



Executive Summary

1. Openness to, and Restrictions Upon, Foreign Investment

Bosnia and Herzegovina (BiH) still struggles to attract foreign investment. Although open to foreign investment, investors continue to face a number of serious obstacles including: multiple complex legal and regulatory frameworks and government structures; non-transparent business procedures; corruption; poor infrastructure; insufficient protection of property rights; and a weak judicial system. In addition, the country's political environment, coupled with the pressures of the global economic downturn, has stalled many key economic reforms.

Under the BiH constitution established through the Dayton Accords, Bosnia and Herzegovina is divided into two “entities,” the Federation of BiH (the Federation) and the Republika Srpska (RS). A third, smaller area, the Brčko District, operates under a separate administration. The Federation is further divided into ten cantons, each with its own government and responsibilities. Each entity also has municipalities. As a result, BiH has a multi-tiered legal and regulatory framework that is often duplicative and contradictory. Employers pay a heavy burden to governments, an extra 69 percent of the wage level in the Federation and 52 percent in the RS, for mandatory health and pension contributions. Labor and pension laws are deterrents to investment.

The lack of a single economic space throughout BiH creates difficulties for companies trying to do business across the entire country. While corporate income taxes in the two entities and Brčko District are now harmonized at ten percent, entity business registration requirements are not harmonized. The RS has its own registration requirements, which apply to the entire entity. Each of the Federation's ten cantons has different business regulations and administrative procedures affecting companies. Simplifying and streamlining this framework is essential to improving the investment climate.

According to the World Bank, BiH ranks only above Tajikistan and Uzbekistan in the region of Europe and Central Asia in terms of ease of doing business. It ranked 131 out of 189 countries in the 2014 World Bank Doing Business report, down one spot from its ranking the previous year. BiH's position improved in three categories: trading across borders, enforcing contracts, and resolving insolvency. BiH's worst performance was in the following categories: starting a business, dealing with construction permits, and obtaining electricity. The World Bank estimates that in the city of Sarajevo, starting a business requires an average of 37 days and 11 separate procedures, well above the average for the region. BiH's full WB Doing Business review can be found at: <http://www.doingbusiness.org/ExploreEconomies/?economyid=26>. In 2013, the RS established a one-stop-shop for business registration in the RS. This reduces the required processes dramatically, and initial reports indicate the time to register a business in the RS is down to an average of one week.

Potential investors have been frustrated by the lack of attractive privatization opportunities, non-transparent government tender processes, and impediments to greenfield investment. Privatization offerings are scarce and often require unfavorable terms. For example, some formerly successful state-owned enterprises have accrued significant debts from unpaid health and pension contributions, and potential investors are required to assume these debts and maintain the existing workforce. As a result, foreign investment -- including greenfield investment -- has significantly shrunk in the last several years. From a high of \$2.1 billion in 2007, foreign direct investment (FDI) totaled \$392 million in 2012 and was \$347 million in the first nine months of 2013. Most investments in 2012-2013 came from Russia, Austria, Croatia, Serbia, Slovenia and Germany.

The state-level Law on the Policy of Foreign Direct Investment provides a generic framework for foreign investment. The law accords foreign investors the same rights as domestic investors, including bidding on privatization tenders. With the exception of the defense industry and the media sector, where foreign control is limited to 49 percent of a single company, there are no restrictions on investment. Investors are also protected from changes in the Law on Foreign Investment. Should the government amend the legislation, the investor may choose the most favorable regulations to apply.

BiH has a Competition Council, designed to be an independent public institution to enforce anti-trust laws, prevent monopolies, and enhance private sector competition. The Council reviews and approves foreign investments in cases of mergers and acquisitions of local companies by foreign companies. The Competition Council consists of six members appointed for six-year terms of office with the possibility of one reappointment. The BiH Council of Ministers appoints three Competition Council members, the Federation Government appoints two members, and the RS Government appoints one member. From the six-member Competition Council, the BiH Council of Ministers appoints the president of the Council for a one-year term without the possibility of reappointment.

Public-private partnerships (PPPs) are gradually gaining wider acceptance with BiH officials. The RS currently has PPPs in the health-care and transportation sectors. Several cantons in the Federation adopted laws on public-private partnerships, with the goal of providing incentives for entrepreneurs and facilitating access to certain projects.

BiH has a Foreign Investment Promotion Agency: www.fipa.gov.ba

Following are BiH's third-party rankings on widely accepted measures of the business and investment environment:

Measure	Year	Index/Ranking
Transparency International Corruption Perception (CPI)	2013	72 (out of 176)

Index		
The Heritage Foundation Index of Economic Freedom	2014	101 (out of 178)
World Bank Ease of Doing Business Ranking	2014	131 (out of 189)
The World Economic Forum Global Competitiveness Index	2014	87 (out of 144)
World Bank GNI per capita	2013	\$4,750

2. Conversion and Transfer Policies

The Law on Foreign Direct Investment guarantees the immediate right to transfer and repatriate profits and remittances. Local and foreign companies may also hold accounts in one or more banks authorized to initiate or receive payments in foreign currency. The implementing laws in both entities include transfer and repatriation rights. The Central Bank's adoption of a currency board in 1997 guarantees that the local currency, the convertible mark or KM, is fully convertible to the euro with a fixed exchange rate of KM 1.95583 = €1.00.

3. Expropriation and Compensation

The state investment law forbids expropriation of investments, except in the public interest. According to Article 16, "Foreign investment shall not be subject to any act of nationalization, expropriation, requisition or measures that have similar effects, except where the public interest may require otherwise." In such cases of public interest, expropriation of investments would only be executed in accordance with applicable laws and regulations, would be free from discrimination, and would include payment of appropriate compensation. Neither entity government nor the state government has expropriated any foreign investments to date.

4. Dispute Settlement

BiH has a clogged court system and it often takes several years for a case to be brought to trial. The U.S. Government has provided training to judges, trustees, attorneys, and other stakeholders at both state and entity levels to assist in the development of bankruptcy and intellectual property rights laws. Those laws are now in effect at both the entity and state levels, but its implementation remains deficient.

Bosnia and Herzegovina has been a member of the International Center for the Settlement of Investment Disputes since 1997. It accepts international arbitration to settle private investment disputes if the parties outline this option in a contract.

Over the last decade, there has been only one case of a legal dispute involving a U.S. investor and the local government. While efforts are being made to improve BiH's

commercial court system, its current capacity and practical inefficiencies limit timely resolution of commercial disputes.

5. Performance Requirements and Incentives

There are several incentives for foreign direct investment, including exemptions from payment of customs duties and customs fees. Bosnia and Herzegovina is divided into three jurisdictions for direct tax purposes: the Federation, the RS and the Brčko District. The corporate income tax in the Federation allows tax relief to foreign investors who invest KM 20 million (roughly \$14 million in April 2014) over a five-year period. The Federation exempts domestic and foreign companies from annual corporate profit tax if at least 30% of turnover at year end is from exports.

In the Federation, RS, and Brčko District, the corporate income tax allows offsetting of losses against profits over a five-year period. In the Brčko District, if an investor invests in fixed assets and pays taxes, this investment is subject to tax relief. There are no special investment incentives in the RS. Foreign investors can open bank accounts in all jurisdictions and transfer their profits abroad, without any restrictions. The rights and benefits of foreign investors granted and obligations imposed by the Law on the Policy of Foreign Direct Investment cannot be terminated or overruled by subsequent laws and regulations. Should a subsequent law or regulation be more favorable to foreign investors, the investor has the right to choose the most beneficial regulations.

6. Right to Private Ownership and Establishment

Under the state-level investment law, a foreign enterprise has the same rights as a BiH enterprise or citizen, and foreign entities can establish and own a business with the same rights as domestic entities. However, the Federation Companies Law, unlike laws in the RS and the Brčko District, does not provide an option for foreign legal entities to establish a branch office. Foreign investors may own real estate in BiH and enjoy the same property rights as BiH citizens and legal entities, except in the defense industry and media, where foreign control is limited to 49 percent of a single company. Foreign interests must follow the same regulatory procedures when establishing their enterprises.

7. Protection of Property Rights

Real Estate Property

Registration of real property titles is generally acknowledged as a significant barrier to the development of real property and mortgage markets. The present system consists of separate Geodetic Administrations for FBiH and RS, which are responsible for the real property cadasters. The real property cadasters describe and certify the legal object e.g. land, house. Separately, the land registry establishes legal ownership and rights for the specific object (e.g. land, house) and is maintained by municipal courts.

Intellectual Property (IP) Rights

Bosnia's intellectual property rights (IPR) framework consists of seven laws, adopted and put into force by the Parliament in 2010. This legislation is TRIPS and EU-compliant and includes laws on copyrights, patents, trademarks, geographical indications, and the topography of integrated circuits. BiH belongs to over 20 international treaties related to IPR and in 2009 ratified the 1996 WIPO Copyright Treaty and the WIPO Performance and Phonograms Treaty. Although existing legislation provides a basic level of protection, BiH's civil and criminal enforcement remains weak.

Jurisdiction over IPR investigations is split between customs officials, entity inspectorates, and state and entity law enforcement agencies, and no institution has specialized IPR investigation teams. IPR crimes are prosecuted primarily at the state level. Those cases indicted often involve fairly low-level violators. The more significant cases have sometimes languished for years with little action from prosecutors or judges. The entity governments have been using licensed software for a number of years and the state-level government came into compliance in 2009, a significant step forward in the government's commitment to IPR protection. However some officials still lack understanding of the importance of IPR. Illegal DVDs and CDs are still available for sale in small public markets. BiH's enforcement record still leaves much room for improvement. At this time, there is no mechanism to combat digital piracy.

In BiH's private sector, awareness of IPR, particularly the importance of copyright protection, remains low. Curbing business software piracy could significantly improve the local economy through the creation of new jobs and the generation of significant tax revenue. Failure to recognize the importance of reducing copyright infringement makes software producers and official distributors less competitive and the establishment of a legitimate market more difficult. Businesses lose an estimated \$15 million from the sale of counterfeit software, CDs, and DVDs. According to the Business Software Alliance (BSA), the rate of illegal software installed on personal computers in Bosnia and Herzegovina currently remains at 66 percent, which is the regional average.

The U.S. Government, in conjunction with local partners, has made IPR awareness within the enforcement community a priority through training and public awareness programs. In February 2013, the Embassy organized an IPR enforcement discussion with entity and cantonal market inspectors, representatives of the Business Software Alliance (BSA), the American Chamber of Commerce in BiH, and several U.S. software companies. In addition, the Embassy sponsored an IPR project with the Association for the Protection of Audiovisual Works (APAW) BiH, focused on the film industry, digital piracy, and necessary updates to BiH legislation. Finally in 2013, the U.S. Department of Commerce provided technical assistance through a judicial capacity building project focused on the adjudication of intellectual property infringement cases.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: Matthew Fullerton FullertonMA@state.gov

Embassy lawyers list link: : <http://sarajevo.usembassy.gov/lawyers.html>

8. Transparency of the Regulatory System

Establishing a business in BiH can be an extremely burdensome and time-consuming process for investors. Registration is an 11-step procedure that takes, on average, 37 days to complete. Retaining a local lawyer may expedite the process. The administrative costs are approximately \$450 and attorney's fees range from \$200 to \$1,000. Notary services are necessary when establishing a company, for real estate proceedings and for changes to the court registry. Once a company is registered in one of the entities, branch offices can be established in the other entity without a separate company registration procedure. This significantly reduces the time and administrative hurdles to expand operations. Other administrative procedures can be more time-consuming. For example, obtaining a construction permit can take six months to one year. Investors often complain about lack of transparency and potential corruption in this process.

The multitude of state, entity, cantonal (in the Federation only), and municipal administrations – each with the power to establish laws and regulations affecting business – creates a heavily bureaucratic, non-transparent system. It is difficult to know all of the laws or rules that might apply to certain business activities, given overlapping jurisdictions and the lack of any central source of information. Foreign investors often, therefore, obtain local assistance and advice. In an effort to promote the growth of business in its entity, the Republika Srpska government passed a series of amendments in fall and winter 2013 to create an RS one-stop-shop for business registration. This institution centralizes the process of registering a business, ostensibly making it easier, faster and cheaper for new business owners to register their companies in the RS.

Businesses are subject to inspections from a number of entity and cantonal/municipal agencies including the financial police, labor inspectorate, market inspectorate, sanitary inspectorate, health inspectorate, fire-fighting inspectorate, environmental inspectorate, institution for the protection of cultural monuments, tourism, and food inspectorate, construction inspectorate, communal inspectorate, and veterinary inspectorate. Some investors have complained about non-transparent fees levied during inspections, changing rules and regulations, and an ineffective appeals process to protest these fines.

9. Efficient Capital Markets and Portfolio Investment

Capital markets remain underdeveloped in BiH. Both entities have created their own modern stock market infrastructure with separate bourses in Sarajevo (SASE) and Banja Luka (BLSE), both of which started trading in 2002. The small size of the markets, lack of privatization, and public mistrust of previous voucher privatization programs has impeded the development of a market. Nonetheless, both stock exchanges experienced a significant boom in the first half of 2007, supported by strong performances in neighboring stock markets in Belgrade, Zagreb, and Ljubljana. However, during 2008 and the global economic crisis, foreign investment dwindled and investors saw previous gains dissipate on both exchanges. Foreign investment has shown no signs of growth

since 2008, shaped not only by the global financial crisis but also by BiH's lack of political stability and slowdown of reforms. Both the RS and FBiH issued government securities for the first time during 2011, as part of their plans to raise capital in support of their budget deficits during this period of economic stress. Both entity governments continue to issue government securities in order to fill budget gaps. These securities are also available for secondary market trading on the stock exchanges.

In their annual credit analysis report released in December 2013, Moody's Investors Service said that Bosnia and Herzegovina's B3 rating with stable outlook remains constrained by the complexities of the country's political system, the depletion of its productive base, wide external deficits, and the country's substantial unemployment. The report suggested the rating could improve upon implementation of structural reforms, improved ethnic relations, and if BiH were to gain EU candidacy status. Moody's noted that Bosnia's credit strengths include its favorable government debt profile relative to its rating peers, as its debt is mainly owed to multilateral and bilateral creditors on concessional terms. The report also noted that large external trade and current account deficits and the lack of access to the private global capital market make the economy heavily dependent on capital inflows from concessional lenders.

On September 27, 2013, Standard & Poor's Ratings Services (S&P) affirmed its B/B long- and short-term foreign and local currency sovereign credit ratings on Bosnia and Herzegovina. The outlook on the ratings is stable, the agency said in a statement. According to S&P, Bosnia and Herzegovina's ratings are constrained by its fragile, overlapping government institutions, weak fiscal management framework, and external vulnerabilities arising from persistent current account deficits and funding challenges.

Bosnia and Herzegovina's banking and financial system has been stable with the most significant investment coming from Austria. As of February 2014, 28 commercial banks operated in BiH; 18 with headquarters in the Federation and 10 in the Republika Srpska. Total assets of commercial banks operating in Bosnia and Herzegovina reached \$14.6 billion at the end of September 2012. 25 commercial banks are members of a deposit insurance scheme, which provides for deposit insurance in the amount of KM 35,000 (\$25,000).

In 2004, BiH passed a state-level framework law mandating the use of international accounting standards, and in 2005 both entities passed legislation eliminating the previous differences in standards that existed between the entities and Brčko District. All governments have implemented accounting practices that are fully in line with international norms. However, these standards have not yet been fully implemented throughout the country due to weak accounting capacity and failure of the government to translate international standards into local language so that firms can implement the standards. Legislative officials have been criticized for attempts to change these standards in an effort to protect local accounting firms. Foreign investors should therefore carefully scrutinize Bosnian corporate financial statements.

10. Competition from State-Owned Enterprises (SOEs)

Generally, private companies compete with public enterprises under the same terms and conditions with respect to access to markets, credit and other business operations. However, in the sectors such as telecommunications and electricity, state-owned enterprises hold a near-monopoly, making hefty profits as a direct result of their dominant market position. Generally, government-owned companies are controlled by various alliances of political parties, increasing the possibilities for corruption and inefficient company management.

11. Corporate Social Responsibility (CSR)

Foreign and local companies exercise some corporate social responsibility activities and awareness. More could be done in this area to respond to BiH's various social and economic needs. In general, consumers tend to view favorably companies that initiate and carry out charitable activities in the local market.

12. Political Violence

The war in Bosnia and Herzegovina was halted by the Dayton Peace Accords in November 1995. Armed conflict has ceased and there have been no attacks targeting foreign investments. However, there are still risks from occasional, localized political and criminal violence.

In mid-June 2013 and early 2014, large groups of citizens protested the country's economic stagnation and the government's apparent inability to improve the situation. The vast majority of protests were peaceful with relatively small numbers of participants. The first string of protests took place in Sarajevo, while the second outbreak of protests occurred in several cities throughout the country but mainly within the Federation. Protests in early 2014 in the cities of Sarajevo, Mostar, and Tuzla resulted in attacks on government buildings, destruction of government property, and injury. There were no reports of foreign investors being directly targeted in the protests.

13. Corruption

Corruption remains prevalent in many political and economic institutions in Bosnia and Herzegovina and raises the costs and risks of doing business. BiH's overly-complex business registration and licensing process is particularly vulnerable to corruption. The multitude of state, entity, cantonal and municipal administrations, each with the power to establish laws and regulations affecting business, creates a system that lacks transparency and opens opportunities for corruption. With the large number of levels involved, there are multiple opportunities to demand "service fees." Paying bribes to obtain necessary business licenses and construction permits, or simply to expedite the approval process, occurs regularly.

Transparency International's (TI) 2013 Corruption Perception Index ranked BiH 72nd out of 176 countries. BiH and Serbia shared the 91st slot in 2013, outperforming only

Kosovo and Albania in the Western Balkans (, and ranking behind Montenegro (67th), Croatia (62nd) and Macedonia (69th). According to TI, which maintains offices in BiH, relevant institutions lack the will to become actively involved in fighting corruption. Law enforcement agencies and the judiciary are not effective in the prosecution of corruption cases and are visibly exposed to political pressures. Prosecutors complain that citizens generally do not report instances of corruption and do not want to testify in these cases. At the end of 2011, BiH established a state level agency to prevent and coordinate efforts to combat corruption; while officially active, the agency has shown limited results.

Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. It deters foreign investment, stifles economic growth and development, distorts prices, and undermines the rule of law. U.S. companies must carefully assess the business climate and develop an effective compliance program and measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms should take the time to become familiar with the relevant anticorruption laws of both BiH and the United States in order to properly comply, and where appropriate, seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, and uphold obligations under relevant international conventions. A U.S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

U.S. Foreign Corrupt Practices Act:

The Foreign Corrupt Practices Act of 1977 was enacted for the purpose of making it unlawful for certain classes of persons and entities to make payments to foreign government officials to assist in obtaining or retaining business. Since 1977, the anti-bribery provisions of the FCPA have applied to all U.S. persons and certain foreign issuers of securities. With the enactment of certain amendments in 1998, the anti-bribery provisions of the FCPA now also apply to foreign firms and persons who cause, directly or through agents, an act in furtherance of such a corrupt payment to take place within the territory of the United States.

Local Laws:

U.S. firms should become familiar with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department's U.S. and Foreign Commercial Service can provide assistance with navigating the host country's legal system and obtaining a list of local legal counsel.

Assistance for U.S. Businesses:

The U.S. Department of Commerce offers several services to aid U.S. businesses. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting due diligence when choosing business partners or agents

overseas and provide support for qualified U.S. companies bidding on foreign government contracts. For a list of U.S. Foreign and Commercial Service offices: www.trade.gov/cs

Alleged corruption by foreign governments or competitors can be brought to the attention of appropriate U.S. government officials, including U.S. Embassy personnel or through the Department of Commerce Trade Compliance Center “Report a Trade Barrier” Website at tcc.export.gov/Report_a_Barrier/index.asp

Anti-Corruption Resources

Useful resources regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a “Lay-Person’s Guide to the FCPA” is available at the U.S. Department of Justice’s Website at <http://www.justice.gov/criminal/fraud/fcpa>
- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at <http://cpi.transparency.org/cpi2012/> TI also publishes an annual *Global Corruption Report* which provides a systematic evaluation of the state of corruption around the world. See: <http://archive.transparency.org/publications/gcr>
- Information about the OECD Antibribery Convention including links to national implementing legislation and country monitoring reports is available at http://www.oecd.org/departement/0,3355,en_2649_34859_1_1_1_1_1,00.html Also refer to the Antibribery Recommendation and Good Practice Guidance Annex for companies at <http://www.oecd.org/dataoecd/11/40/44176910.pdf>
- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: http://www.ogc.doc.gov/trans_anti_bribery.html
- The World Bank Worldwide Governance Indicators (WGI) assess six areas of governance including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See http://info.worldbank.org/governance/wgi/sc_country.asp The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at <http://go.worldbank.org/RQQXYJ6210>
- The World Economic Forum’s *Global Enabling Trade Report* ranks the Enabling Trade Index, and assesses the transparency of border administration (focused on bribe payments and corruption). See: <http://www.weforum.org/reports>

- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at <http://www.state.gov/g/drl/rls/hrrpt/>
- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 92 countries regarding governance and anti-corruption at <http://report.globalintegrity.org/>

14. Bilateral Investment Protection Agreements

BiH has signed/ratified 42 agreements to promote and protect investments with the following countries: Albania, Austria, Belgium, Belarus, China, Croatia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Netherlands, Hungary, India, Iran, Italy, Jordan, Kuwait, Lithuania, Luxembourg, Macedonia, Malaysia, Moldova, Montenegro, Netherlands, Pakistan, Portugal, Qatar, Romania, Serbia, Libya, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, UAE, Ukraine, and the United Kingdom

BiH does not have a bilateral investment treaty with the United States.

15. OPIC and Other Investment Insurance Programs

OPIC's activities in BiH include: insurance for investors against political risk, coverage of losses due to expropriation of assets, political violence, and currency inconvertibility; and insurance coverage for contracting, exporting, licensing and leasing transactions.

Political risk insurance is also available from the EU Investment Guarantee Trust for BiH, administered by the Multilateral Investment Guarantee Agency, a World Bank affiliate.

16. Labor

BiH has a workforce with lower labor costs by western standards, and university enrollments have been increasing for a number of years. However, several sectors such as construction, information technology, and health care have experienced a significant loss of skills over the past decade, due to a lack of education and job training opportunities, as well as emigration. Tax rates on labor are high, discouraging employment of new workers and increasing incentives for unregistered employment. Current labor legislation provisions make it difficult to dismiss redundant and inefficient workforce.

In addition, a rigid wage determination system stands in the way of job creation and worker mobility. This is a result of a collective bargaining system that retains most of its socialist era characteristics. Employees and employers share the costs of health care, pension, and unemployment insurance in the Federation, while in the Republika Srpska employers cover all of these costs, as well as child care contributions. Many employers underreport their labor force to avoid paying taxes and benefits, creating a significant

gray market. Official unemployment was approximately 44 percent at the end of 2013, while unemployment based on the ILO definition was approximately 27 percent at the end of 2013.

17. Foreign Trade Zones/Free Ports

The BiH Law on Free Trade Zones allows the establishment of free trade zones (FTZs) as part of the customs territory of BiH. Currently there are four free trade zones in BiH: Vogosca, Visoko, Hercegovina-Mostar, and Holc Lukavac. One or more domestic or foreign legal entities registered in BiH may create a FTZ. The users of FTZs do not pay taxes and contributions, with the exception of those related to salaries and wages. Investors are free to invest capital in the FTZ, transfer their profit and retransfer capital. Customs and tariffs are not paid on imports into FTZs. The import of equipment for manufacturing within FTZs may be discontinued, however, if the value of goods produced and exported abroad is less than 75 percent of the total value of goods produced in that zone.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

According to BiH Central Bank data, from a high of \$2.1 billion in 2007, foreign direct investment (FDI) totaled \$392 million in 2012, and was \$347 million in the first nine months of 2013. In terms of country origin of 2012 investment inflows, the most investments came from Russia (\$108 million), Austria (\$88 million) and Croatia (\$82 million). Also in 2012, Saudi Arabia and Kuwait registered an increase in the amount of investment. In the past fifteen years, Austria has been the largest investor (24 percent), followed by Serbia (17 percent), Croatia (13 percent), Slovenia (9 percent), Russia (9 percent) and Germany (6 percent). The manufacturing sector had the highest percentage of FDI, followed by the banking and trade sectors.

BiH imports almost twice as much as it exports. According to the BiH Agency for Statistics, 2013 imports totaled \$10.3 billion with total exports at \$5.6 billion. BiH statistics report that \$263 million worth of U.S. goods were consumed in BiH in 2013. According to the U.S. Census Bureau, the U.S. imported BiH goods valued at \$57 million. In 2013, the U.S. ranked in 11th place in terms of total U.S.-BiH foreign trade. U.S. exports to BiH were primarily computer and electronic products, agricultural products, machinery and transport equipment, and raw materials for industrial processing.

Bosnia and Herzegovina had been designated as a beneficiary country under the United States Generalized System of Preferences (GSP) program; however, legal authorization for the GSP program has expired. As of August 1, 2013, imports previously eligible for duty-free treatment under GSP are subject to regular, normal trade relations duties. The U.S. Congress is considering legislation that would extend the authorization of GSP.

The Interim Agreement on Trade and Trade-related matters (IA) between the European Union and Bosnia and Herzegovina is currently in force. According to the IA, all goods of BiH origin that fulfill EU technical-technological standards and conditions can be

imported to all EU countries without any quantitative restrictions and without paying customs or other similar duties. Only sugar, wine, fish and baby beef are subject to specific quotas beyond which duties are to be paid by Bosnia and Herzegovina for the export to the EU. Since 2009, import tariffs have been eliminated for more than 11,000 products that BiH imports from the EU. With Croatia's accession to the EU, Bosnia and Herzegovina now imposes substantial import duties on agricultural products from Croatia, in particular on milk and certain meat and meat products. The EU has raised concerns over these agricultural import duties.

Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data
	Year	Amount	Year	Amount	
Economic Data					
Host Country Gross Domestic Product (GDP) (Millions U.S. Dollars)	2012	19,290	2012	18,194	http://www.imf.org/external/country/BIH/index.htm
Foreign Direct Investment					
Total inbound stock of FDI as % host GDP	2012	1.9%	2012	2.1%	http://cpis.imf.org/

19. Contact Point at Post

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