

The Internalization Advantage, Infrastructure Construction and Foreign Direct Investment

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Abstract—As the necessary material condition for economic development, infrastructure plays an important role in developing foreign direct investment activities. The location choice of infrastructure decisions and investments. On the basis of the theory of traditional foreign direct investment, this paper makes a theoretical analysis of its influence mechanism, and puts forward some suggestions on how to accelerate the construction of infrastructure to improve the foreign investment activities.

Index terms—Infrastructure, Life Cycle Theory, Internalization Theory, FDI.

I. THE THEORY OF TRADITIONAL FOREIGN DIRECT INVESTMENT

A. Product life cycle theory

Product life cycle theory is a new product from the beginning to enter the market through the development, growth, maturity, decline stage of the whole life process. Due to the differences in the technical level of the world, the international competitiveness of each country is different, Thus determines the change of foreign direct investment . Specifically, in the phase of new product development, the first phase of the product life cycle. Due to the small market penetration of new products, market demand is narrow. Therefore, the demand for products generally have the domestic market to digest. As the technology matures, Domestic market demand for products continues to expand, demand is very elastic. That is to say, lower prices will bring about a substantial increase in total revenue. At this point, the key to improve the competitiveness of enterprises is to reduce market transaction costs. At the same time, along with the continuous spread of product technology, companies continue to outsource production and invest in developing countries or regions where the market potential is huge. Based on the research of many scholars at home and abroad, foreign investment in the choice of location will be more consideration of the cost of production factors. Therefore, based on the purpose of reducing production costs and expanding foreign markets.

Generally, the enterprises tend to invest more in the country where the locomotive facilities are perfect and the facilities are complete. With the continuous development of product technology, complete loss of product technical superiority, the main production areas are concentrated in developing countries and less developed countries and regions, the product competition strategy is based on price war. The enterprise reduces the transaction cost by investing in the market with the perfect infrastructure, maintain their competitive advantage.

B. Internalization theory

The internalization theory is the theoretical result of western scholars to explain the motives of foreign direct investment, the theory holds that the market is not fully competitive, in order to optimize the allocation of internal resources, the negative effects of market friction on the production and management performance, improve production efficiency, to overcome the shortcomings of the external market to reduce transaction costs, maximize profit. According to the traditional theory of internalization, the main factors that determine the internalization of the market are industry specific factors, regional factors, country specific factors and enterprise specific factors, among them, the country specific factors include the "soft environment" and "hard environment", soft environment, including the host country policy, the degree of law and market openness; As an important factor affecting foreign direct investment, the hard environment refers to the degree of improvement of infrastructure. The internalization theory can explain the motivation of multinational companies to engage in foreign direct investment from the perspective of enterprise heterogeneity.

II. THE INFRASTRUCTURE CONSTRUCTION OF FOREIGN DIRECT INVESTMENT THEORY

At present, many domestic and foreign scholars have shown that the infrastructure construction has a significant role in promoting the economic development

of a country. Foreign scholars Vernon believes that the current domestic and foreign research on the location choice of foreign direct investment is more traditional, such as market capacity, labor costs, transportation and communications costs, the relative level of technology. The traditional theory of location choice theory considers that the most important factor that determines the location choice is the cost of production, one of the most important factors for foreign investment is the cost of production. Therefore, the lower the cost of production is more conducive to attracting foreign direct investment. Foreign scholars Caves believes that foreign direct investment will go to the local field investigation, identify local market potential, so need to face a lot of search costs. Therefore, foreign companies will adopt a risk averse strategy, this strategy has led to the choice of low transaction costs. And the more perfect infrastructure in a region, the more conducive to saving production costs, regional infrastructure construction has also become an important condition for foreign direct investment. A study on how to attract foreign investment in the host country. Chen Jinmei (2004) obtained in the econometric model to test the foreign direct investment in the main reason for the choice of the location of the China the conclusion shows that the market factors and infrastructure factors are decisive factor in the choice of Foreign Direct Investment Regional Differences. Among them, the improvement of infrastructure has played a key role in the inflow of foreign direct investment. Besides. The level of regional economic development, the potential market size and the degree of opening to the outside world and the abundance of human capital are the main factors affecting FDI. Wei Qingshan and Wang Renfei (2013) organize the statistical data of China's provincial infrastructure and the total amount of foreign direct investment attracted by the provinces and cities. The results show that the degree of perfection and structure of regional infrastructure is an important factor in addition to the host country preferential policies and market scale effect of foreign direct investment, Lin Junru (2012) to explore the factors of attracting foreign direct investment in mainland China based on Panel Data. The following conclusions are drawn, Eastern coastal areas rely heavily on market potential. The higher level of market openness, the government's preferential policies; the central and western regions are mainly dependent on the basic elements. Such as cheap labor, more perfect infrastructure construction. Research on the impact of infrastructure on attracting foreign investment, Liu Tiesheng in the use of SPSS software infrastructure to attract the impact of FDI for testing. It is concluded that the density of road network, the density of railway network and the density of long-distance optical cable have a significant role in promoting foreign direct investment. At the same time, it also explains that the eastern region of China has attracted much more foreign investment than the central and western regions due to its perfect infrastructure. On the other hand, he emphasized the importance of information technology in the enterprise's profit model.

Enterprises pay more and more attention to the status of communication infrastructure in the choice of investment areas. Zhang Hanya and Zhang Changchun (2014) in the evaluation of the investment environment of China's provinces and cities is emphasized that the Chinese government should attract foreign direct investment in the optimization of the investment environment. In particular, to improve infrastructure construction and structural aspects. Zhou Yuping's analysis of the impact of infrastructure on foreign direct investment, It is concluded that China's freight volume has a positive effect on FDI. Among them, the maximum elasticity of railway freight volume. There is a weak correlation between air freight volume and foreign direct investment. On the basis of analyzing the influence of the post and telecommunications industry on the infrastructure, the total amount of postal services and telephone ownership in China are significantly promoted. In the analysis of the impact of the post and telecommunications industry on the infrastructure, it is concluded that both the total amount of postal services and the amount of telephone ownership have a significant role in promoting foreign direct investment. This is due to the national telecommunications infrastructure market capacity, technical level, service levels have a qualitative leap.

III. SPEED UP INFRASTRUCTURE CONSTRUCTION IN ORDER TO ATTRACT FOREIGN INVESTMENT STRATEGY RECOMMENDATIONS

A. The government should strengthen the investment in infrastructure construction

Increasing investment in transport infrastructure, especially in the relatively backward areas to strengthen spending efforts. Even in the past ten years, all over the country to invest in infrastructure without interruption, infrastructure has been gradually meet the requirements of China's economic development, in terms of transportation infrastructure. Its dependent funds, most of them still come from the financial support of all levels of government. In order to ensure fairness and efficiency, increase infrastructure construction and investment. When the government chooses the investment project, it is necessary to choose the location of the construction, and its coverage is expected, in order to allow other regional cities, benefit from improving infrastructure.

B. Expanding the scale of infrastructure supply

From the aspect of promoting the large-scale supply of infrastructure. Infrastructure has a strong agglomeration effect, but if we supply infrastructure in a traditional way. Even though transportation policies have made the supply rise steadily. It is still difficult to achieve rapid agglomeration effect. So, in a certain time, to achieve the goal of rapid agglomeration effect, need to rely on the relevant departments, according to the specific characteristics of the region, implementation of fast and effective infrastructure supply. Will be the main force and the construction of funds targeted to the relevant construction, the implementation of a very large-scale

supply for the corresponding infrastructure. In order to realize the rapid convergence effect.

C. local governments should optimize the supply structure of infrastructure

From the aspect of optimizing the supply structure of infrastructure. Infrastructure includes many other different forms. Such as transportation infrastructure and communications infrastructure. When building infrastructure, the first is to clarify the type of infrastructure. This requires a detailed analysis of the region's economic and social environment, adjusted for specific needs, structured supply of infrastructure.

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