THE IMPACT OF FOREIGN DIRECT INVESTMENT ON EMPLOYMENT IN TOURISM IN BOSNIA AND HERZEGOVINA

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ABSTRACT

The global tourism market is accompanied by the constant changes in the market share of individual countries, the preferences of tourists and ways to satisfy their needs. In 2017, Europe, for example, dominated the tourism market with 51% of market share. However, the increase in Asia-Pacific participation compared to 2016 is as high as 24%, which indicates that the share of transnational companies in the region is increasing, not only in revenues, but also in tourism investments. Part of the investment is also directed to Bosnia and Herzegovina, which emphasizes inflows from Arab countries. Regardless of the type, investments in tourism are of particular importance to developing countries, because in addition to economic effects, they contribute to technology transfer, management experience and they also strengthen the cooperation between the state and the investor. The subject of this paper is foreign direct investment (FDI) in tourism in Bosnia and Herzegovina. The aim of this paper is to examine the impact of foreign direct investment on employment in the tourism sector. Using the correlation regression analysis, the impact of foreign direct investments on the number of jobs in the accommodation and food and beverage industries was examined. The paper shows that there is a weak positive impact of FDI on the increase in the number of employees in the accommodation and food and beverage industries.

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1. INTRODUCTION

Investments in tourism are an important presumption for faster growth and development of tourism. By a generally accepted definition, they represent a form of investment in which the investor secures the right of ownership, control and management over the company in which the money is invested, with the realization of mutual interests (Халибашић, 2011, p.65). Investments in tourism are crucial because they provide the resources needed to adapt suprastructure and infrastructure, and strengthen human resources and technologies. Important factors for attracting investments are the quality, quantity and position of the transport infrastructure (Popović, Erić, 2018, p.1540). Fulfillment of these factors facilitates and accelerates investments in tourism suprastructure.

Foreign direct investment (FDI) which deepens bonds between the countries and increases internationalization of economic flows are of particular importance (Бошковић, 2008, p.25). Foreign direct investments represent investments of the investors from the country of origin who gained asset in another country for the purpose of managing that asset (Поповић, Савић, Спасојевић, 2014, p.411). These investments can be manifested in many ways: through public-private partnerships, concessions, mergers and acquisitions, joint ventures with or without property component, etc. Benefits from investing are mostly present on the investor side in the form of business expansions, penetration on foreign markets, more economical use of resources, etc. On the other hand, the host countries manage to valorize the natural resources, cultural attractions, etc. (Стојадиновић, 2013, p.15). However, there are disadvantages depending on the type of investment. There is an outflow of tourism income into the investor country (especially when the foreign investor holds 100% of the capital), the host country has no control over the investor policy and there are large hotel or tourism investments that can lead to the elimination of domestic competition and in some cases, even to job cuts.

PREVIOUS RESEARCH

The importance of investments, especially FDI, has been researched by numerous authors. Investments represent a basis of social and economic progress and have a great contribution to the rise in the employment rate (Keynes, 1973, p.223). According to Keynes, an investor buys the right to a range of future net incomes, which he expects from the sales of the mentioned investment during its lifespan. Blomstrom (1992, p.63) finds that FDI has a special contribution to the economic development only in the underdeveloped countries. Similarly, Krugman (1991, p.268) claims that there is no connection between employment growth and FDI in developed countries.
Halley (1997, p.602) analyzes the need of the tourism industry of Vietnam for strategic foreign investment. Broz, Butirac and Tkalec (2015, p.881) analyze Croatia’s regional cooperation on certain determinants in Southeast Europe and conclude that regional investment is of great importance in Bosnia and Herzegovina, since in 2010 the share of regional FDI in total FDI in B&H was as high as 32%. The same authors concluded that regarding the region of Southeast Europe Croatia and Serbia are the countries that invest most in all sectors, including the tourism. Papadopoulos (2016, p.619) emphasizes the importance of national branding in attracting foreign investments in tourism. Samimi (2017, p.60) demonstrates long-term bilateral causality between foreign direct investment and tourism development. In a panel discussion, on the example of 49 economies of the world, Alam and Paramati (2016, p25) explore the impact of foreign investment in tourism on reducing income inequality. Falk (2016, p.227) examines the impact of market size, common language, minimum wage levels on the effects and attraction of foreign investment in tourism and hospitality for 105 economies of the world in the period from 2005 to 2011. Using the gravity model, the author concludes that the size of the market and common language have a positive effect on attracting foreign investment, while increasing the minimum wage in the host country reduces the inflow of FDI. Gligorijević and Ubavić (2016, p.227) examined the investment-privatization process in tourism of Serbia and concluded that investment through the privatization process proved ineffective, unlike greenfield investments, which are also very rare. The same authors point out that no matter which country is in question, the condition for greater foreign investments in tourism is interdisciplinary approach to investment policy and political, legislative and macroeconomic stability in the country. Fereiduoni and Al-Mulali (2014, p.107) analyze the connection of foreign investment in the real estate market and international tourism in OECD countries. Marić (2016, p.428) analyzes foreign direct investment in Bosnia and Herzegovina and concludes that B&H has a great potential for attracting foreign investment in tourism, but the priority are investments in infrastructure (author points out the fact that B&H had only 20 km of highway in 2009, probably the least per capita in Europe). Sokhanvar (2019, p.89) examines the direct and indirect effects of FDI on tourism growth in seven EU countries and concludes that even in five countries FDI has a negative impact on economic development and does not stimulate tourism growth.
2. INVESTMENTS IN TOURISM IN BOSNIA AND HERZEGOVINA

Therefore, the economic progress of any country cannot be imagined without investments, the generator of development. Regardless of the type (greenfield & brownfield)\(^1\) greater investments create more productive tourism projects that are regionally competitive. They are a resource base for attracting tourists. The growth in investment, which is accompanied by a high rate of efficiency, actually contributes to the export of the tourism product. The type of investment also determines the direction of impact on the foreign trade balance, where greenfield investments are the most desirable because they involve new hiring of fixed assets, supporting activities, labor or hiring of all three factors of country production, labor and capital. The problem of tourism industry in B&H is that long-term investments are made through acquisitions and privatizations, while a small number are greenfield investments.

According to the Travel & Tourism economic impact report for 2017 (WTTC, 2018) in B&H, the inflow of total investments exclusively in the tourism sector was 326.5 million BAM, which ranked B&H 122nd (Table 1).

Table 1. Ranking of B&H and total investments in the tourism sector in 2017

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Country</th>
<th>2017 (million US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Turkey</td>
<td>20.5</td>
</tr>
<tr>
<td>17</td>
<td>Italy</td>
<td>11.6</td>
</tr>
<tr>
<td></td>
<td>World average</td>
<td>4.8</td>
</tr>
<tr>
<td>40</td>
<td>Greece</td>
<td>3.6</td>
</tr>
<tr>
<td></td>
<td>European average (remaining)</td>
<td>2.6</td>
</tr>
<tr>
<td>53</td>
<td>Czech Republic</td>
<td>2.0</td>
</tr>
<tr>
<td>64</td>
<td>Croatia</td>
<td>1.2</td>
</tr>
<tr>
<td>71</td>
<td>Bulgaria</td>
<td>0.8</td>
</tr>
<tr>
<td>93</td>
<td>Cyprus</td>
<td>0.4</td>
</tr>
<tr>
<td>95</td>
<td>Montenegro</td>
<td>0.4</td>
</tr>
<tr>
<td>113</td>
<td>Albania</td>
<td>0.3</td>
</tr>
<tr>
<td>122</td>
<td>Bosnia and Herzegovina</td>
<td>0.2</td>
</tr>
</tbody>
</table>


\(^1\) Greenfield investments imply investment in brand new assets and they are crucial for economic development and progress, since they move from the “empty land”. Therefore, they require new labor, affect the balance of payments and significantly increase the GDP growth rate, but obtain slower return on funds. Brownfield investments, by contrast, involve investing in existing productive assets, aiming at the greater profitability of jobs taken over, and the easiest way to do this is to lay off workers.
Long-term assessment of the WTTC for the movement of investments in the tourism sector for the period from 2018 to 2028, ranked B&H on the 45th position, with a growth rate of 5.2%, while for the same period but on the European level, the growth rate is 3.4% and on the world level it is 4.2%. However, foreseeing is not possible without the synergistic action of all actors involved in building tourism and investment policies (WTTC, 2018, p.10).

According to the records of FIPA, in 2016 foreign investments in the tourism sector amounted to 187 million BAM (95.5 million euros), which makes 1.4% of the total direct foreign investment in B&H as of December 2016.

**Table 2.** Overview of FDI importance for the tourism sector, for the period 2011-September 2017 in millions of BAM

<table>
<thead>
<tr>
<th>FDI</th>
<th>State FDI in millions of BAM</th>
<th>FDI Flows by years in millions of BAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>FDI in total-all sectors</td>
<td>10,773.5</td>
</tr>
<tr>
<td>1</td>
<td>Accommodation</td>
<td>143.5</td>
</tr>
<tr>
<td>2</td>
<td>Food and drink preparation and serving</td>
<td>3.2</td>
</tr>
<tr>
<td>3</td>
<td>Travel agencies</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>Creative arts and entertainment activities</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Sport, fun and recreation</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Tourism in total (from 1 to 5)</td>
<td>146.7</td>
</tr>
<tr>
<td>7</td>
<td>Participation (6) in total FDI (0)</td>
<td>1.4%</td>
</tr>
<tr>
<td>8</td>
<td>Real estate business**</td>
<td>622.0</td>
</tr>
<tr>
<td>9</td>
<td>Participation (8) in total FDI (0)</td>
<td>5.8%</td>
</tr>
</tbody>
</table>


If you look at the state of FDI by sectors, there is very little participation in tourism in B&H over a longer period, which is shown in Chart 1.
Observing FDI, the Central Bank compilation contains FDI data for a total of 99 categories, of which two categories are closely related to tourism: accommodation and food and beverage service activities. In B&H, most foreign investments in the accommodation category were recorded in 2014, while for the food and beverage preparation and service activities, the highest foreign investments were recorded in 2015. FDI trends for these two categories, as well as their values, are shown in Chart 2.

**Chart 1.** FDI stocks by industry in B&H for the period 1994-2017

**Chart 2.** Foreign direct investment by category for the period 2012-2017 (millions of BAM)
3. CORRELATION – REGRESSION ANALYSIS OF THE IMPACT OF FDI ON TOURISM EMPLOYMENT IN BOSNIA AND HERZEGOVINA

Correlation-regression analysis, general part

The correlation regression method is used to determine the relationship and the degree of dependence between two variables. The correlation shows how strong the link between the analyzed variables is. The numerical value of the Pearson correlation coefficient explains the direction and degree of correlation of the two observed variables. In contrast to the correlation analysis expressed by Pearson’s coefficient \( r \), regression analysis provides an insight into the form of correlation of the two variables. The form of connection is interpreted on the basis of a regression line, a scatter or dispersion diagram. The least squares mathematical method completes the explanation of the regression line and is expressed in form (Ловрић, Комић, Стевић, 2017, p. 386):

\[ Y = a + bx + \varepsilon \]

- \( Y \) – resultative variable
- \( a \) – regression constant (section on \( y \) axis)
- \( b \) – regression coefficient (slope of simple linear regression)
- \( x \) – causal variable
- \( \varepsilon \) – residual variable

The form of correlation is interpreted by the coefficient of determination \( R^2 \) resulting from a simple linear regression. It shows the percentage of variables explained by the analysis (Шушић, 2017, p. 15).

Correlation-regression analysis: research part

According to the Central bank of B-&H, foreign investments in tourism have long been statistically classified under the hospitality industry, but since 2011 that category has been split into two: accommodation and food and beverage service activities. Since 2011 there was a continuous increase of foreign direct investment in the accommodation category until 2016, when there was a slight decline in investment, whereas investments in food and beverage preparation and serving activities rose from 4.4 million BAM (2014) to 12.8 million BAM (2017, http://statistics.cbbh.ba).

By using the regression-correlation analysis, the form and strength of dependence of two variables will be presented:

1. Number of employees in accommodation, food and beverage preparation and service activities in the period 2010-2017 in Bosnia and Herzegovina, as dependent variable;
2. FDI in accommodation, preparation and serving of food and beverages from 2010 to 2017 in Bosnia and Herzegovina, as independent variable.

The equivalent of the number of employees in tourism is data on employees in the category accommodation and activities of preparation and serving of food and beverages (according to the official classification of activities in B&H). Data on the annual inflow of FDI were taken from the official website of the Central Bank of Bosnia and Herzegovina. This data, as it can be seen in Chart 2, is available as FDI in the category accommodation and as FDI in the category of food and beverage preparation and serving activities. In order to make it more simple, the data on FDI will be aggregated into one category as FDI in accommodation, as well as food and beverage preparation and serving activities. Data for both variables are presented in Table 4.

Table 3. Number of employees and FDI in the category of accommodation and food and beverage service activities in the period 2010-2017 (B&H)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of employees (thousands)</td>
<td>29.224</td>
<td>27.710</td>
<td>28.262</td>
<td>30.299</td>
<td>31.979</td>
<td>33.589</td>
<td>35.896</td>
</tr>
<tr>
<td></td>
<td>FDI (accommodation + food and beverage service activities, millions BAM)</td>
<td>146.7</td>
<td>136.5</td>
<td>173.4</td>
<td>189.1</td>
<td>214.5</td>
<td>208.3</td>
<td>176.3</td>
</tr>
</tbody>
</table>


As it can be seen in the table, employment in the tourism sector fluctuated slightly during 2011 and 2012. This was followed by the period of growth in the number of employees in tourism (Graph 3).

Graph 3. Number of employees within the category of accommodation and food and beverage service activities in the period 2010-2017 (B&H)

Source: Author’s creation in excel program

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2 Employment figures refer to December, each year from 2010 to 2017.
Starting hypothesis of this research is that FDI in tourism has an impact on employment growth in accommodation and food and beverage service activities.

The input data are presented in Table 4 and processed in an excel program using a simple linear regression tool. The processing results are presented in Table 4.

Table 4. Results of the regression analysis

<table>
<thead>
<tr>
<th>SUMMARY OUTPUT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression Statistics</td>
</tr>
<tr>
<td>Multiple R</td>
</tr>
<tr>
<td>R Square</td>
</tr>
<tr>
<td>Adjusted R Square</td>
</tr>
<tr>
<td>Standard Error</td>
</tr>
<tr>
<td>Observations</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>df</td>
</tr>
<tr>
<td>Regression</td>
</tr>
<tr>
<td>Residual</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Author’s creation in excel program

The correlation coefficient $r = 0.43$ indicates a weak positive impact of FDI on employment within the accommodation and food and beverage service activities. A positive sign is that the variables are direct, that is, although there is a weak link between them, FDI growth nevertheless leads to the employment growth.

The determination coefficient $R^2$ shows that variations are dependent variable with about 18% of variations of the FDI independent variable. The significance of the model is within optimal limits, which confirms the value of $Significance F$ ($F<α 0.05$). The simple linear regression equation is represented on the scatter diagram – Graph 4.
Scatter diagram shows that the direction approximates well between the variables, which results in a linear line indicating a linear relationship between the variables (Станивук, 2017, p. 387). The equation of the regression model in this case would be:

\[ Y = 21045 + 61,105(x) \]

If the independent variable (FDI) had a value of zero, then the dependent variable (number of employees in tourism) would have an average value of 21045. With an increase in foreign direct investment in accommodation and food and beverage preparation and serving of one million, employment would be expected to increase by about 61 workers.

4. CONCLUSION

According to the long-term forecasts of the World tourism and travel council, tourism investment could increase by more than 5.2 % annually in Bosnia and Herzegovina by 2028, which would also affect the GDP growth of the whole country.

The paper focuses on the statistical analysis of foreign direct investments and their impact on employment in the accommodation sector, as well as the preparation and serving of food and beverages. Regression-correlation analysis confirmed the research hypothesis that FDI affects employment in tourism. The analysis showed a weak positive impact of FDI on employment within the accommodation and food and beverage service activities.
The obtained coefficient of determination $R^2$ shows that variations in the number of employees in the tourism sector with 18% are conditioned by variations of foreign direct investment in the sector.

The regression equation and the obtained dispersion diagram suggest that with the increase of foreign direct investment in the accommodation and food and beverage industry by one million, there could be an increase in employment by about 61 work places.

Bosnia and Herzegovina’s tourism economy is facing various problems. Some investments have not been completed because investors have abandoned investing in projects due to institutional problems, slow procedural conditions, corruption, conflicts of laws, etc. Although the legal framework provides certain benefits for foreign investors, they are not sufficient to motivate foreign investors.

The impact of foreign direct investment on employment in other sectors is greater, considering the fact that “Global Location Trends Facts & Figures report” from 2018 put B&H on the third place in the number of jobs created under foreign direct investment projects (per one million population). The weak influence on the growth of employment in tourism is justified by the fact that B&H is still not sufficiently recognized in tourism and therefore, there is no greater interest for foreign investors to invest in B&H tourism. Nevertheless, the positive trend of foreign investment in tourism indicates the importance of this sector.

Finally, Bosnia and Herzegovina needs to make additional efforts to attract as many investors as possible, increase foreign investment in tourism and harmonize its legislation with the European Union. Greater realization of foreign investments requires fulfillment of a large number of general criteria and conditions necessary for the functioning of modern tourism economies.

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УТИЦАЈ СТРАНИХ ДИРЕКТНИХ ИНВЕСТИЦИЈА НА ЗАПОСЛЕНОСТ У ТУРИЗМУ БОСНЕ И ХЕРЦЕГОВИНЕ

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САЖЕТАК
Глобално туристичко тржиште константно доживљава промјене у смислу степени тржишне партиципације појединих земаља, склоности туриста и начина испуњавања њихових потреба. Европа је у 2017. години имала доминацију на глобалном туристичком тржишту са чак 51% тржишног удела. Озбиљно повећање учешћа Азије у 2017. години у односу на 2016. годину износило је чак 24%, што ствара каузалне ефekte и на све веће учешће транснационалних компанија из тог региона у туризму. Овај рад систематизује инвестиције у туризам Босне и Херцеговине, са фокусом на ефекте страних улагања на запосленост у туристичком сектору. Емпиријска анализа, базирана на регресионо-корелационом моделу, показала је да постоји слаб позитивни утицај СДИ на запосленост у делатностима смештаја, те припреме и услуживања хране и пића. Истраживања у овом раду су предуслов за озбиљније анализирање типологије и значаја страних инвестиција за туристички развој Босне и Херцеговине.

Кључне ријечи: стране директне инвестиције, туризам, Босна и Херцеговина.