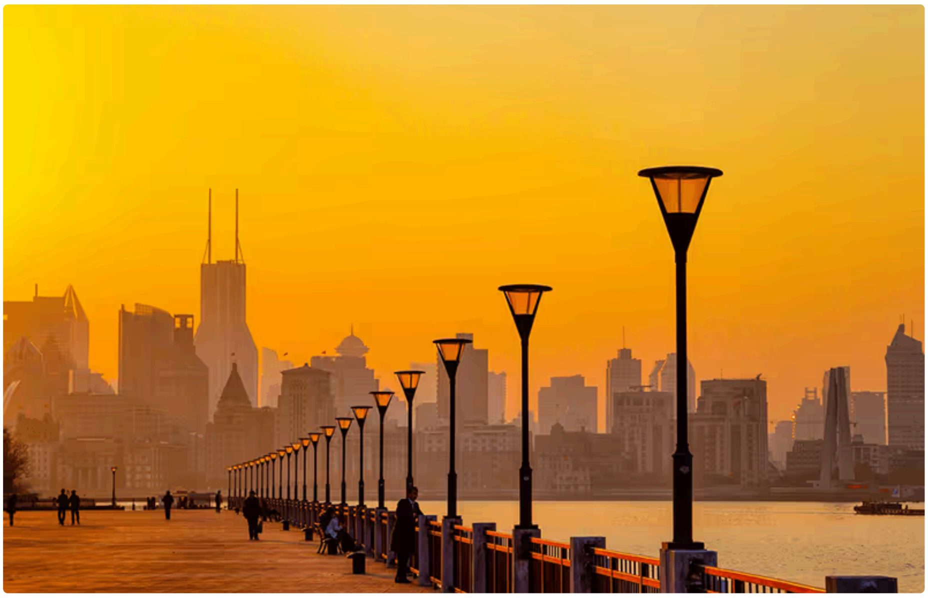
Everything You Need to Know About China Plus One

Now more than ever, business are eager to explore diversifying operations from China. But how feasible is China Plus One, really?

By: Michaela Madden Published: August 25, 2023



- China Plus One Strategy (C+1) is a supply chain strategy that encourages companies to diversify their supply chain and manufacturing activities away from China to mitigate risk.
- The strategy emerged in 2013 due to concerns about global dependency on China and has gained ground with trade tensions, COVID-19 disruptions, and rising labor costs.
- New markets are emerging as great alternatives to China, including Vietnam and India.

- Choosing a "plus one" location includes evaluating costs, geopolitical stability, infrastructure, supplier reputation, and more.

China Plus One is a diversification strategy that garnered global attention between 2014 and 2015 due to the escalating cost of labor in China, leading multinational companies to seek alternative manufacturing and sourcing options in other Asian countries. While some swiftly embraced the approach back then, others remained skeptical of its value beyond business theory.

Now, nearly 10 years later, the China Plus One strategy has seen a resurgence fueled by geopolitical tensions, COVID-19, and again, rising labor costs. Now more than ever, global businesses, executives, and media outlets are eager now more than ever before to explore diversifying operations from China. But how feasible is China Plus One, really?

What is the China Plus One Strategy?

The China Plus One Strategy, also known as Plus One or C+1, is a supply chain strategy that encourages companies to minimize their supply chain dependency on China by diversifying the countries they source parts from. The goal here is to reduce the risk of over relying on a single country for sourcing and manufacturing–if you've ever heard the famous saying, "don't put all your eggs in one basket", it's a very similar approach.

So how did this strategy start? It's no secret that many Western countries, including the U.S., have heavily relied on China when it comes to outsourcing their manufacturing. Low labor and production costs are one of the major reasons for this, as well as factors like China's strong domestic market, supply chain, infrastructure, free trade and tax agreements, and high growth potential. Regardless of the reasoning behind this reliance, people began to notice that the global dependency on China was becoming a risk as early as 2008, with the official China Plus One strategy being first introduced in 2013.

This new strategy would allow businesses to continue to invest in China, while spreading their operations across multiple countries, which are considered the “Plus One”. By establishing additional sourcing and manufacturing locations outside of China, companies found a way to mitigate business risks, access new consumer markets, and explore other innovation and technology, all while keeping their operations cost-effective.

Why is the China Plus One Strategy Relevant Now?

Today, geopolitical and economic factors are what drive much of the urgency behind businesses implementing a China Plus One approach. The most recent reason the approach has gained traction is the U.S.–China trade war, fueled by U.S. President Donald Trump in 2018. As tensions escalated throughout Trump’s presidency, businesses became uncertain about how their supply chain and operations would be affected, accelerating the adoption of China Plus One.

Additionally, the COVID-19 pandemic exposed vulnerabilities in global supply chains, especially those who relied on China alone. Companies with diversified supply chains were better equipped to navigate disruptions caused by China’s “Zero-Covid” policy, which lead to long lockdowns and factory closures. Other issues, such as rising labor costs in China and various Chinese political movements, have also contributed to the rise of China Plus One in recent years.

Pros and Cons of the China Plus One Approach

It's important to note that while the China Plus One strategy offers opportunities for improved market access, it also comes with challenges. Every strategy comes with its cons, and it’s up to you to decide if a strategy works best for your business or not. If you’re considering adopting a China Plus One strategy, here are a few pros and cons to consider.

Pros

Risk Mitigation

Risk mitigation is the likely reason you’re considering China Plus One in the first place. Supply chain disruptions can be caused by a number of factors, from natural disasters to political tensions to global pandemics. If you’re supplying predominantly from a single country, all it takes is one of these factors to halt your production process. China Plus One encourages manufacturers to establish suppliers in multiple countries, reducing risk and resulting in a highly adaptable supply chain that can withstand the unexpected.

Better Compliance Management

Recent legislation such as the Uyghur Forced Labor Prevention Act (UFLPA), introduced by the United States Congress to help combat forced labor policies in parts of China, also play a role in the desire to diversify. Companies that violate these requirements (knowingly or not) may see their products seized at the border as well as lose face among customers. For your company, it may be valuable to consider alternate sources for components rather than risk losing a critical part of your supply chain to a bad actor in China.

Market Access

Choosing your “Plus One” destinations allows your company to tap into different markets, which you can strategically use to your company’s advantage. If you’re looking to better understand consumer behavior, trends, and demands in certain parts of the world, you can diversify your manufacturing or supply chain operations to those areas to learn about your target audience more directly.

Cost Savings

Rising labor costs in China is one of the main reasons China Plus One emerged. While China was initially known for its cost-effective labor and production, they aren’t the only country in the world that offers this advantage anymore. Adopting China Plus One allows your company to explore competitive labor costs, favorable exchange rates, and tax incentives in different countries to achieve cost savings.

Technology and Expertise

Certain regions and countries are known for their expertise in specific industries and technologies. By expanding your manufacturing to these countries, your company can gain access to new technologies that may not be readily available elsewhere, giving it a competitive edge. Additionally, you can tap into specialized labor markets in these areas, filled with people who have expertise in these fields.

Cons

Upfront Costs

This is a classic case of the saying, “sometimes you need to spend money before you make money”. While a correctly implemented China Plus One strategy can ultimately lead to cost-savings, you’ll need to invest time in finding new suppliers, making sure they meet your regulatory and trade compliance needs, and better understanding the new risks and advantages that come with a new location.

Quality Control

Production looks different when you begin to expand your supply chain across multiple countries, specifically when it comes to quality control. Ensuring consistent product quality demands meticulous monitoring, testing, and compliance efforts. Failure to implement quality control measures across your operations could lead to poor customer satisfaction and a bad brand reputation, meaning you’ll have to invest in additional resources to maintain standards throughout the supply chain.

Economic and Political Risks

Companies must assess the different economic and political risks of their “Plus One” countries, including currency fluctuations, labor strikes, regulatory changes, and geopolitical tensions. The need to stay ahead of shifting political landscapes, as well as adapting to dynamic economic environments, can require more resources and risk management strategies to prevent potential disruptions.

How to Choose Your “Plus One” Location

Once you’ve made the decision to proceed with a China Plus One strategy, you’ll need to begin evaluating potential alternative locations, also called your “Plus One” destinations. Beyond evaluating your current production risks, needs, and goals, you’ll also need to carefully consider the following factors:

Costs

Balancing cost-effectiveness and operational efficiency ensures sustainable supply chain diversification while maintaining competitiveness, which is why costs should be the first thing you evaluate when choosing your new locations.

Additionally, you'll want to understand how local regulations, business laws, and government policies affect costs. Be sure to identify any incentives or benefits offered to foreign businesses, such as tax breaks or trade agreements.

Geopolitical & Economic Risk

Additionally, it's crucial to thoroughly assess the geopolitical and economic stability of the potential supplier country. This entails examining political conditions, government stability, and economic indicators such as GDP growth and inflation rates. Equally significant are trade agreements and tariffs. You'll want to do an in-depth analysis to understand not only the potential impact on your import and export costs, but also the relationship between your new country and target markets. Do they have the same trade struggles as China and the United States do? Is the relationship better, and if so, in what ways?

Infrastructure & Logistics

One of the reasons China appeals to so many businesses is their strong infrastructure and supply chain. According to the China Briefing, China is the only country that possesses all the industrial categories in the United Nations industrial classification, which allows firms to source goods easily. They also have the largest network of high-speed rail and expressways in terms of mileage, which allows products to be transported efficiently.

While this will be hard to beat, it's still important that you examine the availability and quality of a "Plus One" country's infrastructure, including transportation networks, ports, roads, and utilities. Additionally, look at the country's proximity to key markets and connectivity to major trade routes, both of which can impact overall supply chain efficiency and costs.

Supplier Reputation & Financial Health

When it comes to working with new suppliers, understanding their financial health, industry reputation, and history of reliability and performance is also paramount. Ensuring supply chain resilience involves assessing their ability to navigate disruptions and maintain operations during crises. You should also consider if there's potential for a long-term relationship with your new suppliers. You'll need to look at their ability to collaborate, their technological investments, and their growth as part of making a full assessment. Taking all these factors into account, backed by an understanding of your industry and business requirements, will aid in making a well-informed decision when selecting a new supplier in a different country.

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Workforce

Employees are the backbone of every business, which means your "Plus One" country needs to be equipped with the right workforce. First, evaluate your company employment needs, including your ideal skillset. Then, evaluate each potential country's labor market by asking yourself questions like, "Is this country's workforce skilled in specific technologies?", or, "Is this country's workforce large enough to meet my business needs?". You'll also want to consider factors like education, training programs, and employment stability in your evaluations, in addition to the size and availability of the labor market.

Alternative Manufacturing and Sourcing "Plus One" Countries

Ultimately, you'll choose the "Plus One" country that best suits you and your business needs. However, we couldn't forget to mention two major plus-one players to consider. In recent months, media attention has increasingly turned towards India and Vietnam as two prominent contenders for the China Plus One strategy. Both countries have reported increased investments from American countries due to their competitive advantages, strategic geographic locations, growing economies, skilled workforces, and business-friendly policies.

India

India has been the talk of the town lately, gaining media attention and putting itself on the map as one of the most promising China Plus One destinations. The [World Bank CEO] even spoke out about the country recently, urging India to “cash in on the 'China plus one' opportunity”.

India is in a unique position, both geographically and figuratively. It is one of the only countries with a labor force and market size comparable to China, and boasts a strategically sound location as well. It also is an attractive alternative on the manufacturing front, with comparable cost-savings to China along with attractive government policies and incentives.

Most notably, India's successful electronics sector adds to its appeal, with the country’s electronics exports having tripled since 2018. In fact, J.P. Morgan estimates a quarter of all iPhones will be made in India by 2025. As a "plus one" country, India's strategic advantages, coupled with its growing economic power and market accessibility, position it as a compelling choice.

Vietnam

A recent article by the Financial Times highlights Vietnam's growing appeal for businesses aiming to reduce dependence on China, naming the country a “vital link” to supply chain. Its strategic geographic proximity to China, coupled with a skilled and cost-effective labor force, presents the perfect environment for companies looking for supply chain alternative.

According to the article, government data shows that Vietnam generated $22.4bn from foreign direct investment projects in 2022–that’s an increase of 13.5% over the previous year. And while India is honing in on electronics, Vietnam boasts rapidly growing textile and manufacturing sectors Additionally, Vietnam has made efforts to invest in its workforce education and infrastructure over the last few years, while also increasing their participation in free trade agreements.

The Future of Supply Chain and China Plus One

The China Plus One strategy will play a pivotal role in shaping the landscape of where products are made. The shift is already happening, with many automotive and electronics companies expanding their operations to India and Vietnam–as mentioned earlier in this article–as well as Mexico.

Additionally, according to PR Newswire, companies are entering a new phase of the strategy that focuses on a long-term presence in low-cost countries in Asia. This means that beyond the supply chain, many companies will be setting up local production and distribution teams in other countries to grow their global presence, reducing the reliance on China even further. Eventually, once the first few businesses set their stake in these countries, companies should have many options to choose from when looking to produce and distribute goods outside of China. And lastly, while all of the above is happening, these shifts will likely lead to debates around geopolitical dynamics, intellectual property protection, and environmental sustainability as well.

Conclusion

Businesses should always have a plan A, B, and C, and essentially, that's what implementing a China Plus One strategy can do for your company. It's an adaptable strategy that many businesses will be considering for the foreseeable future, especially as many recover from the supply chain disruptions and production bottlenecks experienced during the pandemic. However, we know that this strategy also comes with its challenges, and uprooting company operations is never an easy task. Whether you're currently for or against the strategy, businesses should at least continue to evaluate whether the China Plus One strategy is right for them, as well as keep tabs on key "Plus One" players.

The Z2Data Solution

Z2Data's integrated platform is a holistic data-driven supply chain risk management solution, bringing data intelligence for your engineering, sourcing, supply chain and compliance management, ESG strategist, and business leadership. Enabling intelligent business decisions so you can make rapid strategic decisions to manage and mitigate supply chain risk in a volatile global marketplace and build resiliency and sustainability into your operational DNA.

Our proprietary technology augmented with human and artificial Intelligence (Ai) fuels essential data, impactful analytics, and market insight in a flexible platform with built-in collaboration tools that integrates into your workflow.

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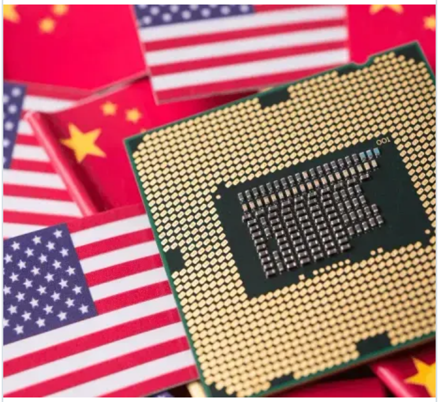

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