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...
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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REFERENCE