

Časopis za poslovnu teoriju i praksu  
The paper submitted: 28/02/2023  
The paper accepted: 09/06/2023

UDK 339.727.22:336.727.22(497.6RS)  
DOI 10.7251/POS2330047M  
COBISS.RS-ID 138850817  
Original scientific paper

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## FOREIGN DIRECT INVESTMENTS AND ECONOMIC GROWTH OF THE REPUBLIC OF SRPSKA: SPILLOVER EFFECT

**Abstract:** *This paper examines the influence of foreign direct investments on the economic growth of the Republic of Srpska. The goal of the research is to show the scientific and professional public the mechanism of foreign direct investments in the function of growth and development, as well as the impact on targeted macroeconomic indicators. The research was conducted by analysing the relevant literature, using the deduction method and quantitatively calculating the impact of foreign direct investments on the economic growth of the Republic of Srpska. Theoretical and empirical analysis aimed to provide an answer to the research problem, which is sublimated by the question: Do foreign direct investments have an impact on the economic growth of the Republic of Srpska? The research results showed that there is no consistent connection and determination of the dependent variable with the variations of the independent research variable. That is, the cumulative value of the inflow of foreign direct investments didn't generate a statistically significant impact on macroeconomic indicators of economic growth. In this way, the hypothesis that foreign direct investments, due to the unfavourable sectorial structure of investments, do not have a significant impact on the economic growth of the Republic of Srpska was confirmed. The contribution of the research is reflected in the choice of the analytical framework of the research and the obtained research results as a guideline for the creators of economic policies in the Republic of Srpska, in terms of factors that have a (de)stimulating influence on economic growth.*

**Key words:** *Foreign direct investments, economic growth, macroeconomic indicators, The Republic of Srpska*

**JEL classification:** *F21, F43, O10*

### INTRODUCTION

Foreign direct investments (hereinafter: FDI) represent a form of international capital flows in which the investor wants to achieve a return on the investment and a decisive role in the management of the investment. To attract FDI, countries must implement political and economic reforms, and liberalize capital and trade flows. In addition, they need to create an efficient institutional framework with appropriate administrative capacities, as well as to provide protection of investors' rights, especially contractual rights, and intellectual property rights *de facto* and *de jure*. The tax system and tax policy must not be subject to continuous changes by political elites depending on the economic situation. Frequent changes in tax rates are the result of inconsistent tax policies and such countries lose credibility with potential investors. Macroeconomic stability implies the absence of significant fluctuations in the production sector,

the trade balance and the labour market. The abovementioned factors constitute the most important components that create the conditions for the inflow of FDI and the generation of economic growth.

In the past 32 years, the Republic of Srpska has gone through the transformation of the economic system, from state-led to market-oriented. The beginning and later stages of the transition were characterized by technological backwardness, low productivity of labour and capital, and lack of knowledge and skills in the production process in relation to modern economic flows. The logical implication of the mentioned situation was the increased demand for foreign direct investments, as an instrument that can significantly influence economic growth.

The paper examines the influence and effect of FDI on the economic growth of the Republic of Srpska. The research problem is determined by the question: Do FDI have an impact on the economic growth of the Republic of Srpska? The research will prove the hypothesis that foreign direct investments, due to the unfavourable sectorial structure of investments, do not have a significant impact on the economic growth of the Republic of Srpska. That is, the influence and role of foreign direct investments in generating economic growth and the positive effect on partial macroeconomic indicators of growth is not statistically significant.

After introductory part, the first part of the paper includes a theoretical-respective presentation, that is, an analysis of the relevant literature and previous research related to the research problem. In the second part, an overview of the inflow and structure of FDI in the Republic of Srpska is given, and in the third part, the methodological framework of the research is defined. The fourth part refers to the quantitative calculation of the influence of the independent variable on the dependent variable and explains the research results. In the fifth part, the obtained research results were compared with another comparable research, and after that conclusion considerations were stated.

## 1. OVERVIEW OF PREVIOUS RESEARCH

Foreign direct investments are one of the ways for countries to generate economic growth by enabling, in addition to the cumulative increase in the amount of capital in the economy, access to modern technologies, innovations and knowledge, thereby increasing productivity and real incomes. Foreign direct investments represent a significant instrument of economic growth and development, especially in underdeveloped and developing countries. The volume and effect of investing in a country depend on a large number of factors that are incorporated into the economic and political system. In order for FDI to have an impact on economic growth, a synergy of political and economic decision-makers is needed in order to create a stimulating environment in which investments will generate benefits for the national economy *ceteris paribus*.

Most of the empirical research on the impact of FDI on economic growth is based on the existence of certain assumptions and the satisfaction of certain economic laws. That is, the commitment of political elites as decision-makers at the national level, the development of the institutional, administrative and legislative framework, and the degree of liberalization of economic flows and market mechanisms are emphasized. Also, the effects and implications of being motivated to invest in developing countries are highlighted. All good practices of developing countries have the same or similar theoretical and implementation matrix. Deviation from the stated assumptions reduces the effect and significance of the investment, regardless of the cumulative value of the investment.

The analysis of Alfaro et al. showed that FDI has a significant influence in economic growth. Also, level of development of local financial markets is crucial for positive effects (Alfaro et al. 2004, 22). In addition, the influence of investment also depends on the favourable business climate, the political and economic framework, size of the market and trade balance (Tsai 1994;

Balasubramanyam and Salisu and Sapsford 2006). Similar results were obtained by Marjanac and Grujić, who determined that the most significant predictors of positive effects of FDI on the economic growth of developing countries are the political and economic environment and the corresponding institutional and legislative framework (Marjanac and Grujić 2021).

Research by Barrell and Pain showed that FDI indirectly affects the targeted macroeconomic parameters and that they are a significant channel for the spread of technologies (Barrell and Pain 1997). Examining the relationship between FDI, economic growth and economic freedom, on the example of 18 Latin American countries, Bengoa and Sanchez-Robles came to the conclusion that there is a positive correlation between FDI and the economic growth of the host country, and that the growth of economic freedom has a positive effect on inflow of FDI. (Bengoa and Sanchez-Robles 2003). Azman-Saini and Baharumshah and Law obtained the same results but using a different research methods and on a larger sample (85 countries) (Azman-Saini and Baharumshah and Law 2010).

Testing the effects of FDI on the economic growth of developing countries, Borensztein and De Gregorio and Lee came to the conclusion that FDI represents a significant factor of technology transfer and that it has a percentage higher share in economic growth than domestic investments (Borensztein and De Gregorio and Lee 1998). On the other hand, Pegkas showed in his research that there is a positive long-term connection between FDI and economic growth, as well as that the amount of FDI has a positive influence on the economic growth of developed Eurozone countries (Pegkas 2015). Also, the analysis of Lee and Dolfriandra came to the same conclusion, on the example of ASEAN+3 countries (Lee and Dolfriandra 2020), as well as an analysis by Dinh et al. of 30 developing countries (Dinh et al. 2019).

Investigating the impact of FDI on the economic growth of developing countries in East Asia and Latin America, Zhang determined that the influence of FDI on economic growth is determined by certain characteristics of countries, namely political and economic stability, the degree of trade liberalization and the development of human capital and education system (Zhang 2001). Also, the analysis of Li and Liu confirmed the existence of a positive, direct and indirect, impact of FDI on economic growth, and significant implications of the interaction of FDI and human capital on economic growth (Li and Liu 2005). The results of research by Nair-Reichert and Weinhold showed the impact of FDI on economic growth is positive and constant in the short and long term and increases with a greater degree of openness of the economy in developing countries (Nair-Reichert and Weinhold 2001). Borensztein and De Gregorio and Lee obtained similar results in their analysis (Borensztein and De Gregorio and Lee 1998).

Other relevant research (Lall and Narula 2004; Chowdhury and Mavrotas 2006; Meyer and Sinani 2009), emphasized key factors (stable political, economic, regulatory and institutional environment, size of the domestic market and costs of production, the necessary level of technological development of domestic companies, based on the development of the institutional and regulatory framework and human capital in absorbing FDI and knowledge) in generating a positive impact of FDI.

The Analysis of Lyroudi and Papanastasiou and Vamvakidis, investigated the impact of FDI on the economic growth of transition countries in Central and Eastern Europe and proved a correlation absence between FDI and economic growth (Lyroudi and Papanastasiou and Vamvakidis 2004). Mencinger also, in a study of Central and Eastern European transition countries, came to the conclusion that FDI does not affect economic growth. According to Mencinger, the fundamental goal for attracting FDI is privatization based on political directives and not an investment in the production (Mencinger 2003). Grahovac and Trivanović and Jakovljević, and Šinik came to the same results in their research, focusing on the impact of FDI on export generation (Grahovac and Trivanović and Jakovljević 2015; Šinik 2019). In their research, Šušić and Spasojević proved the existence of a statistical connection and impact of FDI on medium-sized economic growth (Šušić and Spasojević 2016). Through an analysis of 80

countries, Durham proved that FDI doesn't have a positive influence on economic growth (Durham 2004). Also, many other relevant studies (Herzer 2012; Feeny and Iamsiraroj and McGillivray 2014; Alvarado and Iñiguez and Ponce 2017; Gherghina and Simionescu and Hudea 2019) showed the existence of a non-linear, low and negative relationship between FDI inflows and economic growth, measured by GDP *per capita*.

## 2. FOREIGN DIRECT INVESTMENTS IN THE REPUBLIC OF SRPSKA

Cumulative value of FDI inflows in the Republic of Srpska in the period 2004-2021, according to data from the Central Bank of Bosnia and Herzegovina (CBBH), amounts to 5,9 billion BAM. In the mentioned time period, the largest inflow of FDI into the Republic of Srpska was in 2007, in the amount of 1,9 billion BAM (CBBH 2022). The stated amount of FDI, as stated by the Ministry of Economy and Entrepreneurship (MEE), represents investments with the aim of taking ownership in companies:

- Telecommunications of the Republic of Srpska Banja Luka (1,2 billion BAM),
- Oil Refinery Brod (238,9 million BAM),
- Oil Refinery Modriča (153,9 million BAM),
- EFT Group Mine and Thermal Power Plant Stanari (208,5 million BAM) (MEE 2016).

The largest inflow of FDI until 2021 was from Serbia (2,1 billion BAM), Italy (589,5 million BAM), Great Britain (582,5 million BAM), Austria (530,5 million BAM) and Russia (453,4 million BAM). Based on the regional distribution of FDI, the largest number of newly registered business entities with FDI elements is in Banja Luka, followed by Bijeljina, Laktaši, Gradiška and Trebinje (CBBH 2022).

Table 1. Macroeconomic indicators of the Republic of Srpska, 2004-2021 (RSIS 2022; CBBH 2022)

	FDI (000 BAM)	Employment	Export (000 BAM)	Industrial production (Value of sale) (000 BAM)	GDP <i>per capita</i> (BAM)
2004	314,700	184,905	840,920	1,573,191	3,528
2005	167,100	190,631	1,130,518	2,022,601	4,794
2006	133,100	194,325	1,540,236	2,282,377	5,527
2007	1,925,500	201,697	1,671,601	2,643,952	6,231
2008	302,100	200,862	1,921,837	3,244,280	7,211
2009	170,400	196,938	1,672,915	2,901,506	7,009
2010	205,100	182,204	2,177,809	3,414,962	7,086
2011	372,500	175,291	2,560,808	3,863,818	7,411
2012	403,600	172,384	2,374,737	5,031,670	7,343
2013	152,600	171,367	2,604,090	4,901,195	7,508
2014	379,100	173,160	2,692,013	5,184,797	7,615
2015	146,500	176,329	2,513,206	4,874,262	7,921
2016	84,500	182,766	2,865,332	5,138,048	8,320
2017	231,900	188,855	3,476,889	5,605,083	8,740
2018	316,800	193,149	3,741,165	5,984,231	9,304
2019	209,100	197,164	3,600,873	5,393,634	9,848
2020	285,100	198,196	3,387,398	5,190,064	9,797
2021	156,600	201,439	4,428,220	6,521,860	11,078

In the sectoral structure of FDI in the period 2004-2021, the dominant position is held by investments in the telecommunications sector, followed by financial services, production of coke

and refined petroleum products, and wholesale and retail trade MEE (2016). The mentioned sectorial structure is dominant and common for transition countries because the largest inflow of FDI comes through the process of privatization and restructuring of companies, and investment in extractive industries. The characteristic of FDI in privatization is that, in most cases, it refers to the inflow of investments with regard to the type of company that is the subject of privatization. The primary motives of the mentioned investments, which do not contribute to a significant spill over effect, represent the demand for resources, the market and the company's assets, without taking into account the economic and political environment.

In the analysed period, the inflow of FDI is primarily motivated by access to the Republic of Srpska market (Trade, Telecommunications and Construction sectors) and resources (Mining and mineral exploitation sectors, Real Estate), that is, portfolio and brownfield investments have a dominant position compared to Greenfield investments.

In the period 2004-2021 different trends in FDI inflows and the generation of industrial production, employment and exports are noticeable. The trend of FDI inflows is characterized by mild growth and decline amplitudes, except for 2007. On the other hand, there is a continuous trend of growth in industrial production, exports, employment and GDP *per capita*, except for the period caused by the impact of the global economic crisis. The direct implication of the aforementioned disparity of trends is that FDI flows, that is, sectorial mismatched investments, did not generate an accelerator effect on the economic growth indicators of the Republic of Srpska.

### 3. METHODS AND DATA

The subject of the analysis is the examination of the impact of foreign direct investments on the economic growth of the Republic of Srpska. Foreign direct investments have an impact on economic growth through the spill over mechanism, i.e. impact on partial components and, *summa summarum*, on gross domestic product (hereinafter: GDP). That is, by investing financial resources, FDI affects the volume and value of production, the labour market, exports, and the mentioned indicators represent integral components of GDP. Examining the impact of the mentioned mechanism on economic growth represents the fundamental goal of the research.

Since investing in the current year produces effects in the following years, the impact of FDI on economic growth was analysed, with the passage of two years as the appropriate time frame for establishing the connection between the variables. The research analyses the connections and the influence of the dependent variable on the independent variable, in the case of an entity that is part of a country that, according to the M49 classification of the United Nations, belongs to the group of developing countries (UN 2022). The time frame of the research refers to the period 2004-2021, that is, the impact of FDI in a period of 18 years (2004-2021) on the value of industrial production, exports, employment and GDP *per capita*, in a period of 16 years (2006-2021), is analysed. All relevant and representative data of indicators of dependent and independent variables are available in the analysis. Statistical data for the value of FDI inflows, exports, industrial production, GDP *per capita* and the number of employees were taken from the databases of the Republic of Srpska Institute of Statistics (RSIS) and the Central Bank of Bosnia and Herzegovina.

The independent variable in the research is FDI in the Republic of Srpska. The measurement indicator of the independent variable in the research is the value of the FDI inflow. The economic growth of the Republic of Srpska is a dependent variable in the research. The influence of the independent variable on the indicators that make up, directly or indirectly, the structure of the GDP, that is, the value of exports, industrial production and the number of employees, is analysed. In addition to the above indicators, the connection and influence of the independent variable on GDP *per capita* are analysed, as a cumulative and representative indicator of

economic growth. The measurement indicators of the dependent variable are the value of sales of industrial production, exports, GDP *per capita* and the number of employees. From the total number of employees, employees in "non-productive" activities, i.e. activities on which FDI did not have a direct impact, were omitted from the analysis, therefore, including them in the model would result in a lower degree of accuracy, objectivity and representativeness. According to the data of the RSIS, by areas of classification activities, employees from the areas of Administrative and auxiliary service activities (N), Public Administration and Defence; compulsory social security (O), Education (P), Health care and social work activities (Q) and Arts, entertainment and recreation (R), were not included in the analysis (RSIS 2022).

#### 4. RESEARCH RESULTS

The dependent variable in the analysis is economic growth, while the partial components of growth (value of sales of industrial production, exports and number of employees) and the cumulative component of growth (value of GDP *per capita*) were determined as representative indicators. Foreign direct investments represent an independent variable, and the value of FDI inflow was taken as an indicator. The regression is presented as follows:

$$Y = \beta_0 + \beta_1 X_1 + \mathcal{E}$$

- Y- the dependent variable (Exports, Employment, Industrial Production, GDP *per capita*)
- $X_1$ - the independent variable (FDI)
- $\beta_0$ - Constant
- $\beta_1$ - an unknown parameter in addition to the independent variable
- $\mathcal{E}$  - an error

The total value of FDI in the period 2004-2021 in the Republic of Srpska amounted to 5,9 billion BAM. In the same time period, the generated value of exports from the Republic of Srpska was 42,2 billion BAM, and industrial production was 72,1 billion BAM. The average value of FDI was 330,9 million BAM, exports 2,7 billion BAM, industrial production 4,5 billion BAM, number of employees 187 thousand and GDP *per capita* 7,9 thousand BAM. The value of the feature that is the most common in the targeted series, taking into account its neighbouring values, for FDI is 84,5 million BAM, export 1,5 billion BAM, industrial production 2,2 billion BAM, employment 171 thousand and GDP per capita 5,527 thousand BAM.

Regression analysis was used to examine the form and strength of the relationship between the dependent and independent variables. The basic research idea was to provide answers with a higher degree of objectivity and representativeness by analysing the influence of the independent variable on the dependent variable, and by incorporating several indicators of economic growth.

Table 2. Descriptive statistics (Author's calculation SPSS software package)

	Period	Total	Mean	Median	Mode	Standard error of the estimate
<b>FDI</b>	18	5,956,300,000	330,905,000	220,500,000	84,500,000	409,054,986
<b>Employment</b>	16	3,006,126	187,882	191,002	171,367	11,454,144
<b>Exports</b>	16	43,229,129,000	2,701,820,000	2,582,449,000	1,540,236	836,293,487
<b>Industrial production</b>	16	72,175,739,000	4,510,983,000	4,966,432,000	2,282,377	1,273,354,602
<b>GDP <i>per capita</i></b>	16	127,949	7,996	7,561	5,527	1,445,195

The Pearson correlation coefficient shows low values for all indicators of the dependent variable. At the same time, the negative sign for the indicators of the value of exports, industrial

production and GDP *per capita* implies that there is no statistically significant impact of FDI on the indicators of economic growth, that is, that growth is caused by the influence of other factors, and not by the relation where negative variations in the inflow of FDI lead to explicit positive values of economic growth indicators.

Table 3. Overview of regression analysis (Author's calculation SPSS software package)

Variable	Period	Pearson correlation coefficient	Coefficient of determination	Significance	Analysis of variance (F test)
Employment	16	26,2%	6,8%	0,32	F(1,14)= 1,02; p> 0,05
Exports	16	-31,5%	9,9%	0,11	F(1,14)= 1,54; p> 0,05
Industrial production	16	-35,9%	12,9%	0,17	F(1,14)= 2,06; p> 0,05
GDP <i>per capita</i>	16	-32,3%	10,5%	0,11	F(1,14)= 1,63; p> 0,05

The value of the Pearson coefficient for the number of employees indicator of 0,26 shows a low correlation for the relationship between the mentioned indicator and the indicator of the independent variable. The positive sign of the coefficient implies the existence of a positive linear relationship, although not of great strength. The value of the Pearson coefficient for other indicators (value of GDP *per capita*, exports and industrial production) also shows the existence of a low correlation and a negative sign on the absence of a statistically significant influence of the independent variable on the dependent one. The presence of a potential multi-co-linearity problem was also tested. The value of the VIF coefficient (below 5) and the tolerance (above 0,25) imply the absence of multi-co-linearity. After testing the strength of the relationship between the dependent and independent variables, the influence of the independent variable on the dependent variable was analysed. The coefficient of determination has low values for all the mentioned indicators. The direct implication of the low value of the coefficient is that the independent variable explains the variation of the dependent variable in the range of 6,8% for the indicator number of employees, 9,9% for the value of exports, 10,5% for GDP *per capita* and 12,9% for the value of industrial production. Other factors have a statistically significant influence on the variations of the dependent variable, in the range of 93,2% for the indicator number of employees, 90,1% for the indicator value of exports, 87,1% for the value of industrial production and 89,5 for the value of GDP *per capita*.

A low level of significance through the F-test (0,76 for the employment indicator, 1,54 for the exports indicator, 2,06 for the industrial production indicator and 1,63 for the GDP *per capita* indicator) implies the existence of a low level of explanatory variability. The estimated regression model is not adequate, which is evident from the analysis of variance. The independent variable does not predict the dependent variable well, which means a higher significance level than the threshold values for all indicators of the dependent variable. By observing the t value and the associated significance, the conclusion is reached that the independent variable does not affect the value of the dependent variable of the research. Since  $p > 0.05$  for all indicators, this implies that the influence of the independent variable on the dependent variable is not relevant for the research. Based on the results of the variance analysis and the observed t value and the associated significance, the research hypothesis can be accepted, that foreign direct investments, due to the unfavourable sectorial structure of investments, do not have a significant impact on the economic growth of the Republic of Srpska.

The result of the analysis showed the absence of influence and effects of FDI inflow on the economic growth of the Republic of Srpska. The reasons for the weak connection and

determination of economic growth by the inflow of FDI are, first of all, the inadequate sectorial structure of investment, and partly, the politically motivated process of privatization. Then, there is a dominant trend of portfolio and brownfield investments, compared to Greenfield investments, which represent the engine of economic growth and development. Also, it is important to emphasize the impact of the repatriation of profits to the countries of origin of the investment, which significantly reduced the effect of the investment. In the sectorial structure of investments, in the analysed period, investments in the service sector and the telecommunications and banking sectors prevail. FDI inflow in the period 2004-2021 has a continuous trend, with mild amplitudes of decline and growth, except for high growth in 2007 (1,9 billion BAM compared to 133 million BAM in 2006), due to investments in the telecommunications and oil sectors, while the value of industrial production, exports, GDP *per capita* and the number of employees in the same period of the year have a trend of continuous growth, except in the period immediately after the global economic crisis.

Inadequate sectorial investment structure does not generate a positive impact on production, exports, and thus on GDP. The existence of a negative relationship between FDI and industrial production, exports and GDP *per capita* is a logical implication of an inadequate sectorial investment structure. It should be emphasized that the negative linear relationship does not represent a simple relationship where the decrease in the FDI inflow leads to an increase in the value of the mentioned indicators, but that the FDI inflow does not generate a statistically significant impact on the growth in the value of industrial production, exports and GDP *per capita*. Other factors have a statistically significant influence on the positive variations of the mentioned indicators of economic growth. The existence of a weak positive relationship between FDI and the number of employees reflects the impact, although not large, of FDI inflows on the increase in the number of employees, especially in the trade sectors, mining and oil industry. Repatriation of profits represents a significant limiting factor of the positive effect and impact of FDI, primarily due to the limited impact on increasing income in the Republic of Srpska compared to the countries from which the investments come.

Based on the above, it is concluded that the main problem of investing in the Republic of Srpska is related to an inadequate sectorial structure, which is not in accordance with established economic policies. In order for FDI to generate statistically significant effects on economic growth indicators, it is necessary to redefine investment policy, in accordance with strategic development guidelines and sectorial policies. It is also necessary to further improve the institutional and legislative framework and create a more mobile and competitive labour market.

## 5. DISCUSSION

Foreign direct investments represent a significant factor in the economic growth and development of underdeveloped and developing countries. FDI serves as a "channel" through which these countries get the necessary financial capital and access to modern technologies, knowledge and skills, innovations and know-how. In addition to the value and efficiency of investing, an important aspect that affects the importance and effects of investing is related to the motives for investing. In contrast to the stated theoretical assumptions of conventional models, the inflow of FDI to the Republic of Srpska in the analysed period was inadequately sector-oriented and mostly related to the politically motivated process of privatization, and therefore did not generate significant effects on economic growth. The results obtained in the research are consistent with other comparable research. Other comparable researches have also focused on the role and importance of FDI in generating economic growth in developing countries, but with the choice of a different approach and analytical methods. Some research focused on the macroeconomic (static) benefits of FDI, others on dynamic benefits, and some combined the implications of FDI



in generating real growth indicators and providing factors that are more complex to quantify (technology, knowledge and skills, innovations, know-how).

This research was based on identifying the effect and impact of FDI on economic growth, measured by partial components and a cumulative indicator, i.e. GDP *per capita*. On the one hand, particular research (Zhang 2001; Nair-Reichert and Weinhold 2001; Bengoa and Sanchez-Robles 2003; Alfaro et al. 2004; Li and Liu 2005, Marjanac and Grujić 2021) confirmed the existence of a positive relationship between the inflow of FDI and the economic growth of developing countries, assuming the existence of a well-conceived economic policy, the openness of the national economy, a stable political and macroeconomic environment, the development of financial markets and human capital, etc.

Other research (Mencinger 2003; Lyroudi and Papanastasiou and Vamvakidis 2004; Durham 2004; Herzer 2012; Feeny and Iamsiraroj and McGillivray 2014; Grahovac and Trivanović and Jakovljević 2015; Šušić and Spasojević 2016; Alvarado and Iñiguez and Ponce 2017; Gherghina and Simionescu and Hudea 2019; Šinik 2019) came to the conclusion that the relationship between FDI inflows and economic growth of developing countries does not exist, or is weak, non-linear and negative.

The results of the research and the confirmed hypothesis in the paper are compatible with the research that established the existence of a weak connection and the determination of economic growth by variations in FDI. The results of the research are particularly compatible with the research of Mencinger (2003), Grahovac and Trivanović and Jakovljević (2015), and Šinik (2019). However, the aforementioned studies used a different analytical framework. A partial departure from the aforementioned research is reflected in the choice of variables and the analysis of the impact of FDI on the partial components of growth (industrial production, exports and employment) and the cumulative and representative indicator of growth, that is, GDP *per capita*.

## CONCLUSION

In this paper, the influence of FDI on the economic growth of the Republic of Srpska was investigated. That is, the influence and effect of FDI on the partial and integral indicators of economic growth were analysed. Many similar and comparable studies have analysed the impact of FDI on economic growth, but with the application of a different methodological framework. The importance and contribution of this research is reflected in the partial departure from conventional research in this direction. The focus is on the analysis of the impact of FDI on components that are integral elements of economic growth, and on GDP *per capita*, as a conventional indicator of economic growth. In this way, the aim was to obtain results with a higher degree of objectivity, reliability and representativeness.

The research was conducted in order to obtain answers about the role and effects of FDI on the economic growth of the Republic of Srpska. The research results confirmed the constructed hypothesis that foreign direct investments, due to the unfavourable sectorial structure of investments, do not have a significant impact on the economic growth of the Republic of Srpska. Inadequate sectorial structure of investment represents the primary limiting factor of the impact and effects of FDI on economic growth. The most significant inflow of investments was in the telecommunications and oil industry sectors and did not generate positive effects due to the exploitation of the monopoly position and the repatriation of profits. It is also important to emphasize the impact of the politically motivated privatization process. This primarily refers to the purchase of state-owned enterprises in order to achieve benefits in terms of location, use and sale of production equipment, available business and other facilities in Bosnia and Herzegovina and surrounding countries.

The Republic of Srpska attracted a significant amount of FDI in the observed time period. The amount could have been higher, and the reasons for their absence are numerous. The complex

state organization of Bosnia and Herzegovina, complicated administrative procedures at the state and entity level, the impossibility of implementing monetary and partly fiscal policy instruments, inadequate legislative framework and the labour market, inconsistent tax policy, corruption, inefficient work of the judicial system, represent limiting factors for a greater inflow and significant effect of FDI in the targeted time period. In order to create a stimulating business environment and the assumptions of a more significant inflow of FDI, and thus a greater impact on economic growth, it is necessary to implement reforms in the institutional and legislative framework. Also, the creation of a stable political and macroeconomic environment, a well-conceived legal framework and an adequate sectoral structure of investment in accordance with the established goals of economic policy, represent fundamental predictors of a significant inflow and more efficient use of FDI, and thus the generation of economic growth *ceteris paribus*.

The results obtained in this research will not offer a definitive answer about the role, significance and predictors of the positive effects of FDI in generating economic growth. Some research will confirm the positive connection and determination of economic growth by FDI variations, while other research will dispute the stated role, importance and effects. The mentioned difference does not represent a differentiation with regard to the application of the analytical framework, but rather in the approach and belonging to certain particular economic doctrines, where certain research emphasizes the importance of static (macroeconomic) benefits and others, in addition to the above, the existence of dynamic benefits. This research sought to establish an analytical framework that would ensure a high degree of objectivity, reliability and representativeness. Therefore, the research conducted in this paper, with a defined analytical framework, can serve as a basis for further research in this direction. Gaps in the analytical framework can be filled with the inclusion of additional variables, in accordance with available statistical data, in order to obtain results with a higher degree of reliability, representativeness and objectivity.

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