



# Can Migration Networks Reduce the Foreign Investors' Information Asymmetry

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## Context and Importance of the Problem

Transition countries, such as BH, are particularly attractive for FDI. Analyses show that rates of return on FDI are 7% globally, and they are higher in both developing (8%) and transition economies (13%) than in developed ones (5%) (UNCTAD, 2013). Foreign investors are profit maximizers who will be looking for transition countries as their hosts, which could significantly contribute to BH economic progress if utilized in the right way. However, since the beginning of economic crisis FDI inflows in BH have been reduced. This situation requires optimal reaction by decision makers in BH. One avenue deserving more attention is the role of Diaspora, considering 35,3% (1.356.619 persons) of the BH population lives abroad.

For an investment to be realized potential investors are to be facilitated for an easier overcoming of investment related information asymmetry, i.e. unequal amount of the investment related information (local specific information, such as investment infrastructure, bureaucracy, corruption, human capital etc.) that exists between domestic authorities/institutions and foreign investors.

Figure 1 illustrates the problem and invokes urgent action.

Inability of BH to attract more foreign capital inflows certainly relates to an inadequate supply of skills on labor market. Consequently, lower economic activity, lacking competitive salaries range and insufficient technology transfer (embodied in low FDI) weakens the demand for skilled labor which served as a trigger for recent migration from BH (23,9% of people with higher

education emigrated from BH, (MoS, 2012)). This effect-cause relation results in suboptimal allocation of resources and is known as Pareto inferiority.

Like all imperfect markets, BH with its incomplete labor market requires a sort of intervention in order to untangle the negative loop.

## Major Findings

Primary data for the purpose of this research were collected through quantitative survey among existing investors in BH. Together with secondary data (findings elaborated in Table 1 and Table 2) they confirm the importance of Diaspora for boosting the FDI.

**Table 1** Statements of existing foreign investors in BH

Without locally relevant information and local contacts investing in BH is very difficult and expensive.
Despite possessing general information on BH, we lack specific information related to investment process (such as administrative barriers, obtaining permissions, land availability, business zones, etc.).
We had discussion, visit or contact with BH Diaspora in the country of the company's origin aimed at improving our awareness about BH.
Working with Diaspora can significantly enable business connections in BH and coping with administrative barriers.
Next to our internal capabilities, such as strategy of internationalization, we rely on our acquaintance developed with BH Diaspora when making investment decision aimed at BH.
We used mediators or scouts for gathering information and conducting negotiations related to the investment.

## Summary

Foreign direct investments (FDI) could take Bosnia and Herzegovina (BH) to a higher level of economic development. Obstacle that usually hinders the process, especially in transition countries, is potential investors' investment related information asymmetry which makes the investment process for foreign investors more costly, risky and slow. Considering BH is faced with more than a third of its population living abroad, this policy brief attempts to outline a role of BH Diaspora in decreasing the information asymmetry by way of business links established through initiative and coordination of BH ministries and agencies authorized to work with Diaspora, as effective policy option which acquires no new institutions and only moderate budget resources. Moreover, evidence that was a basis for this policy brief confirms the idea of engagement of BH Diaspora in alleviation of the information asymmetry and facilitation of new FDI in BH.



**Figure 1**  
Logic behind information asymmetry, FDI and brain drain

CIMOS (joint stock) is Slovenian company established in 1972 engaged in the production of automotive parts for reputable car makers. Headquarters of the company is located in Koper, Slovenia, while it operates in other countries as well: France, Germany, Russia, Serbia, Croatia and Bosnia and Herzegovina. After CIMOS arrived to Gradačac, BH in 2001, Diaspora played an important role in its expansion to other areas of the country. More precisely, a person who was born in BH, but educated and was living and working in Slovenia, was employed at the time in one of the companies CIMOS cooperated with. He used to pay annual visits to his relatives in BH and was emotionally attached to BH, especially Zenica. Therefore, he made contact with the headquarters of CIMOS in Slovenia and elaborated all benefits of Zenica, a city with long tradition in metal industry, as potential location for another CIMOS' plant. Some of Zenica's advantages were: suitable and adequate infrastructure (there was an ironworks in Zenica which employed more than 20.000 persons in the 1990s, although the number has drastically decreased nowadays), workers were already trained for working in metal industry, there was adequate educational capacity (Faculty of Mechanical Engineering and Faculty of Metallurgy) and other relevant institutions such as Metallurgical Institute "Kemal Kapetanović". Headquarters of the CIMOS recognized all those advantages of Zenica as attractive and, through its management in BH, came in contact with the Municipal authorities in Zenica. They expressed huge interest and willingness for cooperation. Thus, CIMOS TMD Casting was established in Zenica in 2007 and it employs 220 out of 990 employed in BH in total.



CIMOS, Zenica

**Table 2 Secondary data**

FDI inflows in 2012 are halved in comparison to 2008.

FZZZ (2012): In analysis on employment market and employability among 3.000 employers employing 10 and more persons, employers ranked following major obstacles: employees' cognitive skills and qualifications (27,72%) and working experience (18,65%). Similar situation is in the other BH entity.

The World Bank (2009): Study examining whether skills in BH labor market constrain the economic growth reported on critical shortage of skills, underdeveloped private market for skills provision and lack of adequate government policies and strategies. Reports' recommendations: enforcement of secondary and tertiary education and lifelong learning, institutional capacity building (employment institutes) and establishment of knowledge transfer from Diaspora.

### **Critique Of The Current Policy Option**

Despite the activities in BH aimed at the issue of migration from BH (e.g. Strategy in the area of migrations and asylum and action plan for the period 2012-2015 created by Ministry of Security, Ministry of Human Rights and Refugees and Ministry of Foreign Affairs together with contributions by other institutions; a research workshop organized by MoHRR in 2012 on the topic of migrations from BH, etc.), Diaspora, especially migration networks as an opportunity for increasing FDI inflows, is not fully utilized. However, awareness that Diaspora is a very important resource of BH and that it is of great importance to fully exploit that resource, is rising nowadays. Various conferences and round tables have been organized in BH (such as CONNECT 2013, BH Diaspora Business Forum and Roundtable on the economic potential of BH Diaspora) confirming the growth of interest in this area and the great importance of Diaspora for FDI increase and, consequently, development of BH. Therefore, now is a great momentum for inducing state and other institutions engaged in working with Diaspora and/or FDI to dedicate more attention to creating and effectuating strategies which link migration and development.

In 2011, FDI inflows to BH were the lowest among transition economies in South-Eastern Europe (UNCTAD, 2013, p. 216). If decision makers proceed with the current approach to the FDI in BH inflows of FDI will be influenced by



factors which were in power in the past resulting in leaving BH among transition countries in Europe with lowest FDI inflows and almost highest migration rate.

“The Council of Ministers of BH considers Diaspora resources, including human resources and scientific Diaspora, a relevant factor for development of BH. Therefore, Ministers proposed to BH institutions to use Diaspora resources for development and include them into their development documents.”

(<http://www.vijeceministara.gov.ba>)

### Policy Recommendations

Proposed policy option is development of business networks with Diaspora. Policy option was selected based on the country specifics related to the cost-efficiency and feasibility as the most suitable considering it acquires low budget resources and no additional institutional capacities. Respecting those criteria is very important because institutional change in BH is currently very slow, political markets are in deadlock, and budgets are in deficit at all levels.

In BH, four institutions have been recognized as authorized for Diaspora and/or FDI: Foreign Investment Promotion Agency (FIPA), Ministry of Human Rights and Refugees (MoHRR), Ministry of Foreign Trade and Economic Relations (MoFTER) and Foreign Investors Council (FIC).

FIPA deals with most aspects of encouraging FDI to BH but unfortunately has no authority in

working with Diaspora. Therefore, broadening FIPA’s scope of authorities and connecting FDI and Diaspora could result in better utilization of FIPA’s potential to contribute to FDI increase, as well as to the realization of BH growth potential. Through its Sector for Diaspora, MoHRR deals with Diaspora in several ways. However, 10 employees in the Sector for Diaspora in comparison to 1.356.619 migrants from BH seems insufficient, and thus, despite the fact that MoHRR has devoted most of its attention to relations between Diaspora and BH development, monitoring and evaluation activities are still missing. Through activities of its Sector for foreign trade policy and foreign investments, MoFTER contributes to FDI increase and BH development. Although MoFTER is very active in the field of attracting foreign investors to BH through meetings and negotiations with representatives, business people and potential investors from other countries, much attention is not given to Diaspora. FIC aims at improving business and investment environment in BH for its members and other foreign investors. In doing so, FIC establishes connections and cooperates with BH authorities, mostly in the way of proposing them recommendations in the White Book, which makes FIC an appropriate tool for communicating policy recommendations to authorities and other institutions. Policy recommendations, intended to be carried out mainly through business networking, are presented in Table 3.

**Table 3**  
Policy recommendations

INSTITUTION	POLICY RECOMMENDATIONS
FIPA	<ul style="list-style-type: none"> <li>- Expanding the Law on FIPA in the way that gives FIPA jurisdictions for working with Diaspora which will result in increasing FDI inflows to BH.</li> <li>- Mapping prospective supply of human capital and matching it with future FDI requirements.</li> <li>- Developing instruments to support facilitation.</li> <li>- Using all available data published by other institutions (e.g. using “Diaspora Business Directory”) in order to connect with potential investors from Diaspora.</li> <li>- Raising awareness about the importance of Diaspora in utilizing BH growth potential, in cooperation with other state and non-governmental institutions, through diverse seminars, round tables and conferences.</li> </ul>
MoHRR	<ul style="list-style-type: none"> <li>- Expanding the “Diaspora Business Directory” by collecting data for at least 1.000 business people from BH Diaspora through establishing LinkedIn network which will be promoted to Diaspora by MoHRR.</li> <li>- Distribution of Business address directory of BH Diaspora to foreign business representatives in BH and BH embassies.</li> <li>- Devoting more attention to cooperation with FIPA through strategic document with the capacity of memorandum of understanding at minimum, binding them in joined actions.</li> </ul>
MoFTER	<ul style="list-style-type: none"> <li>- Utilizing Diaspora potential (organizing meetings, round tables and other ways of communication with Diaspora, especially business people and successful people who, if not themselves potential investors, usually represent an important channel for getting to know potential investors in their country).</li> </ul>
FIC	<ul style="list-style-type: none"> <li>- Addressing and presenting Diaspora’s potential for attracting FDI in the White Book’s recommendations for BH authorities.</li> <li>- Assisting FIPA with expanding the Law on FIPA.</li> </ul>

### References

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