The challenges of economic freedom and the influence on financial performance of China's development: A Strategic Approach

Dragan Milovanović
University of Banja Luka, Faculty of Economics, Bosnia and Herzegovina
https://orcid.org/0000-0002-5320-7350
Nenad Marković
University of East Sarajevo, Faculty of Medicine, Bosnia and Herzegovina
https://orcid.org/0000-0002-5179-5048
Dragana Vujičić Stefanović
University of Banja Luka, Faculty of Economics, Bosnia and Herzegovina
https://orcid.org/0000-0002-7624-7021
Dejan Tešić
University of East Sarajevo, Faculty of Economics, Bosnia and Herzegovina
https://orcid.org/0000-0002-4256-4416
Boško Mekinjić
University of Banja Luka, Faculty of Economics, Bosnia and Herzegovina
https://orcid.org/0009-0001-0937-9446

Abstract
Background: As one of the world's most important economies, China has faced the problems and challenges caused by geopolitical changes, the consequences of the COVID-19 coronavirus pandemic, financial crises and other challenges in the last decade to the fullest extent. An overview of previous research studies shows the effects of partial elements of economic freedom on the financial performance of China's development. The focus of our research is on a strategic approach to the given problem, taking into account the possibility of modeling and improving the situation in response to new challenges and problems in the future.
Purpose: The focus of the work is aimed at measuring the impact of economic freedoms on foreign direct investment decisions and the financial performance of China's development. Based on that, the main goal of the work is to model and determine new elements for improving the model based on a strategic approach.
Study design: The research revealed that a strategic approach through the elements of economic freedom is an important factor of the model we investigated and represents the improvement of the situation and can contribute to the improvement of the financial performance of China's development.
Findings: Based on the research, we obtained the result of a high degree of direct dependence and a positive correlation of the impact of economic freedom and strategic decisions on foreign direct investment on the financial performance of China's development. Economic freedoms represent a significant influencing factor and provide opportunities for the improvement of a model based on a strategic approach.
Limitations: The limitations of the research refer to the unpredictable state of geopolitical changes in the world, which directly reflect on many factors of the model. Future research directions can be directed towards measuring which countries make up the largest part of China's foreign direct investments, as well as how much their influence is.

Keywords
strategic approach, economic freedoms, foreign direct investment, China development

Introduction

Strategic decisions concern the long-term decision-making horizon and include the choice of where and when to invest. The focus of the research is on the Chinese market, as the country with the greatest market potential. Looking at the market potential, this team's decisions are strategic. Strategic decisions are by their nature unrepeatable, specific, affect the entire company, connect the past, present and future. They include the strategic mission and vision, strategic goals and general strategy at the level of the entire company. Foreign direct investment is a form of capital investment that provides a foreign investor with the acquisition of property rights, control and management on the basis of invested capital. The purpose of these investments is to create a permanent economic and legal interest, and such an interest, which includes the aspiration of investors to make a profit through control and management of invested capital. What was the amount of foreign direct investment in China in the period 1995-2020, what is their impact on China's development, measured by gross domestic product (GDP), what are the indicators in terms of economic freedoms and whether and how they affect foreign direct investment in China. Attracting foreign direct investment is a basic condition for increasing production and challenges of the host country to a level that would enable stable economic growth, as well as successful debt servicing and based on that, the basic goals of strategic managers is to create an investment environment for the arrival of foreign investors and their investments. Today, economic and social development cannot be imagined without investment. In the era of globalization, it is important to understand the business logic behind foreign investment, as well as the impact that foreign investment has to the positive movement of the gross domestic product, the development of the domestic economy and society as a whole. The goal of the methodological research is to influence the solution of the problem and investigate whether economic freedoms influence strategic decisions on foreign direct investment (FDI) in China. Also, the goal is to measure the impact and model a strategic approach in the management of economic freedoms, with the aim of better performance. It is certainly necessary to influence the solution to the problem of improving the financial performance of the Chinese economy. In this regard, we created an econometric model for measuring the impact of economic freedoms on China's development.

According to Joseph Stigliz, professor at Columbia University in New York and Nobel laureate, the focus is precisely on strategic managers and their decisions, on which foreign direct investments also depend (Stiglitz, 2008).

The methodological research platform includes an econometric model based on the modeling of multi-criteria variables that build the parameters of economic freedom, strategic decisions and financial performance of China's economic development (Wu, 2021). The analysis includes a multiple correlation analysis model based on the Pearson Correlation model. The research covers the period from 1995 to 2020. In times of great geopolitical challenges, capital knows no borders and inevitably leads to the creation of foreign trade transactions. Foreign trade transactions that result in a foreign trade surplus represent an important factor.

1. Review of the literature and previous research

The influence of economic freedoms on foreign direct investments is the subject of study by numerous authors. A large number of scientific articles analyze the impact of individual segments and variables of economic freedom on foreign direct investments, which consequently affects the financial performance of the country. The level of economic freedom in an individual country is very important, because they significantly influence the analysis of the investment and business environment (Busenbark, Semadeni, Arrfelt, & Withers, 2021). A greater degree of economic freedom also means a greater degree of flexibility, positive reactions to investments and growth of the real sector. A higher level of foreign direct investments consequently affects domestic investments, which are very important for a country. We can see this best on the example of China. This creates the conditions for the creation of a positive investment atmosphere, good conditions, a market way of doing business and a reliable economic environment. All this is an excellent platform for creating a quality investment policy to attract foreign direct investments (Drabek & Payne, 2001). Also, the impact of globalization is expressed. An important factor is the synergy of joint action, trade freedom, investment freedom, financial freedom, which significantly depend on and influence the trends of economic globalization (Stiglitz, 2008).

Kim (2010) argues that foreign direct investment is usually categorized as horizontal, vertical, and conglomerates. In general, economic freedoms imply a high degree of freedom in deciding on other economic elements and parameters that are independent of other processes (Gwartney, Hall & Lawson, 2017). There is a significant number of research endeavors that consider the relationships and impacts of economic freedom, foreign direct investment and development (Sovbetov & Moussa, 2017).

Research focus includes multivariate modeling. As a solution, there is a need to create a strategic approach in order to improve economic freedoms that would affect greater foreign direct investments, and thus the financial performance of China's development (Falchetti, Cattani & Ferriani, 2021; Osei & Kim, 2020; Bernsau, Gattringer, Raiß & Grund, 2021).

In such conditions, strategic decisions become a necessary prerequisite for success. In addition to analysis, diagnosis of problems and creation of strategic alternatives, a very important phase of strategic decision-making, is also the phase of implementation and realization of strategic decisions (Karadag & Poppo, 2021). In creating a strategic environment for decision-making, economic freedoms represent a very important factor. In addition to the aforementioned strategic approach, it is also very important to respect the determinants of the systemic approach, in the creation of which the previously mentioned elements participate. In addition to the financial performance of China's economic development, a very important factor is social responsibility, social responsibility and other aspects that influence the creation of a strategic environment for decision-making (Jacimovic, Deichmann & Tianping, 2023).

According to Nordhaus, development can be built through increasing knowledge, tax burden and government spending. Nordhaus (2018) believes that the economic growth rate of 3% represents a level for maintenance, which depends on labr freedom, monetary freedom and trade freedom, as elements of economic freedom. According to Nordhaus & Boyer (2000), analyzing trends showed that economic freedoms influence the exit from the crisis, and then the growth and development of the country (Nordhaus & Boyer, 2000; Radovanović, Grandov & Filijović, 2019; Callao, Jarne, Wroblewski, 2020). Based on their research, Gregory, Romer and Weil (1992) believe that the growth of financial performance in retail

development depends on the integrity of the government in the creation of economic policies, which represents the parameters of economic freedom and foreign direct investment. Based on "Optimum Tariffs and Retaliation" research project (1953), Harry Johnson proved that the elements of economic freedom significantly influence foreign direct investment (FDI) and the economic development of a country (Johnson, 1953) (see also Kuga, 1973; Mayer, 1981; Riezman, 1982; Kennan & Riezman, 1988; Grossman & Helpman, 1994; Jiang & Wang, 2020).

Major geopolitical changes in 2022, the coronavirus pandemic, migration trends, economic crises and other global factors significantly affected the level of economic freedom.

Economic freedoms are a characteristic of a market economy based on free exchange, free formation of prices at the intersection of supply and demand, and free competitive bidding. O'Driscoll Holmes & Kirkpatrick (2001), consider that economic freedoms represent a reduction in government influence, production restrictions, strong tariff barriers and free investment. In such conditions, economic freedoms are imposed as one of the main economic parameters of growth in a country (Berggren, 2003), especially in countries that strive to build their performance on their economic advantages.

The results of FDI include higher productivity, technological progress, technology transfer, better management, strategic restructuring, marketing skills, which generates technological and economic growth (Boghean & State, 2015; Xiao, Gao, Xu L., Wang, & Wei, 2023). Research by Estrin (2017) shows that government policy (government integrity, tax burden, government spending, fiscal health business, freedom labor freedom, monetary freedom, financial freedom) has an important role in attracting foreign direct institutions (FDI) (Chen, et al., 2021; Minović, Stevanović & Aleksić, 2021). The aforementioned elements form the basis of economic freedom. In this regard, a strategic approach to the modeling of the mentioned elements can create the best variant and create a positive scenario for the growth and development of a country's economy. The results of research by Zongzheng and Mao (2019) confirm the existence of a strong relationship between elements of strategic management, elements of economic freedom, foreign direct investment and the country's development performance. Elements of economic freedom are reflected in

macroeconomic variables, which significantly affect FDI in developing and developed countries (Walsh & Yu, 2010; Cicea & Marinescu, 2020; Zhang & Chen, 2020). Economic freedoms also depend on the level of development of the market economy, freedom of exchange, level of competition, protection of property and capital of investors, as well as free investment and foreign direct investment (Caetano & Caleiro, 2009).

2. Hypotheses research

The ways of realizing foreign direct investments can be very different (Ćirović, 2000), (1) opening a new company (greenfield investment) whose owner is a foreigner or on the basis of a joint venture, (2) buying a company in another country or through recapitalization, (3) cross-border mergers of companies, (4) possible combinations of greenfield investments and acquisitions, (5) joint ventures without ownership rights and (6) concessions. Foreign direct investments contribute to the development of many countries, and represent an inflow of capital suitable for investments in development or accumulation of funds. They are very important, especially if foreign direct investments form a common partnership cash flow with domestic investors. This represents joint investment and significantly contributes to increased responsibility, as well as strict adherence to investment methodology and rules. Certainly, if it is about domestic investments, it is necessary to analyze well the causes, signals, motives and goals of foreign direct investments (FDI). They must certainly be part of the global (general) strategy. The research concept starts from the research hypothesis H1a: "Economic freedoms significantly affect foreign direct investment, which positively reflects on the financial performance of China's development".

The importance of foreign direct investments (FDI) is growing, especially at the level of global economic trends. It becomes especially important for developing and underdeveloped countries, where foreign direct investments significantly affect the economic development of those countries. FDI especially contributes to the growth of the country's financial performance, productivity growth, increase in technological progress and encouragement of domestic investments (Sekkat & Veganzones-Varoudakis, 2007). On the basis of the intensity of defined risk factors, such as geopolitical changes, the coronavirus pandemic COVID 19, migration movements, economic crises and other factors,

significantly affect the level of economic freedom, the analysis of which represents a very important strategic landmark for defining decisions and growing trust (Voyer & Beamish, 2004).

Research hypothesis H2a: "In the last ten years, there has been an increase in economic freedom in China, which creates more favorable conditions for foreign direct investment (FDI) in the country."

Since the availability of resources is limited to individual countries and requires investment to reduce input costs by approaching the natural resource itself, it is possible to achieve vertical investment by physically separating individual stages in the production process and locating labor-intensive stages in low-tech countries. In developed countries where there is the necessary technology and highly qualified workforce, conglomerate investments arise when a company expands its current activities by conquering the production of various products located in plants in different countries. Conglomerate TNCs are usually formed by purchasing a controlling stake in a foreign company, or by merging with a foreign company of another type of production. They rarely arise in the form of greenfield investments because the parent company usually does not have the necessary knowledge and expertise to conquer and produce new and different products. It is certainly an optimal combination if foreign direct investments and domestic investments are combined, in the function of obtaining the necessary funds for economic development (Ketabforoush & Poorabdollahi, 2017; Quazi, 2007).

3. Research methodology and sampling

The research methodology includes the Heritage Foundation Index of Economic Freedom and measuring impact with the UNCTAD foreign direct investment (FDI) index. The research model is based on fuzzy logical grouping that includes several econometric variables (Caetano & Caleiro, 2009; Bacovic, Jacimovic, Lipovina Bozovic & Ivanovic, 2021). The research period covers the period 1995-2020. The basis of the Heritage Index of Economic Freedom is a research platform created by The Heritage Foundation and The Wall Street Journal. The base of this model consists of 10 variables that make up the index of economic freedom, business freedom, trade freedom, fiscal freedom, state sector spending, monetary freedom, investment freedom, financial freedom, property rights, absence of corruption, freedom of labor and

work. The research methodology includes the scaling of each element of the platform, on a scale of 0 - 100 points. The assessment and evaluation of the mentioned parameters influence the strategic decision on foreign direct investments (FDI).

For our analysis, the strategic model consists of twelve endogenous variables (RVPRt, RVGIt, RVJEt, RVTBt, RVGSt, RVFHt, RVBFt, RVLFt, RVMFt, RVTFt, RVIFt, RVFFt).

Formula 1. Functional dependence of research variables of economic freedom (The Heritage Foundation, 2022):

EF=F(RVPRt, RVGIt, RVJEt, RVTBt, RVGSt, RVFHt, RVBFt, RVLFt, RVMFt, RVTFt, RVIFt, RVFFt)

Formula 2. Functional dependence of research variables: Strategic model of the impact of economic freedoms (EF) on foreign direct investments (FDI) and development (D) (The Heritage Foundation, 2022; World Bank, 2021):

SMEFFDIt=F(EF, FDI, D)

Table 1 Operationalization of research econometric variables

Variable	Initials	Interpretation
Property Rights	RVPRt	Subjective and objective rights whose value can be expressed in money. Property rights include property rights and other real rights, mandatory rights, and all other rights.
Government Integrity	RVGIt	Government Integrity refers to the completeness of decisions, uniqueness, indivisibility, support for business entities, impeccability, honesty, adherence to created plans, stimulating fiscal policy and others.
Judicial Effectiveness	RVJEt	Judicial Effectiveness is reflected in the number of resolved cases, the speed of resolving cases, the quality of court decisions, respect for international law, and more.
Tax Burden	RVTBt	Tax Burden implies the creation of a tax environment suitable for starting and developing a business. It also includes elements of fiscal policy aimed at generating and redistributing cash flows.
Government Spending	RVGSt	Government Spending includes elements that are included in the state budget. They are tied to the elements that make up the consumption of different segments of society.
Fiscal Health	RVFHt	Fiscal Health includes a development economic platform aimed at creating a development fiscal policy, as well as directing fiscal cash flows into healthy development projects.
Business Freedom	RVBFt	Business Freedom includes free market formation of prices, free investment, free decision-making and management, support for startups, entrepreneurship and more.
Labor Freedom	RVLFt	Labor Freedom includes respect for workers' rights, working conditions, wages and benefits to employees, labor benefits and trade union activities.
Monetary Freedom	RVMFt	Monetary Freedom refers to the freedom to conduct monetary policy (expansive and restrictive monetary policy), money issuance, open market operations (through issuance and purchase of securities), exchange rate policy, and more.
Trade Freedom	RVTFt	Trade Freedom includes the creation and management of foreign policy in accordance with international agreements, the created foreign policy of the state, export promotion measures, export control measures and an optimal foreign trade balance.
Investment Freedom	RVIFt	Investment Freedom includes opportunities for investors to freely decide where to invest and under what conditions. It also refers to the possibility of finding partners for joint investments.
Financial Freedom	RVFFt	Financial Freedom implies financing opportunities from available financing sources, equally for everyone. Also, equal financial management activities, equal investment opportunities, equal market opportunities that generate financial cash flows and others.

Source: the authors; The Heritage Foundation, 2022; World Bank, 2021

On the basis of their research, Adkins, Moomaw, & Savvides (2002) confirm the existence of the influence of the growth of economic freedom parameters on economic growth in the later stages. Also, there are studies that confirm this in the earlier stages of growth (Weede & Kämpf, 2002). Based on the analysis of previous research, we can draw a general conclusion of the necessity of analyzing the impact of economic freedoms on economic growth, regardless of the stage of development it is in. The strategic approach includes modeling and econometric measurement of impact, based on the model, i.e. straight lines (Y = a + bX or Y = b0 + b1X). This gives us the best basis for evaluation. If

we have more variables, we include multi-criteria decision-making based on the model $(Y=a+bX+cX^2)$ in the analysis (Draper & Smith, 1998).

Formula 3. Research econometric model, where Y has a normal distribution (Draper & Smith, 1998):

$$Y = \beta_0 + \beta_1 X_1 + \ldots + \beta_\rho X_\rho + \sigma(Y), \ sd(Y) = \sigma \ (independent \ of \ X's)$$

The variables $\beta 0 + \beta 1 + +\beta \rho$ and σ are calculated on the basis of research:

$\beta 0$ = intercept

$\beta 1 \ \beta \rho$ = regression coefficients

$\sigma = \sigma_{res}$ = residual standard deviation

β1 is the average growth of Y, in case of unit increase of Xi. For the purpose of evaluation and analysis of variables, the method of least squares is used.

Formula 4. The model of econometric analysis, the partial correlation coefficient and functional dependence of variables (Draper and Smith, 1998):

$$R^2_{Y/X_1X_2} = \frac{r^2_{x_1y} + r^2_{x_2y} - 2r_{x_1y}r_{x_2y}r_{x_1x_2}}{1 - r^2_{x_1x_2}}$$

Formula 5. The model of econometric analysis, the partial determination coefficient and functional dependence of variables (Draper and Smith, 1998):

$$r_{yx_1 \cdot x_2} = \frac{r_{yx_1} - r_{yx_2} \cdot r_{x_1x_2}}{\sqrt{1 - r^2_{yx_2}}\sqrt{1 - r^2_{x_1x_2}}}$$

The parameters of the econometric model, i.e. the input variables of Chinese economic freedoms are given below in tabular form. The calculated values of the variables are given in Table 3.

The research data presented above show the variability in the previous period, as well as the variables that build it. According to the data, the movement of the parameters of the economic freedom index from 1995 until 2019, 2020 (years affected by the corona virus COVID 19) is visible. Given that the research focus requires an analysis of the parameters of the impact of foreign direct investments (FDI) and gross domestic product (GDP), an in-depth analysis was performed below. The research focus is on measuring the interaction between foreign direct investment (FDI) and China's development. The calculated values of the variables are given in Table 4.

The data above show us trends in GDP growth. FDI contributes to the increase of trade flows, affects economic growth and development and the creation of new jobs. In connection with the previous, FDI depends on macroeconomic, socio-political, corporate and technological factors. Also, research has shown that technological changes have a great impact on development, thanks to new investments in that sector of the economy, which creates greater security. Also, risk management in that situation becomes an especially important segment of the strategy.

4. Research results

On the basis of the created elements of the econometric model and the operationalization of the variables of the research model, we came to the results of the research, which define the laws between the research variables. Previous values of China's economic freedom variables show an upward trend in recent years. Also, the existence of volatility in the period ten years ago is visible. The growth of economic freedom parameters was significantly influenced by the variables judicial effectiveness and property rights. Also, the growth of the business freedom parameter 76.8 in 2020 is visible. It is certainly important to note that the movement of the financial freedom variables, where for many years there has been no progress in the value of the indicators. This means that improvements are not being made in the area of fiscal policy in the country, primarily as a factor of support for economic entities. Also, if we look at the period 2019 and 2020 (the period of the coronavirus COVID 19), it is evident that there was a drop in the value of the variable investment freedom, government integrity and fiscal health. This is completely logical, given that during the period of the coronavirus, economic and investment activity decreased.

Also, on the basis of the deductive method, we came to concrete results that are in favor of the research of the article's research hypothesis. The results of the research were created on the basis of a thorough analysis, research focus and modeling of variables in order to arrive at the results of the research.

The need to undertake changes and research opportunities for progress and improvements is the first and inevitable step for undertaking activities in the field of strategic approach in the field of modeling elements of economic freedom and foreign direct investment (FDI) for development. Diagnostics of the situation as it is in terms of economic freedoms requires both an analysis of the current situation and an analysis of the need for changes. If the research results show the significance of the impact, we can confirm the research hypothesis.

Milovanović et al.   The challenges of economic freedom and the influence on financial performance of China's development:
A Strategic Approach

47

Table 2 Results of the econometric model research

	Index Score	FDI (billion $)	GDP (billion $)
Observations	26	26	26
Mean	53,5308	138.703.319.130,8790	5.781.697.467.785,6700
Stdevp	2,3219	85.606.809.718,3284	4.811.550.706.983,2100
Variance	5,3914	7.328.525.870.150.080.000.000,0000	23.151.020.205.870.600.000.000.000,0000
Coefficient of variation	0,0434	0,6172	0,8322
Median	52,6500	137.713.526.434,7500	4.072.324.884.835,8200
Max	59,5000	290.928.431.467,0030	14.722.840.000.000,0000
Min	51,0000	35.849.200.000,0000	734.547.898.220,5080
Coefficient of determination-one	0,001093942		
Coefficient of determination-two		0,266415712	
Coefficient of determination-three			0,546710238
Pearson Correlation-one	-0,033074798		
Pearson Correlation-two		0,516154737	
Pearson Correlation-three			0,739398565
Correlation	0,88369935	0,88369935	0,88369935
(1-α)	0,95	0,95	0,95
α	0,05	0,95	0,95

Source: the authors' own research

Key categorical activities and elements of the strategic management process can be modeled by structure and intensity depending on the position and degree of economic development in which China is located. Only by consistent application of all activities and elements of the strategic approach enable quality management of the process and effects of foreign direct investments on economic development. The results of the previously conducted research and analysis show the existence of a strong econometric relationship of direct correlation through the impact of economic freedom on foreign direct investment (FDI) and the financial performance of China's economic development (0.88369935). The results of the research also reveal the possibilities of modeling the independent variables of the econometric model, which are related to economic freedom, through a strategic approach. We have analyzed the results of the research on the financial parameters of China's development below.
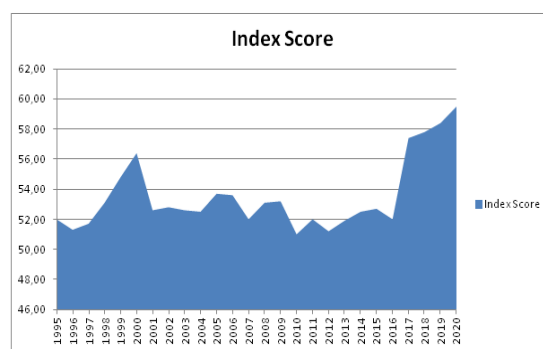

Figure 1 Values of economic freedom parameters in China
Source: the authors' own research

The analysis of economic freedoms in China shows a significant degree of variability. In the last few years, there has been a positive trend of movement and growth, measured by the index of economic freedoms. It is important to point out that the Financial Freedom parameter, which determines the value of the index of economic

freedoms, has decreased in recent years. Also, the indicator related to Investment Freedom. In this regard, the influence of Trade Freedom has increased, which has been at a much higher level in recent years. As well as Property Rights, Government Integrity, Judicial Effectiveness, Tax Burden, which have been significantly improved, which significantly affects foreign direct investment, and thus China's gross margin product. It is important to welcome the positive developments in China, in terms of the parameters of economic freedoms in general.
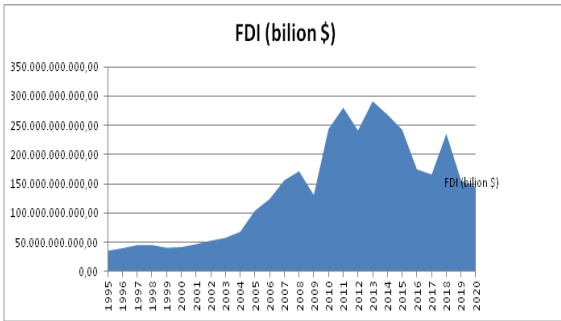

Figure 2 Values of parameters of foreign direct investment in China
Source: the authors' own research

Foreign direct investment in China has been growing steadily in recent years, which has significantly affected the growth of the Chinese economy in general. If we look at the last few years, the value of FDI has tripled compared to the period before 2003.

Major changes, primarily geopolitical and the consequences of the corona virus, have left consequences in many companies, and despite this, the main investors of the Chinese economy have remained stable. The basis of inflows from the USA and Europe disappeared, with the fact that regional investments continued the growth trend, parallel to the growth of inflows from ASEAN countries. The main investors in this value chain are Japan, Germany and the United States, as well as other countries, such as Hong Kong, Singapore and South Korea.

Basic investments are mostly related to production, followed by the construction and real estate sector, services sector, IT sector, retail chains, financial intermediation, education and research, transport, energy and others. If we look at it in general, compared to the same period, foreign direct investment in China increased by 4%, which is mostly due to the activities of mergers and acquisitions of 84%, and mostly in the IT services sector and e-commerce.
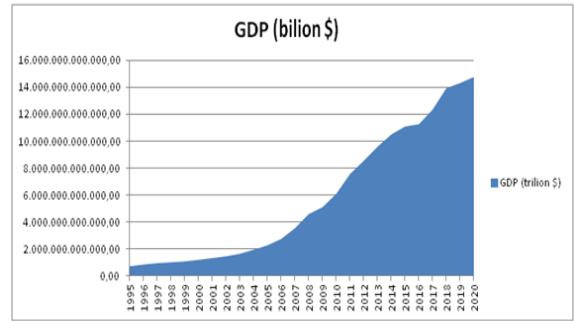

Figure 3 Values of the financial performance parameters of China's development (GDP)
Source: the authors' own research

The value of China's gross domestic product (GDP) in 2019 was $14342.90 billion. From a macroeconomic point of view, China's GDP represents 11.81 percent of the world economy in that period. According to projections and forecasts, China's GDP will reach 14.600.00 billion USD by the end of 2021, and in the long run, through 2022, China's GDP will be around 15.700.00 billion USD.

5. Discussion

The strategic approach implies making decisions about foreign direct investments based on a multi-phase model, which includes a strategic analysis, based on which the state of all important elements that affect the current state is identified. The next phase refers to the strategic choice, where we choose the best and most adequate strategy for growth and development. In certain situations, a decision is made to formulate a new strategic option or strategic restructuring. At the end, strategic implementation and control of results is carried out based on the application of an adequate strategic option. The influence of a strategic approach to this problem is great, because it also includes the effects of a systemic approach, especially through the variables that build economic freedom.

The strategic approach in this model refers to long-term modeling results. It is particularly important to identify the key variables that influence the investment environment for foreign direct investments (FDI). Affirmative fiscal policy favors foreign direct investments. Market freedoms and foreign trade policy significantly affect the arrival of foreign investors. Also, direct incentives affect the financial performance of economic development, in our case China. In connection with the previous one, the level of competitiveness also affects the arrival of foreign investors. The reason

for choosing China as a sample for research is based on several factors, some of which are certainly the size of the country, the foreign trade war with the USA, the great trade importance that China has on the world market and the high degree of volatility of the financial performance of China's development in the last twenty years. In this regard, we have included the last twenty years in the analysis.

Depending on which production phase the investment includes, vertical investments can be divided into, forwards vertical investments and background of vertical investment (Dimitrijević, 2000). FDI corresponds to special types of TNCs (transnational companies), which are also the bearers of these investments. Horizontal FDI occurs when a company locates the production of the same product or group of related products in multiple facilities in different countries. In the case of horizontally integrated FDI, the ownership structure is the main source of their advantages. It is possible that the TNC owns a brand or production technology that is not available to its local competitors. As this type of capital is typically the result of fixed costs such as investment in research and development (R&D), there is a link to large economies of scale. Therefore, the investing company is encouraged to spread these fixed costs over as many different markets as possible. Vertical FDI occurs when a company locates individual operations in the production and marketing chain of a product across facilities in different countries.

6. Theoretical and practical implications

Also, foreign direct investment requires a very transparent process, which creates accountability and trust and eliminates many negative impacts (political influence, theft, fraud, mistrust, scandals, failed investments) on investments in the country (Gwartney et al., 2017). Research results confirm the existence of influence and correlation between economic freedoms and foreign direct investments in correlation with development (Sovbetov & Moussa, 2017). The previous research represents an introduction to the development of a model of strategic management of economic freedoms in the function of foreign direct investments (FDI) and

financial performance of China's economic development.

The scientific contribution of the research is reflected in the systematization and development of the Conceptual model of the strategic management of economic freedoms as a function of foreign direct investment (FDI) and the financial performance of China's economic development. On the basis of scientific methods of deduction and multiple regression models, models of analysis and synthesis, the most important factors on which the application of the conceptual model of the strategic management of economic freedoms as a function of foreign direct investment (FDI) and financial performance of China's economic development depends are described.

In the process of developing a model of strategic management of economic freedoms in the function of foreign direct investments (FDI) and financial performance of China's economic development, analyses of the actual state of values of individual parameters that build the model were carried out. In this regard, the analysis includes all scientifically proven benefits and empirically confirmed benefits from the introduction of the model. The effects of connection, causes, consequences and results of dependence between the econometric variables of economic freedom, elements of foreign direct investments and the effects of applying the model are explained through the results of the financial performance of China's development.

The scientific contribution is reflected in the systematization of previous research, the latest values of the parameters of the econometric model, the synthesis of partial research and the testing of the econometric significance of interdependence and mutual influence. The mentioned model creates a strategic approach to the given problem. Also, research of results and parameters in the last twenty years show that a strategic approach is of essential importance, especially in the current time of great geopolitical turbulence and changes, a high degree of fierce competition, as well as trade wars. Also, the results of the research provide the possibility of measurement, creation of influence and strategic approach, as well as strategic policy of process management.
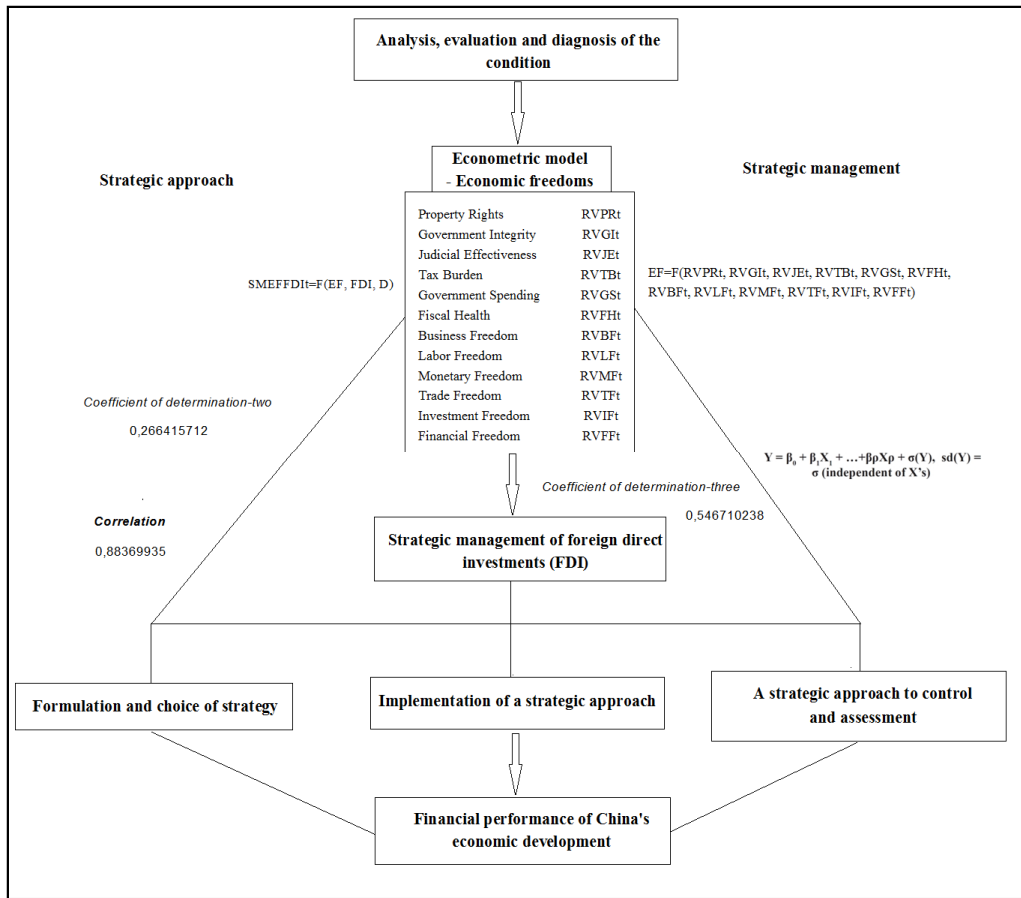
Figure 4 Conceptual model of the strategic management of economic freedoms as a function of foreign direct investment (FDI) and financial performance of China's economic development
Source: the authors' own research

Concluding remarks

The elements of a given research platform through a strategic approach are particularly significant due to the influence of market trends. The model answers the question of how to deal with market changes and turbulence. The strategic approach offers solutions in crisis situations, especially at the time of reduction of foreign direct investments. Foreign direct investment in China has been growing steadily in recent years. Economic freedoms are a significant factor that generally affects many elements and determines foreign direct investment. Decisions in that domain are strategic decisions. Are you investing in China? These are strategic decisions that also relate to trust in the Chinese economic system, society, companies and individuals.

Based on the research results (0.88369935), we can state that there is a positive correlation between the research variables of the model, economic freedom for foreign direct investment (FDI) and the financial performance of China's development.

The research focus generated through the research hypothesis of the article, research hypothesis, H1a: "Economic freedoms significantly affect foreign direct investment, which positively reflects on the financial performance of China's development". The analysis showed that Monetary Freedom and Trade Freedom are among the most significant factors affecting China's economic freedoms. Also, these factors must be significantly involved in creating China's development strategy for the future. The importance of strategic decisions in this phase is of crucial importance. They arise as a result of the process and focus of the most important parameters of strategic decision-making. In the domain of research on the importance of the impact of economic freedoms on foreign direct investments, strategic decisions are the most important. Strategic planning is also very important here, as a platform for strategic decision-making and the result of the modeling process. In this regard, the goal was the integral modeling of parameters into a unique strategic decision-making model.

The values of economic freedom recorded constant growth from the value of 51.00, and by 2020 the value was 59.50. The research results we obtained show that the research hypothesis H2a is confirmed: "In the last ten years, there has been an increase in economic freedom in China, which creates more favorable conditions for foreign direct investment (FDI) in the country."

The importance of foreign direct investment for countries that have a preference for high growth rates is very high. They provide fresh capital and technology transfer. China ranks 31st among 190 countries in the world based on the World Bank's Doing Business report for 2020. This represents a significant improvement compared to the previous year in 2019, when it ranked 46th. Based on the results of research into and monitoring of China's development, it is noticeable that China is one of the ten economies that grew the most in the period 2019-2020. There are several parameters that are responsible for these developments, and the most important are certainly starting a business, energy issues, developing new technology and obtaining building permits. All of this is embodied in reform agendas whose goal is the growth and development of the Chinese economy in the future. Economic freedom and foreign direct investment are certainly important factors that contribute to this, which we have confirmed on the basis of research. In order to improve the investment environment, China has introduced a number of other factors, such as incentives for large foreign investment projects, tax incentives, balanced foreign trade policy, tariff policy, customs policy suitable for foreign direct investment and others.

The strategic decisions that are made should certainly integrate all the parameters of China's development, and economic freedoms significantly affect the strategic decision-making on investment, primarily foreign direct investment, which significantly affects China's GDP.

References

Adkins, L. C., Moomaw, R. L., & Savvides, A. (2002). institutions, freedom, and technical efficiency. *Southern Economic Journal*, *69 (1)*, 92-108. https://doi.org/10.2307/1061558

Bacovic, M., Jacimovic, D., Lipovina Bozovic, M., & Ivanovic, M. (2021), The Balkan paradox: are wages and labour productivity significant determinants of FDI Inflows?, Journal of Balkan and Near Eastern Studies, *23*(1), 144-162 https://doi.org/10.1080/19448953.2020.1818039

Berggren, N. (2003). The benefits of economic freedom: a survey. *The Independent Review, 8(2),* 193-211.

Bernsau, G., Gattringer, V., Raiß, N., & Grund, M. (2021), German Act on the Further Development of Restructuring and Insolvency Law (SanInsFoG), in: The *National Law Review, 26*(9), 1-3.

Boghean, C., & State, M. (2015). The relation between foreign direct investments (FDI) and labour productivity in the European Union countries. *Procedia Economics and Finance, 32*, 278-285. https://doi.org/10.1016/S2212-5671(15)01392-1

Busenbark, R. J., Semadeni, M., Arrfelt, M., & Withers, C. M. (2021). Corporate-level influences on internal capital allocation: the role of financial analyst performance projections. *Strategic Management Journal, 43*(1), 180 - 209. https://doi.org/10.1002/smj.3331

Caetano, J., & Caleiro, A. (2009). Economic freedom and foreign direct investment: How different are the MENA countries from the EU. *IBusiness, 1*(2), 65-74. https://doi.org/10.4236/ib.2009.12010

Callao, S., & Jarne, J., Wroblewski, D. (2020). Do the burst of financial crisis and European Union membership impact Earnings Management? Evidence from emerging Eastern European countries, in: *Journal of East European Management Studies, 25*, 4, 608–647. https://doi.org/10.5771/0949-6181-2020-4-608

Cicea, C., & Marinescu, C. (2020). Bibliometric analysis of foreign direct investment and economic growth relationship. *Journal of Business Economics and Management, 22*(2), 445–466. https://doi.org/10.3846/jbem.2020.14018

Chen, Y., Qi, D., Dong, H., Li, C., Li, Z., & Zhang, J. (2021). A FDI attack-resilient distributed secondary control strategy for islanded microgrids. IEEE Trans. Smart Grid 12, 1929–1938. https://doi.org/10.1109/TSG.2020.3047949

Ćirović, M. (2000). SDI: *Strana ulaganja, poslovno – analitički pristup*. Beograd, Univerzitet BK.

Dimitrijević, M. (2000). *Strane direktne investicije*, Beograd: SIEPA.

Draper, N. R., & Smith, H. (1998). *Applied Regression Analysis,* 3rd ed. New York: Wiley. https://doi.org/10.1002/9781118625590

Drabek, Z., & Payne, W. (2001). The impact of transparency on foreign direct investment. *World Trade Organization - Economic Research and Analysis Division, Working Paper ERAD-99-02*. Retrieved October 2021, from http://www.wto.org/english/res_e/reser_e/wpaps_e.htm

Estrin, S. (2017). Foreign direct investment and employment in transition economies. *IZA World of Labor*, 301-330. https://doi.org/10.15185/izawol.330

Falchetti, D., Cattani, G., & Ferriani, S. (2021). FalchettiStart with "Why," but only if you have to: the strategic framing of novel ideas across different audiences. *Strategic Management Journal, 43*(1), 130-159. https://doi.org/10.1002/smj.3329

Grossman, G. M., & Helpman, E. (1994). Protection for sale. *The American Economic Review, 84*(4)*,* 833-850.

Gwartney, J., Hall, J., & Lawson, R. (2017). Economic freedom of the world: 2017 annual report. Retrieved October 2022, from https://www.fraserinstitute.org/studies/economic-freedom-of-the-world-2017-annual-report

Jacimovic, D., Deichmann, J. & Tianping, K. (2023) The Western Balkans and geopolitics: leveraging the European Union and China, Journal of Balkan and Near Eastern Studies *25*(4):18. https://doi.org/10.1080/19448953.2023.2167164

Johnson, H. (1953). Optimum tariffs and retaliation. *The Review of Economic Studies, 21*(2), 142–153. https://doi.org/10.2307/2296006

Jiang, D., & Wang, C. (2020) Foreign direct investment and industrial upgrading of China's manufacturing industry. Nankai J. Philos. Soc. Sci. Ed. 2020, 4, 32–43.

Karadag, R., & Poppo, L. (2021). Strategic resource decay. *Strategic Management Journal, 44*(10). https://doi.org/10.1002/smj.3347

Kennan, J., & Riezman, R. (1988). Do big countries win tariff wars? *International Economic Review, 29*(1), 81-85. https://doi.org/10.2307/2526808

Ketabforoush, A., & Poorabdollahi, A. (2017). Economic *Freedom* and FDI in *Selected Developing Countries, Noble International Journal of Economics and Financial Research*, 2(5), 82–87.

Kuga, K. (1973). Tariff retaliation and policy equilibrium. *Journal of International Economics*, 351-366. https://doi.org/10.1016/0022-1996(73)90027-5

Kim H. (2010). Political stability and foreign direct investment, *International Journal of Economics and Finance, 2*(3). https://doi.org/10.5539/ijef.v2n3p59

Mayer, W. (1981). Theoretical considerations on negotiated tariff adjustments. *Oxford Economic Papers*, *33*(1), 135-153. https://doi.org/10.1093/oxfordjournals.oep.a041494

Minović, J., Stevanović, S., Aleksić, V., (2021). The relationship between foreign direct investment and institutional quality in Western Balkan countries, *Journal of Balkan and Near Eastern Studies* 23(1) 40-61 https://doi.org/10.1080/19448953.2020.1818038

Nordhaus W.D., & Boyer, J. (2000). Warming the world: economic models of global warming. *Cambridge, MA: MIT Press* https://doi.org/10.7551/mitpress/7158.001.0001

Nordhaus, W. D. (2018). Evolution of modeling of the economics of global warming: changes in the DICE model, 1992-2017. NBER Working Paper 23319. https://doi.org/10.1007/s10584-018-2218-y

O'Driscoll Jr., G.P., Holmes, K.R., & Kirkpatrick, M. (2001) Index of Economic Freedom. *Heritage Foundation*, Washington, DC https://doi.org/10.1016/j.econmod.2020.07.009

Osei, M. J., & Kim, C. J. (2020). Foreign direct investment and economic growth: Is more financial development better? *Economic Modelling, 93*, 154 -161. https://doi.org/10.1016/j.econmod.2020.07.009

Quazi, R. (2007). Economic *freedom* and *foreign direct investment* in East Asia. Journal of the Asia Pacific Economy, *12*(3), 329–344. https://doi.org/10.1080/13547860701405755

Radovanović, T., Grandov, Z., & Filijović, M. (2019). The essence and implications of integrated local development planning. *Economy & Market Communication Review, 18*(2) 248-263. https://doi.org/10.7251/EMC1902248R

Riezman, R. (1982). Tariff retaliation from a strategic viewpoint. *Southern Econ. J.*, 583-593. https://doi.org/10.2307/1058652

Sekkat, K., & Veganzones-Varoudakis, M. (2007). openness, investment climate, and FDI in developing countries. *Review of Development Economics, 11*(4), 607-620. https://doi.org/10.1111/j.1467-9361.2007.00426.x

Sovbetov, Y., & Moussa, M. (2017). Interaction of economic freedom and foreign direct investment globally: special cases from neglected regions. *Journal of Economics and Financial Analysis, 1*(1), 59-80. https://doi.org/10.1991/jefa.v1i1.a4

Stiglitz, J. (2008). The need for an adequate international framework for FDI. U K. P. Sauvant, *The Rise of Transnational Corporations from Emerging Markets* (str. Chapter 15). Edward Elgar Publishing. https://doi.org/10.4337/9781848441460.00026

Voyer, P., & Beamish, P. (2004). The effect of corruption on Japanese foreign direct investment. *Journal of Business Ethics, 50*(3), 211-224. https://doi.org/10.1023/B:BUSI.0000024737.57926.bf

Walsh, P. J., & Yu, J. (2010). Determinants of foreign direct investment: A sectoral and institutional approach. *IMF Working Paper WP/10/187, Washington D.C.: International Monetary Fund*, 24. https://doi.org/10.5089/9781455202218.001

Weede, E., & Kämpf, S. (2002). The impact of intelligence and institutional improvements on economic growth. *Kyklos*, *55* (3), 361-380. https://doi.org/10.1111/1467-6435.00191

Zongzheng, L., & Mao, J. (2019). How do tax incentives affect investment and productivity? Firm-level evidence from China. *American Economic Journal: Economic Policy, 11*(3), 261-291. https://doi.org/10.1257/pol.20170478

Zhang, S., & Chen, C. L. (2020). Does outward foreign direct investment facilitate China's export upgrading? China & World Economy, *28* (5), 64–89. https://doi.org/10.1111/cwe.12328

The Heritage Foundation. (2022). Statistics. Retrieved October 7, 2021, from The Heritage Foundation | The Heritage Foundation

World Bank. (2021). Data, China. Retrieved October 25, 2022, from Foreign direct investment, net inflows (% of GDP) - China | Data (www.worldbank.org)

World Bank's Doing Business report for 2020, https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf

Xiao, D., Gao, L., Xu L., Wang, Z. & Wei, W. (2023) Revisiting the green growth effect of foreign direct investment from the perspective of environmental regulation: evidence from China, *International Journal of Environmental Research and Public Health*, 20, 2655. 2-20. https://doi.org/10.3390/ijerph20032655

Wu, B., (2021) China and New Middle East, *Journal of Balkan and Near Eastern Studies,* 23(3) 443-457 https://doi.org/10.1080/19448953.2021.1888248

Gregory N., M., Romer, D. & Weil, D., N. (1992). Contribution to the Empirics of Economic Growth, *The Quarterly Journal of Economics*, 5, 407-437. https://doi.org/10.2307/2118477

Johnson, H. (1953). Optimum tariffs and retaliation. *The Review of Economic Studies, 21*(2), 142–153. https://doi.org/10.2307/2296006

✉ **Correspondence**

Dragan Milovanović

University of Banja Luka, Faculty of Economics
Majke Jugovića 4, Banja Luka, Bosnia and Herzegovina

E-mail: dragan.milovanović@ef.unibl.org

Appendix

Table 3 Input parameters of the econometric model of Chinese economic freedoms (1995-2020)

Year	Index Score	Property Rights	Government Integrity	Judicial Effectiveness	Tax Burden	Government Spending	Fiscal Health	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
1995	52.00	30.0	30,0	N/A	70,6	93.7	N/A	55,0	N/A	68,4	20,0	50,0	50,0
1996	51.30	30,0	30,0	N/A	70,7	94.6	N/A	55,0	N/A	61,5	20,0	50,0	50,0
1997	51.70	30.0	22.0	N/A	70.4	95.4	N/A	55.0	N/A	62.7	30.0	50.0	50.0
1998	53.10	30.0	24.0	N/A	70.5	95.9	N/A	55.0	N/A	68.2	34.0	50.0	50.0
1999	54.80	30.0	29.0	N/A	70.5	95.1	N/A	55.0	N/A	75.2	38.2	50.0	50.0
2000	56.40	30.0	35.0	N/A	70.4	90.3	N/A	55.0	N/A	84.0	42.6	50.0	50.0
2001	52.60	30.0	34.0	N/A	70.4	94.1	N/A	55.0	N/A	84.1	46.0	30.0	30.0
2002	52.80	30.0	31.0	N/A	70.3	92.3	N/A	55.0	N/A	87.6	48.6	30.0	30.0
2003	52.60	30.0	35.0	N/A	66.9	90.2	N/A	55.0	N/A	85.8	50.6	30.0	30.0
2004	52.50	30.0	35.0	N/A	66.4	88.4	N/A	55.0	N/A	86.4	51.4	30.0	30.0
2005	53.70	30.0	34.0	N/A	67.9	86.0	N/A	55.0	65.0	84.8	54.4	30.0	30.0
2006	53.60	30.0	34.0	N/A	70.0	86.0	N/A	43.1	65.2	79.4	68.0	30.0	30.0
2007	52.00	20.0	32.0	N/A	66.6	87.0	N/A	46.9	64.2	75.5	68.0	30.0	30.0
2008	53.10	20.0	33.0	N/A	66.4	89.7	N/A	50.3	64.8	76.5	70.2	30.0	30,0
2009	53.20	20.0	35.0	N/A	70.6	88.9	N/A	51.6	61.8	72.9	71.4	30.0	30.0
2010	51.00	20.0	36.0	N/A	70.2	88.1	N/A	49.7	53.2	70.6	72.2	20.0	30.0
2011	52.00	20.0	36.0	N/A	70.3	87.0	N/A	49.8	54.9	75.3	71.6	25.0	30.0
2012	51.20	20.0	35.0	N/A	70.4	84.1	N/A	46.4	55.4	74.2	71.6	25.0	30.0
2013	51.90	20.0	36.0	N/A	70.2	83.3	N/A	48.0	62.6	71.6	72.0	25.0	30.0
2014	52.50	20.0	35.0	N/A	69.9	82.9	N/A	49.7	61.9	73.3	71.8	30.0	30.0
2015	52.70	20.0	40.0	N/A	69.7	81.5	N/A	52.1	63.0	74.2	71.8	25.0	30.0
2016	52.00	20.0	36.0	N/A	69.7	74.3	N/A	54.2	62.0	70.6	72.8	30.0	30.0
2017	57.40	48.3	41.6	60.7	70.0	73.0	92.5	53.9	63.4	71.8	73.6	20.0	20.0
2018	57.80	46.7	47.3	65.4	70.4	71.6	85.9	54.9	61.4	71.4	73.2	25.0	20.0
2019	58.40	49.9	49.1	75.2	70.4	70.1	76.0	56.2	64.2	71.9	73.0	25.0	20.0
2020	59.50	60.9	46.0	76.3	70.4	67.9	67.5	76.8	64.4	71.1	72.4	20.0	20.0

Source: The Heritage Foundation, 2022

Table 4 Values of dependent research variables (foreign direct investment (FDI) and China's development) in the econometric model (1995-2020)

Years	GDP (billion $)	FDI (billion $)
1995	734,547,898,220.51	35,849,200,000.00
1996	863,746,717,503.79	40,180,000,000.00
1997	961,603,952,951.82	45.439.000.000.00
1998	1,029,043,097,554.08	45.644.000.000.00
1999	1,093,997,267,271.06	41,014,000,000.00
2000	1,211,346,869,605.24	42,095,300,000,00
2001	1,339,395,718,865.30	47,053,000,000.00
2002	1,470,550,015,081.55	53,073,618,897.40
2003	1,660,287,965,662.68	57,900,937,467.39
2004	1,955,347,004,963.27	68,117,272,181.22
2005	2,285,965,892,360.54	104,108,693,867.09
2006	2,752,131,773,355.16	124,082,035,618.51
2007	3,550,342,737,010.84	156,249,335,203.20
2008	4,594,307,032,660.79	171,534,650,311.57
2009	5,101,703,073,086.04	131,057,052,869.50
2010	6,087,163,874,512,21	243,703,434,558.18
2011	7,551,500,124,203,36	280,072,219,149.94
2012	8,532,229,986,993.65	241,213,868,161.42
2013	9,570,406,235,659.64	290,928,431,467.00
2014	10,475,682,920,594.50	268,097,181,064.34
2015	11,061,553,079,876.40	242,489,331,627.40
2016	11,233,276,536,737.20	174,749,584,584.05
2017	12,310,409,370,892.80	166,083,755,721.65
2018	13,894,817,549,374.20	235,365,050,036.34
2019	14,279,937,467,431.00	155,815,344,616.66
2020	14,722,840,000,000.00	144,370,000,000.00

Source: The World Bank, 2021