CHAPTER II
THEORY & LITERATURE REVIEW

2.1 Theoretical Basis

The author combined classical theory and modern theory of international trade for the study because the classical theory is the foundation of international trade and the newer theories and modern theory is the international trade theory that's relatable with the world's economic current conditions. The theories used in this research are:

2.1.1 Comparative Advantages Theory

Comparative Advantages theory was first developed by David Ricardo in 1817, in his book entitled On the Principles of Political Economy and Taxation. According to Ricardo, Comparative advantage describes the ability of a company or country to produce a particular good or service at lower opportunity cost. The lower opportunity cost losses by company or country indicate that smaller and tolerable potential benefit is lost. Even though a country has its own absolute advantage in producing goods, the opportunity cost might be higher compared to when they import the goods. Therefore, importing goods is a propitious decision if the opportunity cost is lower.

In addition, Maule (1996) found that the comparative advantage between countries will affect the trade scope in free trade areas. The more divergent the patterns of comparative advantage between countries members, the greater the belief of the existence of scope for trade creation in the free trade era (Jayadi & Aziz, 2017). Comparative advantage theory is used due to the difference of comparative advantages owned by ASEAN and China. It can broaden the scope of China-ASEAN trade that's also supported by the existence of cross-border e-commerce. The goods and benefits traded by China and ASEAN as their own specialization can minimize the loss of benefit or opportunities cost's loss thus the obstacles in economic development for both parties are also being minimized. Besides, the comparative advantages are not only owned by China and ASEAN as countries, but can also be in the form of a variety of advantage and benefits offered by many e-commerce companies in ASEAN and China.

2.1.2 Demand Preference Similarity Theory

In 1961, Staffan Linder established Country Similarity Theory that states that the consumer preferences in countries with similar stages of development will be semblable. This theory also explains that most manufactured products trade will take place between countries with identical amounts of Gross Domestic Products, and the intra-industry trade will be common. This theory is utilized by the author with the fact that ASEAN is an organization with member countries located in the same geographical areas. The similar stage of development of 10 ASEAN's member countries, which is 9 developing countries and only Singapore is developed, has also become the author's consideration of using the Country Similarity theory. Therefore, ASEAN's member countries might have similar market potentials because of the similarities in demographic, economic, culture, and the stage of development. These potentials can be seen as opportunities for China to dominate ASEAN's market, especially with the ease that's provided by cross-border e-commerce.

2.1.3 Global Strategic Rivalry Theory

Global Strategic Rivalry Theory emerged in the 1980s by Paul Krugman and Kevin Lancaster that's focused on multinational companies. This theory stated that in order to endure and dominate the global competition, multinational companies have to gain and strengthen their competitive advantages. Global Strategic Rivalry Theory is included in modern theory, thus as Country Similarity theory, this theory also has the similar prediction about the intra-industry trade will be common. To obtain sustainable competitive advantages, the company has to take strategic decisions and exceed the barriers of entering the industry. The barriers that companies should pay attention to are including research and development, the ownership of intellectual property rights, economies of scale, unique business processes or methods as well as extensive experience in the industry, and the control of resources or favorable access to raw materials.

The focus of Global Strategic Rivalry theory on multinational companies is relevant to the study. This theory can also be implemented in small and medium enterprises, as one of the dominant parties that build the country's economy (Sarfiah,Atmaja,&Verawati,2009), because by the existence of cross-border e-commerce, they can join the global market easily. Small and medium enterprises should create their own comparative advantage to enter the market and face the global competition.

2.2 Definition

During its development, e-commerce evolved into some types that have different functions for many parties involved in business. The table below explains and describes each type of e-commerce.

Table 2.1. Type of e-commerce and its definition

Type of E-commerce	Definition
Business-to-Business	Online business model that provides goods from business to other businesses
Business-to-Consumer	Online business model that provides goods from business to consumers
Consumer-to-Consumer	Online business model where consumers can sell or buy products from other consumers
Consumer-to-Business	Online business model in which consumers or end-users provide products or services to companies. This is the opposite model of B2C, where businesses produce products and services for consumer consumption
Business-to-Government	Online business model that refers to a business that sells products, services, or information to governments or government agencies
Consumer-to-Government	Online electronic transactions made by individuals to governments or public administrations

Source: jubelio.com