

CHAPTER 2 RELATED LITERATURE REVIEW

2.1 Theories for The Paper

2.1.1 Theory of Economic Integration

The Dutch economist Tinbergen (1962) believes that economic integration will eliminate the artificial factors that hinder the economic movement and create the most appropriate international economic structure through mutual cooperation and unity. The essence of regional economic integration is based on regionality. By reducing the transaction costs among member states, the degree of freedom in intraregional trade can be increased. And the free flow of production factors and products can be promoted. Besides the optimal allocation and use of resources can be realized.

Initially, the American economist, Balassa (2011) once defined and elaborated on the regional economic integration. He defined economic integration as a process, which is also a form of “a state”. The process of integration is mainly to take effective measures to eliminate discrimination between economic units in various countries. The state of economic integration is the result of the process of economic integration. It is to eliminate all forms which he believes that if there are trade relations between the economies of two independent countries, then it can be considered economic integration.

Chaiprasit, and Santidhiraku (2011) made a clearer definition of the definition of regional economic integration in the book “International Economics”. He believes that the research on the development strategy of SMEs in the context of regional ASEAN regional economic integration mainly refers to the integration of macroeconomic policies among countries and the free movement of production factors, including free trade among member countries and common commodity markets and production. Factor market is to achieve the equal price of production factors.

German entrepreneur Bende, Ford, and Slater (2001). also have published his own views on regional economic integration. He said that regional economic integration refers to two or more countries. So, it must make a certain degree of policy coordination, to eliminate countries in the Discrimination in all aspects will not only allow free flow of goods between them, but also, more importantly, allow the free flow of production factors, so as to reflect the practical significance of regional economic integration.

Meng (2001) also has his own definition of regional economic integration. He believes that in fact it is to obtain the interests of economic entities in different spaces, such as production, consumption, and trade. He also believes that regional economic integration is not just a state and a process. At the same time, it is a combination of means and purpose. The process of creating market integration is the unification of economic

policies from the product market and the production factor market, and gradually evolves into regional economic integration.

2.1.2 Theory of SMEs

Marks, and Thomalla (2017) put forward in the external economic theory that “small and medium-sized enterprise clusters are conducive to skills, information, technology, and new ideas, and they are spread and applied among the enterprises within the cluster, thereby generating external economic effects.” Through enterprise clustering, we can promote cooperation between each other to save transaction costs and intermediate expenses, reduce production investment, change the disadvantage of individual small and medium-sized enterprises due to their own scale, and use the same production and operation of enterprises within the cluster. The characteristics of products, the formation of regional economies with industrial characteristics. Thus, it makes us to effectively stimulate local economic development.

Based on the findings of earlier research, the factors affecting SME business success were classified into the following categories:

- (1) an entrepreneur Characteristics Kristiansen (2003)
- (2) characteristic of SME Kristiansen, and Wahd (2003)
- (3) management and know-how Swierczek (2003)
- (4) products and services Wiklund, & Shepherd (2004)
- (5) customers and markets William, and James (2005)
- (6) the way of doing business and cooperation Chancharat , & Chancharat (2013)
- (7) resources and finance Kristiansen (2003)
- (8) strategy McMahon (2001)
- (9) external environment Huggins (2000)
- (10) internet Henriette, and Peter (2002)

However only 6 factors namely Characteristics of SMEs, Management and know-how, Products and Services, The way of doing business and cooperation, Resources and finance and external environment were considered for the theoretical framework of this study based on suitability. Therefore, Business success is the dependent variable and independent variables are: characteristic of entrepreneur and SMEs, management and know-how, products and services, the way of doing business and cooperation, resources and finance, and external environment.

Tertiary industry theory. All learn from previous theoretical viewpoints and believe that due to the process of social division of labor and industrialization, the proportion of the first and second industries in labor, employment, etc. decreased, while the proportion of the third industry continued to increase.

It has become an inevitable trend. The tertiary industry happens to be the best soil for SMEs to grow. The "existence theory", "adaptation scale theory", and "best biological theory" of SMEs in countries such as the United States and Japan. And imperfect competition theory and "environmental adaptation theory. "Business Economics Perspective. "Middle economic theory" considers SMEs as research objects. There is a difference in enterprise behaviors and management characteristics between SMEs and large enterprises, which inevitably creates special other business performance.

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Ueasangkomsate (2015) argues that the size of a competitive firm is determined by the medium-to-long-term average cost level. In other words, the medium-long term average cost curve is U-shaped when all elements are variable. The result of free competition in the market makes the company's production scale at the lowest point of the average cost curve. For the U-shaped medium-to-long-term cost curve, the usual explanation is that there are some fixed production costs (plants, machines, buildings, etc.), no matter how high the output level, it will inevitably happen. With the increase of output, Variable costs increase, but fixed costs do not change. Therefore, there is a downward trend in the cost per unit per unit. However, after a certain point, it becomes very difficult to further reduce the average cost, because some inputs are difficult to change as the size of the company changes. At this point, if the company expands again, it will inevitably lead to an increase in the average cost curve over the medium and long term, and a diseconomy of scale. The theory of economies of scale on the one hand points out that companies should pursue economies of scale when expanding production, and at the same time point out that they cannot pursue scale indefinitely.

In the real economy, the scale of the enterprise cannot expand indefinitely. In the process of expanding the scale of the enterprise, it will encounter limitations in terms of capital, market, technology, and management. After a certain scale is reached, the enterprise will stop further expanding its scale. That is to say, the expansion of the company's scale is bounded. Although it can be inferred from the economic benefits of scale, SMEs are at a disadvantage when competing with large companies. However, based on this point of view, it is not easy to believe that the living space for SMEs will

become smaller and smaller. The boundary restrictions imposed on large enterprises when they are expanding have provided sufficient theoretical support for the existence of small and medium-sized enterprises, which further explains the feasibility and necessity of the existence of small and medium-sized enterprises. In fact, the expansion of large-scale enterprises and the development of small and medium-sized enterprises coexist at the same time. They have gradually formed a division of labor and cooperation, and they have both competed and cooperated to form a social production system. In their respective fields, the respective competitive advantages of large and medium-sized enterprises are very obvious. In the industries where large enterprises can exert economies of scale, the survival space of small and medium-sized enterprises is relatively narrow; while in the scope of smooth activities of small and medium-sized enterprises, large enterprises are not absolute. The advantages can be said. The respective advantages of large and medium-sized enterprises will change with the changes in economic conditions. Since the 1970s, the prosperity of SMEs has shown that the space to survive has expanded considerably. Although SMEs have a small scale of production, there are also economies of scale. The economy of SMEs is determined by its special production technology and market demand environment. There is a problem of optimal production scale for a certain amount of demand and production technologies that are compatible with it. Compared to different technologies and markets, a car factory with an annual output of more than a thousand cars uses semi-mechanized manual labor, and its production scale is in such production.

The conditions may be optimal under the conditions. But if its product is just an ordinary car, and society needs it. The scale can also attract other automobile factories to use a variety of specialized equipment to implement large-scale standardized production. Then, companies that remain in semi-mechanized manual labor cannot achieve scale competitive advantage. If the needs of society not enough to support large-scale production, more use of semi-mechanized production of smaller quantities of products.

The most efficient use of resources and the formation of another form of scale benefit, then, the smaller the size of the enterprise, it is a wise choice. On the other hand, even for products that are suitable for large-scale production, there will be room for SMEs to survive. Because economies of scale require a certain scale of production, they must be moderate in size and cannot be large and inappropriate. Instead, the scale of scale will be uneconomical.