accessibility to electronic filing and payment. Coupled with natural interest for the small Balcan country, sandwiched between Italy and Greece, foreign investors are funding some of their projects to bring energy to the domestic market (Wirld Tax, 2013). Taxation in BH may be considered as complicated, but no more than it is in any other complex state community. In BH exists distinct jurisdictions between direct and indirect taxation. Indirect taxation in BH is regulated under state level and direct taxation is regulated under level of BH entities and Brcko District of BH. But, foreign investors are entitled to transfer abroad, freely and without delay, in convertible currency, proceeds resulting from their investment in BH. Investment capital is not subject to taxation in BH (except for the payment of customs duties and customs fees on
investments). Also, profits transferred from abroad are not taxed if they have been previously subject to taxation abroad (Praxity, 2011). Macedonia has one of the most attractive tax packages in Europe. The flat tax rate introduces a simple tax system that stimulates successful companies to further improve operations and increase profitability. Also, companies will use the funds saved from the lower taxes to increase their competitiveness. Macedonia has signed numerous double taxation agreements in order to avoid double taxation of foreign companies operating in Macedonia (BICC, 2013). Kosovo’s tax policies are streamlined and efficient. Unlike many other countries in the region, Kosovo has laid out a taxation system that is simple and that reduces the tax burden for individuals and businesses. Compliance is straightforward and taxes are few. Furthermore, the Government is introducing tax incentives to support domestic production (Eciks, 2013). The tax system in Montenegro has recently significantly advanced in ways more than one, including the improvement in administrative implementation of the tax legislation. The actual tax policy tends to create a tax environment for dynamic growth of the economy to also stimulate direct investments, placing Montenegro among the most competitive European tax systems (Eurofast, 2013). Serbia’s tax regime is highly conducive to doing business. Corporate profit tax is the second lowest in Europe, while value added tax, salary tax, and social insurance contributions are among the most competitive ones in Central and Eastern Europe (Belgrade Net, 2013).

Most public administration in SEE6 suffer from lack of transparency, meaning a lack of information about use of public resources, communication and impartiality in decision-making, as well as accountability of public officials (lack of a merit-based civil service), which again translates into lack of public trust. Inadequate checks and balances and internal controls as well as an overall absence of civil society oversight increase the potential for administrative discretion. Hierarchical, centralized fiscal structures create disincentives for innovation and cost saving and encourage dependencies and cronyism. Municipalities that succeed in collecting revenues and controlling costs are penalized by measures that transfer a sizeable amount of the monies to the central government. On the other hand, decentralization of local governance can also give significant discretion to local officials without real accountability and transparency. Lack of transparency in budgetary processes, procurement policy, and use of public resources has undermined public trust and created unfavorable conditions for legitimate business (Wilson Center, 2013).

Among the most frequent stated causes for the perception of SEE6 countries as subject to rampant high-level corruption are several common characteristics determined by their transition towards democracy and free market. Examples of often cited vulnerable points vary and can be counted as common regional challenges. One of the most visible costs of corruption in the region is economic, since the region depends on foreign capital and expertise for sustainable growth. Corruption discourages investment and, besides, corrupt
administrations hinder the management of many EU aid programs aimed at smoothing their transition (Alistar, Calistru, Cospánaru, & Maroiu, 2010). The corruption perceptions index is used for comparison between corruption levels of SEE6 countries. That index ranks countries and territories based on how corrupt their public sector is perceived to be. A country or territory’s score indicates the perceived level of public sector corruption on a scale of 0 - 100, where 0 means that a country is perceived as highly corrupt and 100 means it is perceived as very clean. A country's rank indicates its position relative to the other countries and territories included in the index. In the table below we can see that Albania is the most corrupted country among analyzed, and that FYR Macedonia is the less corrupted. Also, their corruption perceptions index has a similar value which gets going between 33 and 43.

Table 5: The corruption perceptions index, 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>Corruption perceptions index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>33</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>42</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>43</td>
</tr>
<tr>
<td>Kosovo</td>
<td>34</td>
</tr>
<tr>
<td>Montenegro</td>
<td>41</td>
</tr>
<tr>
<td>Serbia</td>
<td>39</td>
</tr>
</tbody>
</table>


The spread of organized crime and its manipulation of corrupt practices are among the strongest impediments to the development of SEE6. Regional instability in the past years has undermined effective law enforcement throughout the region. It has raised considerably the cost of regional trade, and thus the stakes of smuggling, which consequently has become a breeding ground for organized crime on a regional scale. Organized crime, particularly the type which relates to trafficking has turned into one of the most important mechanism for unlawful redistribution of national wealth. This slows down economic growth and causes social deprivation. Further, corruption and organized crime disrupt the transition to a market economy by destroying fair competition and the potential for free private initiative. Criminal networks endanger the stability of democratic institutions by capturing government through systemic corruption. The impact of dirty money in politics is especially negative through the financing of political parties and of election campaigns. This has had a negative impact on the public’s trust in the emerging democratic and market economy institutions and has bred disillusionment with reforms in general. One of the most dangerous forms of corruption,
which destabilizes both internal and regional security in SEE6, is the symbiosis between organized crime and representatives from the security sector in the Balkan countries. The gravity of the problem calls for bold and radical measures which should upset entrenched interests. Traditional bureaucracies – be they national or international – cannot muster the type of public support needed if these reforms are to be successful. Thus, a new type of public-private partnership is necessary to secure public backing for the measures against organized crime and corruption. This partnership should seek to include civil society and private sector institutions as stakeholders in the process of prevention and enforcement (CSD, 2003).

With a double-dip recession, unemployment in the SEE6 continues to rise. Three years after the global crisis hit the region, labor markets in most of its economies are still deteriorating. Unemployment in Serbia and BH is much higher in 2012 than it was in 2008. Serbia’s unemployment rate soared by 11% – an unprecedented loss of jobs – and in BH the rate went up by almost 5%. Moreover, the job losses in the SEE6 resulted from the sharp economic recession and double-digit declines in output. In contrast, the output contraction in Serbia and BH has been much milder, but the labor market deterioration has been much more protracted. Montenegro’s unemployment rate is also higher than it was before the crisis, though the impact has been less stark. Albania is probably in the same group, with a return of some migrants from Greece, adding to the unemployment problem, but labor force survey data are not available. FYR Macedonia and Kosovo performed better because these economies have been growing moderately in recent years (World Bank, 2013b). Kosovo has the highest unemployment rate in 2009 in Europe, and its employment rate is very low. Unemployment rate in 2011 is also the highest in Kosovo – 45.4%, then in FYR Macedonia – 30.9%, while in BH it reached 27.6%. Montenegro and Serbia are after Kosovo, FYR Macedonia and BH, with unemployment rate of 24.5% and 23.7%. The lower unemployment rate is in Albania – 11.5%.

Table 6: Unemployment rates, in %

<table>
<thead>
<tr>
<th>Country</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>13.1</td>
<td>12.5</td>
<td>11.5</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>24.0</td>
<td>27.2</td>
<td>27.6</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>33.8</td>
<td>32.2</td>
<td>30.9</td>
</tr>
<tr>
<td>Kosovo</td>
<td>45</td>
<td>47.0</td>
<td>45.4</td>
</tr>
<tr>
<td>Montenegro</td>
<td>19.1</td>
<td>19.7</td>
<td>24.5</td>
</tr>
<tr>
<td>Serbia</td>
<td>17.4</td>
<td>20.1</td>
<td>23.7</td>
</tr>
</tbody>
</table>

Source: Global Finance, Country Economic Reports and GDP Data, 2013, pp. 1-20
There is nothing that scares away foreign investment more than political instability. Albania’s politics have been on edge since the 2009 parliamentary elections. Since then, the country has gone through bouts of instability, including a period when the opposition boycotted parliament, held a hunger strike and mobilized street politics. The current impasse is the longest political crisis the country has seen since the installation of democracy in the 1990s. Albania’s prolonged political instability added to the political deadlock in the FYR Macedonia, Serbia’s recent anti-government demonstration and the difficulties regarding the forming government coalitions in Kosovo and Bosnia have created an explosive cocktail raising fear of the return to serious instability in the Balkans. Now is the time for the international community to prevent a chain reaction of instability in the Balkans that could undermine yet more the ‘weakest links’ in the region, Bosnia and Kosovo (Trans Conflict, 2013). The process of constitution reform, coupled with a quite complex electoral system, is the source of political instability in BH. Political instability is damaging Bosnia’s prospects of joining the EU and causing some officials to worry that the Balkan country could one day slide back into conflict. Foreign investment has cratered in the last three years due to political instability (East of Center, 2013). FYR Macedonia is politically stable, and political violence is rare. It is emerging economy with a strong political stability. Due to the political, geographical, and strategic importance of Kosovo, any complacency would inevitably lead to the destabilization of the whole region. Not only FYR Macedonia and Montenegro – where large ethnic Albanian minorities live – would be affected by the failure to resolve the Kosovo question; it would also affect BH. Kosovo can thus be seen as the key security issue in the Balkans. Once a viable solution is found that satisfies Belgrade (capital of Serbia) as well as Pristina (capital of Kosovo), the danger of political instability will be dramatically reduced. At the same time, political stability would improve the economic situation of large parts of the region (World Security Network, 2013). Political stability is the biggest advantage of Montenegro. EU is firmly convinced that Montenegro can become an example to other countries in the region if it continued with the necessary reforms (Limun.HR, 2013). Political fragility in Serbia is a result of its party scene. It is too fragmented and unsettled. Small parties prevent development of coalitions and stable and sustainable governments. Fragmented and unstable coalitions have very damaging implications for the whole political, legal and moral system. Governments spend the majority of their energies on bare survival, on permanent redistributions of sinecures and privileges. To stay in power, many acts of corruption and violations of the legal system have been ignored. Whole segments of the civil service have been occupied by incompetent and unqualified persons from small parties. This has several direct economic consequences: insecurity of property, foreign investment, delay of the beginning of public enterprise restructuring (Djurkovic, 2006).
Free trade agreements ensure the fulfillment of trading needs, especially trading of goods and services missing in the country, they influence the price reduction, increase of economic competitiveness, they create incentives for the national production to be competitive in the open market through technology improvements, they influence smuggling decrease and create reciprocal influence among different markets due to the different tariff treatment, as well as export production incentives and increase of re export (CEFTA, 2013a). Countries of SEE6 have concluded a series of bilateral free trade agreements between each other with a view to expanding regional trade and thereby promoting growth, investment and jobs in the region. Table below presents the free trade agreements of the countries of SEE6.

Table 7: Free trade agreements

<table>
<thead>
<tr>
<th>Country</th>
<th>Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>- CEFTA 2006 agreement on amendment of and accession to the Central European free trade agreement</td>
</tr>
<tr>
<td></td>
<td>- Free trade agreement with Turkey</td>
</tr>
<tr>
<td></td>
<td>- Stabilization and association agreement with the European Union</td>
</tr>
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FDI for analyzed countries are represented in the chart which follows. It’s evident that Serbia is on the first place with 2,700,435,377 US $ FDI.

According to FDI inflows, Albania is on the second place with 1,369,658,568 US $, then Montenegro (558,052,752 US $), Kosovo (546,217,229 US $) and FYR Macedonia (495,098,344 US $), while the last place is occupied by Bosnia and Herzegovina (379,780,001 US $).

FDI – which is important to financing, investment, and growth in the SEE6 – saw a robust increase of 20 % in 2011 but has since fallen off noticeably. FDI more than doubled in Serbia and FYR Macedonia in 2011; car parts for industry and finance (FYR Macedonia) were among the most successful sectors. But in the first half of 2012 FDI moderated in FYR Macedonia, Kosovo, and even declined in Montenegro and Serbia, mainly because of the negative impact of EU crisis, the high 2011 base in Serbia and FYR Macedonia, and significant outflows from Serbia. But Albania received 30 % more FDI, concentrated in financial intermediation, services, and industry; and privatization of four small hydropower
plants could result in additional revenues. By September, FDI in Montenegro well recovered, rising by almost 12 percent on annual basis (World Bank, 2012).

FDI per capita SEE6 in the end of 2011 is given on Figure 13. The biggest FDI per capita was done by Montenegro, then Serbia, Kosovo, Albania, FYR Macedonia, while Bosnia and Herzegovina is on the last place.

Figure 13: FDI per capita of the countries SEE6 in the end of 2011, in US $

Southeastern Europe is a complex, diverse region with a difficult recent history. The violent break-up of the Socialist Federal Republic of Yugoslavia (SFRY) at the beginning of the 1990s was followed by several years of turmoil and conflict, which adversely affected the transition process throughout the whole region. The last major conflict was in Kosovo in 1999 and resulted in the province being placed under provisional United Nations administration. Since then, the region has made significant progress and achievements (EBRD, 2004).

Attracting FDI constitutes one of the primary aims of the regions and cities of Southeastern Europe after the fall of communist regimes in 1989. In order to satisfy this aim, cities are characterized by a plurality of efforts to create their images based on their distinctive characteristics and in this way attract investments and specialized human resources. Factors such as agglomeration economies, access to European markets, urban infrastructure, as well as qualitative “soft” factors such as the quality of life and urban aesthetic, are considered as location criteria for business establishment in potential locations (Metaxas, 2008).
The global economic crisis caused a deep recession (low economic growth at present), a significant decrease in the trade exchange and an increase in unemployment in South-Eastern European countries. Their fiscal situation deteriorated, as well. Some countries from this region had to apply to international financial institutions for extra funding (Romania, Serbia, Bosnia and Herzegovina and FYR Macedonia). The main cause of the deep crisis which countries in this region encountered was the severe reduction in foreign capital influx, this being the major source of their rapid economic development before 2008. The slowdown concerned not only short-term portfolio investments but also foreign direct investments, which require longer capital engagement. The financial crisis and the perception of this region as politically unstable have also led to a significant increase in the costs of gaining capital for financing investments and servicing debts. This is seriously impeding the resolution of serious problems in these countries, which are linked to the underdeveloped transport infrastructure and electricity shortages (OSW, 2013).

A favorable investment environment is a vital prerequisite for FDI to come in a country. Experience shows that the largest inflow of FDI was recorded in those transition countries, which have the most favorable investment environment thanks to the successful implementation of reforms. In this regard, the SEE countries have made the greatest progress as compared to other countries in transition, including the SEE ones. The investment climate in the SEE cannot be regarded as attractive compared to other regions although this scenario is changing. In large measure, it reflects the hitherto modest progress in carrying out economic and social reforms in the region (Penev & Rojec, 2004).

Despite two serious recessions during the past decade, the periods of macroeconomic instability and delays in carrying out reforms, which alternated with the shorter periods of ostensible economic recovery, the region has achieved some favorable results. The SEE countries mostly completed the initial phase of transition, whereby they made evident progress in liberalization and small–scale privatization, and achieved a certain degree of macroeconomic stability. In comparison with other areas of reforms, SEE made the greatest progress with respect to price, trade and foreign exchange liberalization (Penev & Rojec, 2004).

The lowest annual inflation rate at the end of 2011 was in Montenegro, than Albania and Bosnia and Herzegovina. FYR Macedonia is at the fourth place, than Kosovo, and the worst is Serbia with the highest level of annual inflation rate of 11.2 %. Real economic growth was the highest in Kosovo, than in Montenegro, Albania, FYR Macedonia, Serbia, and Bosnia and Herzegovina at least.
The banking systems in the SEE6 region are relatively healthy, even so with financial sector difficulties that parent banks are facing currently. But the tools available to central banks in SEE are limited. Most can set a key policy rate (usually some kind of short-term repo rate), which in turn affects interest rates elsewhere in the economy; they can vary the reserve requirement rate (with differential rates depending on the denomination and maturity of the deposit); and they can use foreign reserves to intervene on the foreign exchange market to defend the currency. FYR Macedonia has the most stable currency during past years because its exchange rate is falling down. Albanian and Serbian exchange rate is rising during these years, and the Bosnian exchange rate is fixed.

The policy environment in Southeastern European countries has been steadily improving in recent years. All countries have made significant progress in bringing down inflation; promoting private sector development through privatization, deregulation, and a better business environment; and improving public administration. These policies are doubtless encouraging foreign investment.

Tax rates are the lowest in Kosovo and Montenegro, but the highest in Albania and Serbia. Albania is the most corrupted country among analyzed, and that FYR Macedonia is the less corrupted. One of the most dangerous forms of corruption, which destabilizes both internal and regional security in SEE6, is the symbiosis between organized crime and representatives from the security sector in the Balkan countries.

Unemployment rate in 2011 is also the highest in Kosovo – 45.4%, then in FYR Macedonia – 30.9%, while in BH it reached 27.6%. Montenegro and Serbia are after Kosovo, FYR Macedonia and BH, with unemployment rate of 24.5% and 23.7%. The lower unemployment rate is in Albania – 11.5%. Serbia attracted the largest amount of FDI at the end of 2011, and the BH is at the last place.

The main obstacles to FDI flows into the SEE region are (Penev & Rojec, 2004):
- High investment risks (due to circumstances in some part of the region and more generally, historical perceptions);
- The lack of adequate and modern physical infrastructure;
- Delays in bank restructuring and rehabilitation;
- Underdeveloped financial markets;
- Delays in large-scale privatization and enterprise reform;
- Inadequate development level of institutional infrastructure;
- Administrative barriers to FDI;
- Unfavorable legal environment;
- Inadequate institutional strategy and promotional capacities to attract, retain and maximize FDI inflows.

High political risks in the region in the past decade posed one of the greatest obstacles to FDI inflow although this varied amongst countries. Private foreign capital is very sensitive to any investment risk, so that the countries with an unstable political and economic environment are almost unattractive to private foreign investors. As long as there are relatively high political risks, it will be difficult to attract this form of investment despite good prospects for highly profitable investments. During the past decade, SEE was a region with very high investment risks due to armed, ethnic and political conflicts that broke out after the collapse of the former Yugoslavia. The suspension of hostilities and relative relaxation of political tension in the region were of utmost significance for the lessening of political risks, but not for their total elimination or changing lingering perceptions. In Kosovo there is still a high degree of political tension and instability (Penev & Rojec, 2004).

The SEE6 region as a whole remains in recession during 2012 with growth in 2013 expected to be sluggish at 1.6 percent. Growth is expected to recover because of a bounce-back of agriculture, increasing auto exports from Serbia, and some easing of external and domestic demand conditions, assuming that the risks to the Eurozone and global economy do not materialize. Growth in 2013 is projected to be lowest in BIH (0.5 percent), and against fastest in Kosovo (3.3 percent). Serbia’s economic growth is expected to reach about 2 percent in 2013, driven mainly by accelerated exports and the value chain from the large FIAT factory and by a cyclical agricultural bounce-back. But growth will not be enough to make a dent in unemployment, which may even keep rising (World Bank, 2012). Besides that, growth will be positive for image of these countries and attracting more FDI.

4.3 The country image of Bosnia and Herzegovina

The case of BH is very interesting, since its reputation is significantly hampered by the war which broke out in Yugoslavia and led to the dissolution of the same. BH is a very interesting market for foreign investors, but having in mind that for this country war is not an unusual thing; foreign investors analyze the whole situation with a great caution before they decide to invest in BH.

Insecurity, instability and war are the first associations when the average European citizen hears the name of BH. BH is rarely recognized by a quality of its products for which is known to wider masses. Unfortunately, when someone mentions BH, most people remember the concept of war which affects the opinion of foreign investors and their refusal (Skoko, 2012).
In the past few years, people are trying to fix these images through various distribution channels like the tourism, sports, education etc. It is not certain when BH will try to apply different policy or when it will start supporting new and young investors. However, this support will surely attract potential investors and it will improve the image of BH. What is certain is the fact that BH will enter the EU very soon, but nobody deals with the improvement of the BH’s country image.

BH’s plan is to join the EU and if it wants to join, the country image and national brand must be improved. BH still did not put enough effort financially into this part of country advertisement. In order to present good country image, we can take Kazakhstan for example because they invested 10 million dollars in 2007 in building their national image (Bogoviyeva & Dostiryarova, 2008). What we suggest is that BH must set aside certain funds and allocate a number of national products. These should be products that have history and tradition of our region and through products the soul and honesty of Bosnian people should be seen.

BH have registered agency for promotion of home domestic products under the name "Kupujmo domace" (Buy domestic products) but they didn’t make any big contribution in promoting the country because of the lack of funds from state budget (PROMO International, 2006). They started good in a way that they created domestic products logo which should be placed on every product which is manufactured in BH. They had a plan that logo becomes recognized around the globe but they didn’t do anything for promoting that logo and products in foreign countries. It’s not enough to create logo and to put it on product. Country didn't do anything to promote herself on worldwide enterprise. They should encourage the agency by giving them support with the money and they should approve that every domestic product should be branded. It is obvious that each product must satisfy decent standards of quality before export. This agency should create domestic products image, and if these products place well, that will certainly have positive effect on the country’s image. Through this agency we should involve more products as we can, produce more domestic products, give them the best quality we can, create good environment for foreign investors to come here and start their production (PROMO International, 2006).

Beside this agency, BH have also agency for promoting FDI called FIPA and agency for promoting export trade BH Export Promotion Agency (further BHEPA). FIPA of BH is a State Agency established with the mission to attract and maximize the flow of FDI into BH, and encourage existing foreign investors to further expand and develop their businesses in BH (FIPA, 2012b). They are supposed to facilitate the interaction between public and private sectors, and have an active role in advocacy in order to contribute to constant environment improvement for business investment and economic development. Promote a positive image of BH as a country is attractive to foreign investors (FIPA, 2012b).
BHEPA promotes BH abroad through organizing meetings of local businessmen with foreign partners and by organization of specialized markets (BHEPA, 2012). In that way, the cheapest marketing approach on BH market is being organized.

Taking into account the geographical position of BH, this lays on 51.129 km² of which is 53% of the total territory of natural forests and arable land (OSCE, 2007). Also one of the few countries that can brag about the natural resources of drinking water is BH. Unfortunately, these resources are now mostly unused. Creating a positive image and exploitation of the natural resources for production should be performed in many ways to improve the economic picture of BH. If we had good quality image of BH, that would attract many tourists and potential partners to come to our country and spend some time here and get acquainted with all the natural resources that country possesses.

There are so many reasons to invest in BH. At first, BH has signed the Central European Free Trade Agreement (further CEFTA), creating a free trade zone with access to a large consumer market (DEI, 2012). Also, BH has the most stable currency in the South East Europe, which is directly linked to the euro. Central Bank of BH (further CBBH) maintains monetary stability by issuing domestic currency according to the Currency Board arrangement with full coverage in freely convertible foreign exchange funds under fixed exchange rate 1 KM: 0.51129 EUR. The banking sector dominates the financial system in BH with 84% of the total assets of the financial sector (end 2010) (FIPA, 2012a). Privatization of the banking sector is almost completed, 95% of total assets and 82% of equity is concentrated in banks with majority foreign ownership (FIPA, 2012a).

Further, BH was assigned B credit rating by Standard & Poor’s Agency with stable outlook (March 2012) and B3 sovereign credit rating with negative outlook by Moody’s Investors Service (April 2012). Great investment opportunities in BH are in the process of privatization. Privatization in BH is an overall process, through which attractive investment opportunities are opened up to foreign investors in sectors such as the energy sector and telecommunications. BH is accelerating the privatization process for companies of strategic importance in order to increase economic growth and enhance the volume of foreign investment (FIPA, 2012a).

Image of the country is characterized by the legislation. That also has impact on attracting FDI. The law on the Policy of FDI, in force since 1998, ensures national treatment of foreign investors, i.e. foreign investors have the same rights and obligations as defined for the residents of BH. In addition, the rights and benefits of foreign investors granted and obligations imposed by that law cannot be terminated or overruled by subsequently passed
laws and regulations. If any subsequently passed laws and regulations are more favorable for the foreign investors, the investors have the right to choose under which regime the respective foreign investment to be governed.

Foreign investors are entitled to open accounts in any commercial bank in domestic or any freely convertible currency on the territory of BH. They are entitled to freely employ foreign nationals, subject to the labor and immigration laws in BH. Foreign investors are protected against nationalization, expropriation, requisition or measures having similar effects; such measures may take place only in the public interest in accordance with the applicable laws and regulations and against the payment of an appropriate compensation, i.e. compensation that is adequate, effective and prompt. They may own real estate in BH and have the same property rights with respect to real estate as any legal entity of BH (FIPA, 2012a).

One of the main reasons for investing in BH is also favorable tax system. BH has one of the lowest rates of value added tax (further VAT) (17%) in the region and Europe, as well as the very acceptable corporate tax rates that are also among the lowest in the region and Europe (10%) (FIPA, 2012a).

We have attempted to prove that the country image is really a phenomenon that is worth being taken seriously in terms of promotion of the state. What is certain is the fact that if a country has the conductive environment and a positive image, then foreign investors will easily come and invest their funds in the country. Image influence is certainly of great importance to the economic picture of a state. When one thinks about Germany for example, it is rare that he thinks about The Second World War and their influence on it. People will always think about prosperous country which produces famous cars in the world. Having this in mind, if we want to send a positive image to the world, we have to place good commercial of our country. The country image is created by: politicians, actors, newspaper, TV program etc.

The aim of this chapter was to explain how country’s image is important, and how country has to invest money if it wants to improve the image. If we want to attract foreign investors, we have to promote our country outside its borders. BH is a beautiful country which possesses many natural resources which are not known to the world. Beside these, there are many other reasons why should foreign investors choose BH for their investment (FIPA, 2012a):
- stable financial sector,
- excellent geographical location,
- favorable trade and other agreements,
- favorable tax and customs system,
- availability of skilled, educated, competitively priced and multilingual labor force that is familiar with international business,
- abundance of premises and sites, industrial zones, free trade zones,
- foreign investor support fund,
- BH can be a successful platform to export to a market of app. 600 million people without customs duties.

In the last decade, awareness of corruption has increased in Bosnia and Herzegovina and it has become an important priority in the political agenda of the country. Successive governments of BH have committed themselves to fighting corruption and key steps have been taken to address the issue. Important instruments in the upgrading of the legislative framework for the fight against corruption are represented by the ratification of two Council of Europe conventions – the Criminal Law Convention against Corruption (2002) and the Civil Law Convention against Corruption (2002). In 2006, BH also became party to the United Nations Convention against Corruption (UNCAC), a consequence of which is the Implementation Review Mechanism, established in 2009 to enable all parties to review their implementation of UNCAC provisions through a peer review process. One of the objectives of this mechanism is to encourage a participatory and nationally driven process towards anticorruption reform (UNODC, 2010).

The institutional arrangements for the labor market in BH are complex. They mirror general governance arrangements, with the added complication of parallel employment bureau. The state, the entities and the cantons are all involved in aspects of labor market regulation or provision through labor ministries, employment agencies/services, labor inspection and socioeconomic councils at entity and cantonal level (for the Federation of Bosnia and Herzegovina), and the Ministry of Civil Affairs and State Employment Agency at state level. In fact the state plays little part in labor market policy, although there are signs that the State Employment Agency is beginning to involve itself in aspects of operational policy. These arrangements have significant costs in terms of the effort needed to achieve reasonable coherence across the institutions and labor market(s); to service the many political interfaces; to develop, install and maintain common information systems and other operational processes; and to develop sufficient expert capacity in any single organization. The institutional structure does little to address the common observation that the labor market in BH is fragmented and segregated. Indeed, the existence of so many legislative bodies reinforces the notion of separateness and, at entity level, gives rise to very significant differences in the costs imposed on employers. This is true across the entities, but especially so in the Federation of Bosnia and Herzegovina as a result of the cantonal structure. The position in Republic of Srpska is relatively straight forward in that there is a single integrated employment service and no political institution in between the municipality and the entity government (ETF, 2007).
The overall crime rate in BH remained high during the previous years with the greatest concentration of incidents in Sarajevo and other urban areas. Crime in Sarajevo is not tracked or determined geographically. There is little to no differentiation between neighborhoods in terms of crime rate. All neighborhoods experience a relatively equal amount of crime. In Sarajevo, as in any metropolitan area in the United States or Europe, a little common sense goes a long way. Crime is generally non-violent but may occur anywhere at any time of the day or night. Situational awareness is the best defense against non-violent crime (OSAC, 2013).

The bad country’s image of BH is being created through:
- general consequences of war,
- international protectorate,
- foreign troops in the country,
- violation of people’s rights and freedoms,
- criminal, drug smuggling, corruption, trafficking, illegal migrations,
- accusations of terrorism,
- war criminals on freedom,
- political division and ineffective public administration,
- non-functioning of legal state,
- bad communication infrastructure,
- failed examples of privatization,
- economic underdevelopment, poverty, etc.

The positive country’s image of BH is being created through:
- people, successful individuals,
- multicultural and multireligiousity of one country,
- natural country’s beauties,
- Historical and cultural heritage,
- high percentage of citizens who endorse entering the country in EU,
- movie, sport, art,
- healthy food,
Winter Olympic Games ZOI 84, etc.

4.4 The role of BH’s country image in attracting FDI

FDI became important factor for expansion of foreign capital movement. For the transition countries, such as BH, the lack of capital is the most important limited factor. The rising of FDI income is necessary condition for changing of their growth and development. FDI is
important developing factor especially for the countries in development and transition. Countries in transition have lack of capital, so the most profitable thing for them is to fulfill that emptiness with FDI as the best way to use foreign capital.

When it comes to image of BH, it is necessary to see how foreign investors experience it. BH is the country of natural diversity and rich cultural and historical heritage. It is the country of diversity which connects different religions which can be a good potential for future and influence modern identity and image of BH.

Image which BH built in the world is not completely positive. In world’s public, there is still stereotype about war, poverty and bad roads. International organizations, media and internet pages are pointing out to political-economic crisis in BH, possibility of starting new conflicts and bad infrastructure. This is a picture of BH, which is distorted and which isn’t true. Therefore, consistent promotion of good image in the world would influence the opinion of foreign investors. However, in May 2012 American portal “Business insider” put BH on the list of 20 the most miserable countries in the world, with poverty index of 47.1%, inflation rate of 3.8% and unemployment of 43.3%. In that way BH was on the same level with Kenya, Zimbabwe and Iran. Given economic parameters do not contribute to the development of the image of BH, and state authorities should do something to make them better, so the income of FDI would grow bigger and bigger.

On the other hand, FIPA creates the image of BH as a modern country and serious partner for capital investment. Strategy of this agency is realized through synergy of activities of every institution in BH. FIPA is promoting the image of BH through presentations of Bosnian and Herzegovinian investment projects and economy sectors on international investment conferences, through promotional documents and brochures, promotional campaigns on television channels, etc.

The influence of country’s image for the foreign investment is also important. Image of BH can be used as foundation for the positioning on global scene. What is needed to be done is to improve the image of BH products, services, and value of Bosnian and Herzegovinian heritage in the eyes of the home and foreign public. Besides, it is needed to create organizational assumptions with key creators of BH’s image, such as Government of BH, entities government, state and public institutions, universities, public companies, etc.

Market potential and dynamics of economic development in BH, represents starting factors when considering potential FDI. While considering potential investment in BH, each foreign investor will perceive SWOT matrix (Figure 11). Investment advantages are (LOK Institut za organizaciju i ekonomiku, 2006):
- geographic closeness of European Union and Mediterranean countries,
- qualified and relatively cheap labor force,
- growth of private sector,
- relative richness certain natural resources, such as: woods, minerals, hydropower, various economy resources,
- macroeconomic stability with convertible currency and low rate of inflation,
- state companies which are in process of privatization, with solid resources and market performances,
- completely reformed and dynamic banking system, including the presence of banks with high international reputation.

Limitations or investment weaknesses in BH (LOK Institut za organizaciju i ekonomiku, op. cit.):
- complex state and political structure (with three level of authority: state, two entities, and 10 cantons), each with every level of authority (legislative, executive and jurisdiction of the court),
- slow process of privatization of strategic companies, especially in electro energetic sectors, telephony, water management, transport,
- low capacity of authority institutions and low efficacy of administration, political rivalry between entities, between cantons and the state, etc.,
- weaknesses in rule of law, overload of legislative system, weak court system due to political influence and corruption,
- absence of cheap and efficient infrastructure (transport, electric power, providing water, insufficient industrial and free zones, etc.),
- inefficient tax system and absence of free tax system,
- expense growth of labor force because of the high load of employees’ net income,
- fragmented economic space,
- absence of strategies and plans of space arrangement, especially on the state level.

Opportunities in BH are:
- opportunities for privatization,
- good investment projects,
- good investment locations,
- free trade zones,
- favorable legislative treatment,
- financial stability,
- good taxation system,
- good environment for investment.

Threats in BH are:
- unstable political situation,
- institutions are sometimes ineffective,
- destructive media statements creating negative public attitude and demanding costly revisions of the immunization program and/or resulting in lower coverage,
- uninsured residents may face problems in access to immunization services.

In order to improve the image of BH, and in order to attract old and new FDI, it is needed to implement FDI in the strategy of economic development of BH. The first step towards that is promoting feedback. In majority of cases multinational companies, obtain only the smaller part of input from the host suppliers. That is because of the technology gap, quality, and managing between host and foreign companies. Local companies usually cannot produce high quality input or they cannot deliver them on time. BH should bring significant economic use to employee field, by using the local sources, that is, feedback between foreign investors and
local companies. They should improve selling of foreign companies and positive effect on payment surplus. Also, government of BH could create feedback between multinational and local companies with the help of politics. Management developing programs and their instruction could be used for increase of ability of local companies.

Economic influence of FDI could be increased in BH by encouraging of the investment of multinational companies. Government of BH should continue to improve business politics and investment surrounding, and current investors will remain on the same location due to the raise of quality level.

In order to improve country’s image and to raise FDI, relations between industries and universities should be improved in BH. Improved relationship between industry and university could help in capitalization of the current research capacity in commercial purposes. In that way technological abilities of local suppliers can be promoted and that influences the improvement of the country’s image. This is how company’s ability of supplying foreign investor is being promoted.

Attracting FDI demands good educated, trained work force or force that is ready to be trained. Promoting human resources is very important for improving country’s image and increase of FDI. Therefore, BH should invest in education and training, especially on technical and management level.

Research question of this paper is proved. The image of Bosnia and Herzegovina and other countries of SEE6 influence the attraction of FDI. Comparative analysis of SEE6 shows us that their image is in a strong positive relation to FDI inflows. If country image is better then the FDI inflows are better too. FDI more than doubled in Serbia and FYR Macedonia in 2011; car parts for industry and finance (FYR Macedonia) were among the most successful sectors. In the first half of 2012 Albania received 30 % more FDI, concentrated in financial intermediation, services, and industry; and privatization of four small hydropower plants could result in additional revenues. By September, FDI in Montenegro well recovered, rising by almost 12 percent on annual basis. Real economic growth and GDP are the lowest in Bosnia and Herzegovina which caused the lowest FDI and FDI per capita.
CONCLUSION

Contribution to this research is seen in the influence of country’s image on FDI, in concrete example of BH. On the basis of the results and recommendations, certain corrections in various fields can be done. These corrections can be done if we want to change the image of BH which is not on very high level.

The study encountered certain limitations which need to be acknowledged. Research limitations came from the fact that BH represents country in transition, where economy does not function as the economy in other developed countries. Therefore, research results are applicable only on the countries in transition and countries in development. The second restriction is related to the fact that only qualitative research was done in this paper. Because of the absence of quantitative research, sample is too small for giving any conclusions. These limitations could be taken as a learning experience for the future researches.

Recommendations for the future research are that researchers should focus on analyzing internalization of BH companies to stimulate FDI. They should focus on the analyses of social responsibility of companies and acquisition of OECD principal of corporative management. Besides, analysts should pay attention on the multinational corporation income, investment agreements and their implementation; employment question and labor market because each of these things influences the country’s image and attraction of FDI.

FDI is of big importance in shapes of economic politics of one country. Their positive effects are numerous, but when it comes to developing countries, such as BH, their positive role is seen through rapid development. Almost every country in the world competes for attracting FDI. They contribute to change of production structure and import of products. They enable using of modern technology based on innovations which influences growth of import competition and growth of additional value. Through this paper hypothesis was confirmed.

The process of fixing the image is not necessarily spontaneous. It can be designed strategically and organizationally by state institutions, nongovernmental sector and by other subjects in the state. Other countries succeeded to improve their country image for a short period of time which they did not have before. BH image affects on its external developmental process and position in international relations. The external image of BH is far worse than its real state in the country. The role of Ministry of foreign affairs and BH diplomacy in creating the external country image is of crucial importance. That is why their activity must be improved.

Building the image in BH has an aim to improve the selling in shapes of investment community as attractive location for future investment. That is of special value, because BH
goes through political and economic reforms. Improvement of its image is the first step for attracting FDI. Its image is also important for successful international positioning.

FDI in BH brings big profit and they help accomplishing common goals of economic development. Government of BH should act harder in order to increase the economic influence on FDI. In that sense, recommendations to government of BH in taking steps for betterment of image and attraction of FDI are:
- creating feedback between transnational corporations and local companies,
- connecting with education institutions in order to promote trained work force in certain areas,
- giving generous stimulation for encouraging investment in undeveloped or periphery parts of the country.

Having in mind that lack of capital is the biggest limited factor for expansion of international capital movement; FDI represents necessary condition for changing of their growth and development. Image of BH isn’t completely positive in the eyes of foreign investors. Its positive sides are seen through natural diversity and rich cultural and historical heritage of BH, and because this is the country which connects different religions. On the other hand, the stereotype about war, poverty and bad roads is still present. Besides, many economic parameters don’t correspond to positive image of BH. It should be noted that FIPA creates image about BH as a modern state, and it sees the country as serious and safe partner for investment of capital. It promotes image of BH through presentations of BH investment projects and economy sectors on international investment conferences. It also promotes the image through promotional documents and brochures, promotional campaigns on television channels.

Image of BH can be used as a foundation of positioning on global scene. It is needed to improve the image of BH products, services and values of BH heritage in the eyes of local and international public. It is needed to create organizational assumptions with key creators and implementers of image of BH. Analysis of BH image which was done on the examples of SEE6 countries showed that the image is in fact positive, but there are some defects when it comes to regulative bodies. Therefore, it is needed to improve them in future in order to improve the image of the country and continue affecting FDI.

Countries compete in order to attract the attention, foreign investors and capital. Creating the positive image is the process which ensures that the country image is not going to be superficial, negatively directed, and not based on the events from the past. It should be coordinated with the reality of the moment and turned towards the future. The starting point in the process is critical analysis which will help the improvement of country’s image. Each
country has its potentials and weaknesses. The aim is to position the state in the world in the best possible way having in mind its advantages but also its weaknesses. Each country must take the control over its image. It means that it must invest in the promotion of the positive image, and the government of that country is the only one which has resources to lead the process.
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![](image)

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APPENDIXES
LIST OF APPENDIXES

Appendix 1: List of abbreviations ................................................................. 1
Appendix 2: UNCTAD’s Global FDI Quarterly Index .............................................. 2
Appendix 3: FDI inflows, global and by group of economies, 1995-2011 (Billions of dollars). 3
Appendix 4: FDI inflows in developed countries by component, 2005-2011 (Billions of dollars) ................................................................. 4
Appendix 5: FDI outflow shares by major economic groups, 2000-2011 (Per cent) ........ 5
**Appendix 1: List of abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHEPA</td>
<td>Bosnia and Herzegovina Export Promotion Agency</td>
</tr>
<tr>
<td>BH</td>
<td>Bosnia and Herzegovina</td>
</tr>
<tr>
<td>CBBH</td>
<td>Central Bank of Bosnia and Herzegovina</td>
</tr>
<tr>
<td>CBSI</td>
<td>Country Brand Strength Index</td>
</tr>
<tr>
<td>CEFTA</td>
<td>Central European Free Trade Agreement</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FIPA</td>
<td>Foreign Investment Promotion Agency of Bosnia and Herzegovina</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IIP</td>
<td>International Investment Position</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>MNE</td>
<td>Multinational Enterprise</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<tr>
<td>USA</td>
<td>United States of America</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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</tbody>
</table>
Appendix 2: UNCTAD’s Global FDI Quarterly Index


Note: The Global FDI Quarterly Index is based on quarterly data on FDI inflows for 82 countries. The index has been calibrated so that the average of quarterly flows in 2005 is equivalent to 100.
Appendix 3: FDI inflows, global and by group of economies, 1995-2011 (Billions of dollars)

Appendix 4: FDI inflows in developed countries by component, 2005-2011 (Billions of dollars)

Note: Countries included Australia, Austria, Belgium, Bulgaria, Canada, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States.

Appendix 5: FDI outflow shares by major economic groups, 2000-2011 (Per cent)