Research on the Internationalization Paths Optimization of Small and Medium-sized Enterprises in China

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Abstract

Amidst ongoing economic downturn, accelerated deglobalization trends, and intensifying global economic competition, small and medium-sized enterprises (SMEs) now confront significant export barriers characterized by shrinking market access, rising protectionism, and disrupted supply chains. This thesis focuses on the internationalization paths of small and medium-sized enterprises (SMEs) in China. Through literature research, case analysis, and the integration of theory with practice, it systematically explores internationalization path models such as the incremental approach and the leapfrog approach. It conducts an in-depth analysis of the current situation, driving factors, and challenges faced by the internationalization of SMEs, points out the problems existing in path selection, and proposes targeted optimization strategies. The aim is to provide theoretical references and practical guidance for the international development of SMEs, and help them enhance their competitiveness in the global market.

Keywords

Small and Medium-sized Enterprises, Internationalization Paths Optimization, Incremental Approach, Leapfrog Approach, Cluster-based Approach.

1. Introduction

Amid the persistent advancement of economic globalization, the integration and competition in international markets have intensified. Small and Medium-sized Enterprises (SMEs), serving as critical drivers of China's economic development, contribute over 50% of tax revenue, 60% of GDP, 70% of technological innovation results, and 80% of urban employment. Their international expansion not only impacts their own survival and growth but is also pivotal for promoting high-quality economic development in China and enhancing its international economic influence [1]. In recent years, with the deepening implementation of the Belt and Road Initiative (BRI), the enactment of the RCEP agreement, and the rise of emerging trade models such as cross-border e-commerce, SMEs have encountered unprecedented opportunities for internationalization [2]. However, the complex and volatile international environment, characterized by rising trade protectionism, geopolitical conflicts, and cultural differences, poses significant challenges to SMEs venturing abroad [3]. Against this backdrop, an in-depth study of the internationalization pathways for SMEs holds considerable practical significance.

This study aims to systematically review the primary pathways for the internationalization of Chinese SMEs, analyze the characteristics, applicability, and potential risks of different paths, identify existing problems in their pathway selection, and propose targeted optimization strategies. Theoretically, it enriches research on SME internationalization pathways and offers new perspectives for subsequent studies. Practically, it assists SMEs in scientifically selecting internationalization pathways based on their specific conditions, enhancing their global operational capabilities, and strengthening their international competitiveness. It also provides reference points for policymakers formulating supportive measures for SME internationalization. This study primarily employs literature review, case analysis, and comparative analysis. By collecting and reviewing relevant domestic and international literature, we synthesize theoretical and practical achievements in SME internationalization pathways. Typical SME internationalization cases are selected for an in-depth analysis of the implementation processes and outcomes of various pathways. A comparative analysis of differences between incremental, leapfrogging, and other paths is conducted to summarize their characteristics and applicability.

2. Analysis of the Current State of Internationalization of Chinese SMEs

2.1. Overall Scale and Industry Distribution

In recent years, the scale of internationalization among Chinese SMEs has continuously expanded. According to data from the National Bureau of Statistics (NBS), SMEs accounted for over 60% of China's total export value in 2023, highlighting their increasingly vital role in international markets [4]. From an industry perspective, internationalization is concentrated in labor-intensive sectors like textiles, apparel, and toy manufacturing, which leverage cost advantages to secure market share globally. Simultaneously, SMEs in high-tech fields such as electronics, new energy, and biomedicine are accelerating their international pace, gaining prominence in global markets amid China's industrial upgrading and technological innovation.

2.2. Key Driving Factors

2.2.1. Policy Support

The Chinese government places high priority on SME internationalization, implementing various supportive policies [5]. The Belt and Road Initiative offers vast opportunities for SMEs to access markets in participating countries. Government efforts include infrastructure cooperation, trade and investment facilitation, effectively lowering barriers to entry for SMEs [6]. Additionally, tax incentives, fiscal subsidies, and export credit insurance alleviate burdens, enhance risk resilience, and stimulate international ventures.

2.2.2. Market Demand

Global economic growth and diversified consumer needs drive sustained demand internationally. Emerging markets offer robust demand for mid-to-low-end products, presenting opportunities for China's labor-intensive SMEs. Concurrently, demand in developed economies for high-tech products and tailored services creates space for relevant Chinese SMEs. Attracted by market potential and profit prospects, enterprises actively pursue international expansion.

2.2.3. Technological Innovation

Rapid developments in internet, big data, and AI technologies provide vital support for SME internationalization [7]. Cross-border e-commerce platforms dismantle traditional trade barriers, enabling SMEs to reach global consumers directly at lower costs. Technological advancements also help SMEs upgrade products and services, enhance added value, boost competitiveness, and strengthen market presence, accelerating internationalization [8].

2.3. Challenges Faced by Chinese SMEs

2.3.1. Funding and Financing Constraints

SMEs commonly face capital shortages. Internationalization requires significant investment in market research, R&D, channel development, and branding, creating substantial financial pressure [9]. Due to their small size, limited assets, and imperfect financial systems, SMEs struggle to access bank loans or capital markets, narrowing financing channels and hindering international growth.

2.3.2. Talent Shortages

International operations demand professionals fluent in foreign languages, knowledgeable about global trade rules, and skilled in cross-cultural management and specialized technical domains. However, constrained by salary limitations, career development prospects, and brand reputation, SMEs find it difficult to attract and retain high-caliber talent. This results in deficiencies in market research, marketing strategy formulation, and cross-cultural communication, impeding international progress.

2.3.3. Cultural Differences and Trade Barriers

Significant cultural disparities in language, values, consumption habits, and business etiquette across countries and regions may lead to mismatches between product design/marketing strategies and local market needs, complicating market entry. Concurrently, rising trade protectionism, manifested via tariff and non-tariff barriers (e.g., technical standards, green barriers), restricts market access for Chinese SMEs, increasing risks and operational costs.

3. Analysis of Internationalization Pathway Models for Chinese SMEs

3.1. Incremental Development Pathway

3.1.1. Pathway Characteristics

The incremental path means growing step by step: starting from local markets, then moving to regional and national markets, followed by nearby international markets, and finally reaching global markets. Companies begin with indirect exports (like using agents), then move to direct exports, and eventually set up sales offices or factories in other countries. Risks are mitigated by accumulating international market knowledge and experience step-by-step.

3.1.2. Applicability

This path suits SMEs with limited resources, insufficient international experience, and lower risk tolerance. Early stages focus on learning market rules and adapting to different institutional and cultural environments at lower risk, gradually building overseas channels and brand presence. Traditional labor-intensive SMEs, with relatively low product complexity and lack of international marketing experience, are better suited for this path.

3.1.3. Representative Case – TCL

TCL exemplifies the incremental path. Initially targeting culturally similar Southeast Asian markets (e.g., Vietnam, Philippines), it established local sales offices to understand demand, consumption habits, and build channels. After gaining experience and market share, TCL expanded to other emerging and developed markets. Its 2004 acquisition of Thomson SA's TV business marked entry into Europe and North America. Despite initial difficulties, integration and strategic adjustments enabled TCL to establish a strong global presence in home appliances, demonstrating how incremental steps reduce risk through experience accumulation.

3.2. Leapfrogging Development Pathway

3.2.1. Pathway Characteristics

The leapfrogging path bypasses traditional incremental stages. Firms enter high-commitment phases early (e.g., direct FDI, large-scale marketing), often targeting geographically/culturally distant markets first. Success depends on unique technologies, brands, innovative business models, or robust resource integration capabilities enabling rapid market capture.

3.2.2. Applicability

Suitable for SMEs possessing core competitive advantages (e.g., cutting-edge technology, unique products, novel business models). Leveraging these strengths allows rapid market penetration, breaking geographical and temporal constraints. Companies in fast-paced sectors like internet tech or high-tech, with products facing synchronized global demand, benefit most.

3.2.3. Representative Case – SHEIN

SHEIN, a rapidly rising cross-border e-commerce player, succeeded via leapfrogging. Founded in 2008, it immediately targeted international markets, especially developed economies like the US and Europe. Via its proprietary platform, SHEIN adopted a fast-fashion model utilizing big data for consumer demand analysis and agile design-production-sales supply chains. Eschewing traditional step-by-step expansion, it achieved global recognition swiftly through online marketing and social media. SHEIN's leapfrogging success stems from leveraging internet technology, precise targeting, and highly efficient supply chain management.

3.3. Alternative Pathways

3.3.1. Cluster-Based Internationalization ("Going Global as an Industrial Cluster")

Industrial clusters are geographic agglomerations of interconnected firms and supporting institutions. SMEs can leverage cluster synergies – resource sharing, technology exchange, joint marketing – to lower internationalization costs and boost collective competitiveness. For instance, the Yiwu small commodities cluster in Zhejiang enables numerous SMEs to form complete industrial chains through intra-cluster collaboration. Utilizing the global platform of the Yiwu International Trade Market, they collectively access overseas markets under the "Made in Yiwu" brand, achieving collective internationalization.

3.3.2. Regional Cooperation under the "Belt and Road" Initiative

The BRI offers new internationalization avenues. SMEs can undertake ventures in BRI countries via joint ventures with local firms, participation in infrastructure projects, or establishing industrial parks. For example, Chinese construction SMEs leverage domestic expertise to participate in BRI infrastructure projects (e.g., roads, bridges, railways), gaining economic benefits while enhancing international visibility and influence.

4. Issues and Countermeasures in International Pathway Selection for Chinese SMEs

4.1. Existing Problems

Blind Pathway Selection. Many SMEs lack thorough assessments of their resources/capabilities and insufficient international market/environment research, leading them to blindly mimic others' paths. For instance, firms without core technology or marketing prowess hastily adopt leapfrogging paths meant for premium markets, leading to failures due to market unsuitability.

Weak Risk Resilience. Both pathways involve significant risks (market, currency, political). However, SMEs' small scale, limited capital, and inadequate risk management systems weaken their ability to withstand international turbulence or trade frictions, hindering progress.

Lack of Strategic Planning. Internationally-minded SMEs often lack long-term strategic vision and clear goals/roadmaps. Focus on short-term gains over brand building, R&D, and market cultivation prevents sustainable competitiveness. For example, adopting low-price strategies to quickly gain market share can damage brand image and hinder long-term growth.

4.2. Optimization Strategies

Scientific Assessment and Rational Path Selection. SMEs must realistically evaluate their resources (capital, tech, talent, brand) alongside market conditions to choose paths scientifically. SMEs with limited resources and experience should favor incremental paths for gradual learning; those with core advantages can explore leapfrogging. Attention should also be paid to emerging paths like cluster internationalization and BRI partnerships.

Strengthening Risk Management. Establish robust risk management systems encompassing risk identification, assessment, and mitigation. Financially: optimize capital structure, use hedging tools. Market-wise: intensify research and agile strategy adjustments. Politically: monitor geopolitical risks, establish early warning mechanisms. Utilizing instruments like export credit insurance also reduces operational risks.

Developing Strategic Pathways and Focusing on Sustainable Development. Formulate clear internationalization strategies with long-term objectives. Prioritize brand building (quality enhancement, service optimization, branding); strengthen R&D for market-driven innovations; invest in market cultivation (building stable channels/customer bases) for sustainable global presence.

5. Conclusion

This paper concludes the following regarding the internationalization paths for Chinese SMEs: Major pathways include incremental, leapfrogging, and cluster-based approaches, each with distinct characteristics and applicability. The incremental path suits resource-constrained firms seeking risk reduction via steady learning. The leapfrogging path demands core strengths for rapid expansion. Cluster and BRI paths offer innovative frameworks. Current problems include blind choices, weak risk resilience, and inadequate strategic planning. To enhance international competitiveness, SMEs must base selections on self-assessment, strengthen risk management, and develop strategic roadmaps.

There are some limitations in this article. The study relies on case studies and literature reviews over empirical data; It has insufficient exploration of industry/regional variations. Future research should broaden samples, adopt mixed methodologies, and investigate regional influences on pathways. The impact of evolving global trends (e.g., post-pandemic recovery) and emerging technologies (AI, blockchain) on SME internationalization pathways also warrants further study.

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