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MARC Insights
China +1 Policy: Marking a New Era for India's Global Manufacturing

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Table of Contents

What is the China + 1 Policy?

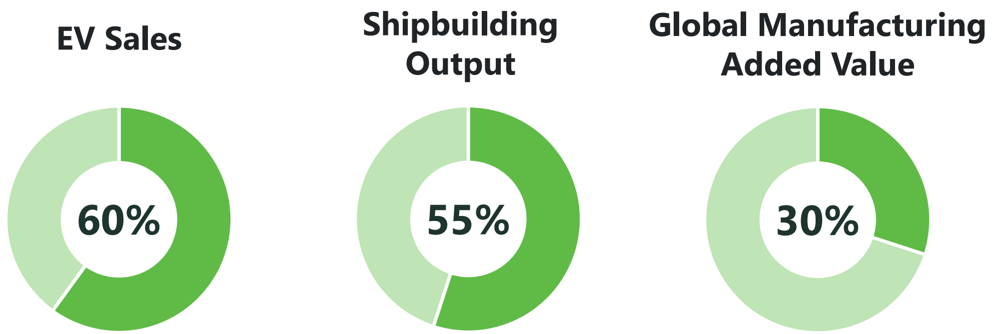
- In recent years, many companies have adopted a **China Plus One, Plus One, or C+1** strategy to build new manufacturing units outside the **People's Republic.**
- It refers to the **global trend** where companies diversify their **manufacturing and supply chains** by establishing operations in countries **other than China.**
- The China Plus One strategy does not necessarily mean companies are **moving away from China altogether**. The China Plus One strategy involves companies diversifying operations by **adding new locations** while still maintaining manufacturing or sourcing in China.
- For 30 years, **Western companies**' heavy investments in China led to **overconcentration**, risking supply chain monopolies.

Source: ClearIAS, Drishti IAS

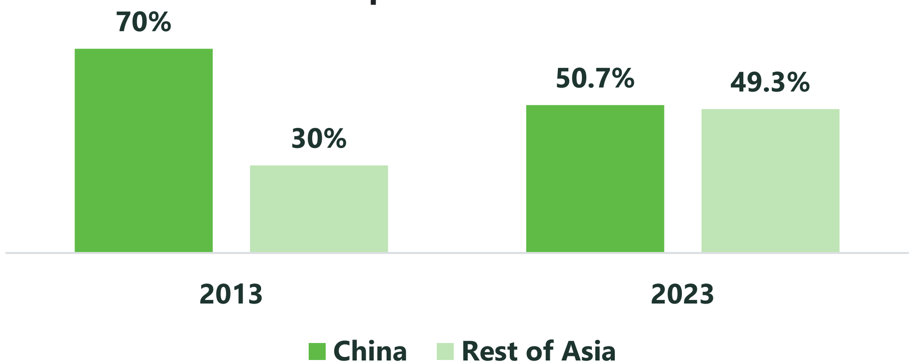
Dependence on China

High concentration of manufacturing in China exposes global industries to potential disruptions.

China's share of Global Exports in 2023



Share of US Imports for Goods From Asia



Source: Economic Times, World Economic Forum, Shield Works, China Briefing

China **exports** approximately **USD 3.68 trillion** in manufacturing goods.

China supplied **over half** of the 2023 global increase (510 kW) in **renewable energy.**

Australia and **Canada** are boosting critical mineral production for alternatives.

US and **EU** are investing in domestic **lithium-ion batteries production** to cut reliance on China.

"The world's gradual shift from reliance on China drives the China + 1 strategy to diversify operations & mitigate risk"

Reasons For Implementation

Cost Considerations

- **Rising Labor Costs:** Rising labor costs in China, with salaries doubling in the last decade, have diminished its cost advantage.
- **Higher Production Costs:** Energy, logistics, and regulatory costs have risen, making other countries more attractive for cost-effective manufacturing.

Regulatory & Compliance Pressures

- **Stringent Data Privacy Regulations:** China's new data laws, such as the Personal Information Protection Law, have increased compliance costs for foreign companies.
- **Increased Regulatory Burdens:** Complying with China's complex regulations can lead to higher operational costs and fines for non-compliance.

Risk Diversification

- **Supply Chain Disruptions:** The pandemic, lockdowns, and geopolitical issues have exposed the risks of relying solely on China.
- **Trade Tensions & Policy Uncertainty:** The US-China trade war, tariffs, and unpredictable policy changes make companies seek alternative manufacturing hubs to reduce reliance on China.

Market Access & Proximity to Customers

- **Access to New Markets:** Expanding production elsewhere provides easier access to regional markets.
- **Proximity to Customers:** Setting up production closer to key markets reduces transportation costs and lead times.

Pandemic & Geopolitical Disruptions

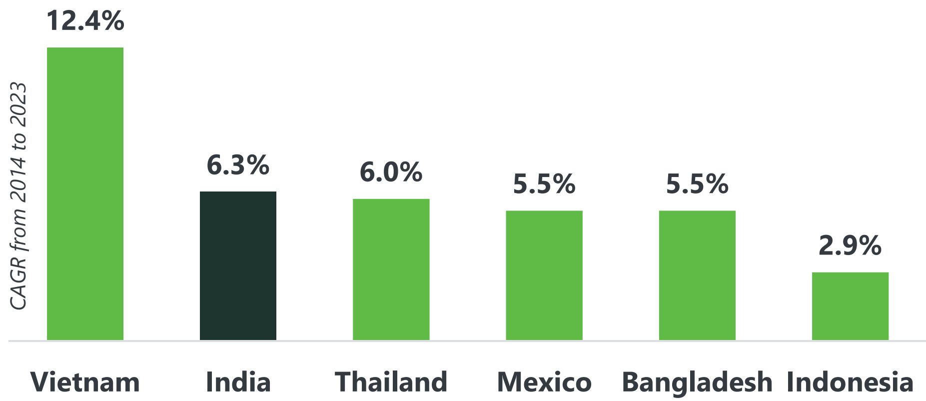
- **Covid-19 Lockdowns:** China's "Zero-Covid" policy led to supply chain disruptions and manufacturing inconsistencies, pushing companies to diversify.
- **Geopolitical Distrust:** Growing mistrust between China and the West, along with the U.S.-China trade war, has driven businesses to seek safer or more stable locations.

Source: ClearIAS, Drishti IAS, Business Standard, Z2 Data, China Briefing

Impact of China + 1 Strategy

China's dominance as the "World's Factory" **is now challenged** by the **pandemic**, **supply chain disruptions**, & **rising costs**, prompting adoption of the C + 1 strategy.

Growth of Imports by the West From C + 1 Countries



Examples of Companies Adopting C + 1

Expanded operations in Vietnam for its competitive labour costs, political stability & strategic location which attracts foreign direct investment.

Diversifying its sourcing to India, aligning with sustainability objectives while reducing dependency on China.

Unveiled plans to shift from China to Southeast Asia & India, capitalizing on cost advantages in these regions & reinforcing business resilience.

Challenges Faced During Implementation

Logistics & Supply Chain Management

- Freight capacity
- Transit times
- Supply of inbound materials

Infrastructure & Resources

- Warehouse space & services
- Labour skill & availability

Regulatory & Compliance

- Understanding of Customs processes and government regulations

Source: Drishti IAS, Arc Group, Dimerco

Market Opportunities & Considerations

The China Plus One strategy involves diversifying operations by adding new locations while still maintaining a significant manufacturing or sourcing presence in China.

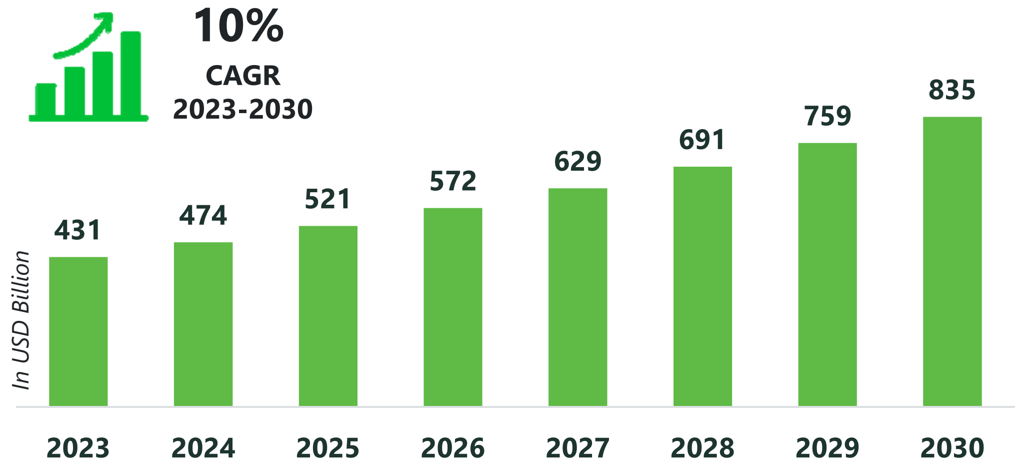
	 China	 India	 Vietnam	 Thailand	 Bangladesh	 Malaysia
GDP per Capita *(USD)*	13,140	2,730	4,620	7,810	2,650	13,310
Ease of Doing Business Index *(Rank)*	31	63	70	21	168	12
Logistics Performance Index *(2023 Rank)*	19	38	43	34	88	26
Corporate Tax Rate	25%	Domestic: 25-30% Foreign*: 40%	20%	20%	25-30%	24%

Source: World Bank, IMF, World Bank, PwC, Orbitax

**Foreign companies having PE in India*

Opportunity For India

It is estimated that the China + 1 strategy should **raise India's exports** from **USD 431 billion** in 2023 to **USD 835 billion** by 2030 at a **CAGR of 10%.**



1.3 *Bn population* — Large & growing consumer base

47% *Lower than China* — Average manufacturing wage

12-17% *Potential earnings growth* — Medium-term growth from corporate CAPEX boost

India offers a large, **skilled workforce** in key sectors like IT & engineering.

Infrastructure investments are enhancing supply chain efficiency & lowering costs.

Government incentives **promote FDI & domestic manufacturing** through tax benefits & subsidies.

India's strategic location allows businesses **access to South Asia & Middle Eastern markets.**

A **strong entrepreneurial ecosystem** supports innovation and collaboration across industries.

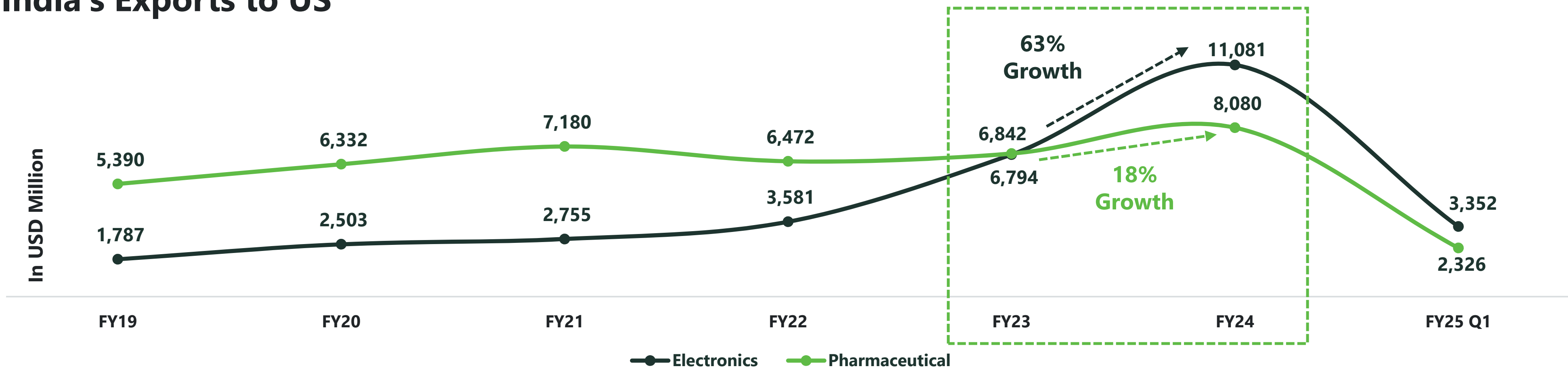
"India's strategic advantages and market growth make it a compelling "plus one" choice."

Source: Drishtii IAS, Fortune India, ClearIAS

Sectoral Opportunities in India

India has already begun witnessing the effects of **disinvestment in China**, along with an **increase in exports** to the USA in recent years in sectors such as **Electronics and Pharmaceutical.**

India's Exports to US



- To benefit from the China Plus One strategy, the PLI* scheme boosted India's manufacturing by offering incentives based on production and sales growth. It attracted significant foreign investment in electronics and pharmaceuticals.
- To position India as a global EMS hub and reduce reliance on China, the government approved a **US$10 billion outlay** with incentives for semiconductor and display manufacturing.

Other Sectors to Benefit

*Source: Tradestat, Moneycontrol *Production linked incentive*

Case Studies

Samsung Electronics Co., Ltd, has reduced its reliance on Chinese manufacturing by shifting focus to countries like India and Vietnam, where labor costs are lower and conditions are more favorable. In 2019, it closed its last smartphone plant in China, facing competition from local brands and rising costs.

It has been focusing on make in India, make for India and invested **INR 4,915 crore** to add new capacity at the **Noida plant**, under the Uttar Pradesh government's Mega Policy. With this Samsung now has its second biggest manufacturing facility in the world at Noida. Such a large facility will help Samsung cater to the huge demand in a country of 1.3 billion people where there are only 425 million smartphone users.

Apple Inc, relied on its main supplier to produce 500,000 phones per day at a mega-factory in China. However, COVID-19 lockdowns and protests over working conditions caused major disruptions last year, costing Apple an estimated $1 billion per week. In response, Apple has urged its manufacturing partners to diversify outside China.

Foxconn, Apple's primary supplier, has been shifting production to India, which now accounts for **10% of iPhone production.** J.P. Morgan analysts estimate that by 2025, Apple could produce **25%** of its products outside China, with **India being a key location.**

Conclusion

India’s Demographic & Consumption Power

- With **28.4%** of its population **under 30** in 2023, India provides a dynamic labor force, making it ideal for scalable production.
- **GDP per capita** growth of **6.9%** between 2018 and 2023 drives strong domestic demand, positioning India as both a manufacturing hub and a key consumer market for global companies.

Cost Competitiveness & Infrastructure Development

- With wages **47% lower** than China’s, India offers global companies a significant cost advantage in production.
- The National Infrastructure Pipeline (NIP) targets a **20% reduction** in logistics costs, boosting supply chain efficiency and making India an attractive alternative for manufacturing.

Sector-Specific Growth Opportunities

- US electronics exports grew by **63%** (FY23-FY24), and pharmaceuticals by **18%**, driven by the PLI scheme, which incentivizes sectoral production growth.
- A USD 10 billion outlay in semiconductors and display manufacturing, along with growth in 5G, chemicals, home improvement, and plastic fittings, strengthens India’s position as a diversified manufacturing hub.

Strategic Partnerships and Policy Initiatives

- Trade deals like the **CEPA*** with the UAE are projected to increase bilateral trade by **200%** from 2024 to 2029.
- The **PLI scheme** and **relaxed FDI norms** create a favorable business environment, attracting long-term foreign investment.

Enhancing India's Competitiveness Against Vietnam in the China Plus One Strategy

Improve the Business Environment

- **Reduce Tax Burden:** Vietnam's corporate tax is **20%;** India’s average is **35%.** India should lower corporate taxes and simplify the tax structure.
- **Streamline Regulations:** Vietnam's pro-business policies foster investment. India must reduce bureaucratic hurdles to attract foreign companies.

Strengthen the Manufacturing Ecosystem

- **Invest in Infrastructure:** Vietnam's efficient logistics lower costs. India needs significant investment in infrastructure—roads, ports, and power supply—to improve efficiency.
- **Focus on Skill Development:** Vietnam emphasizes vocational training. India should enhance vocational education and collaborate with industries to align skills with market needs.

Source: *Drishti IAS*, *Clear IAS*, *Tradestat*, *Moneycontrol* *Comprehensive Economic Partnership Agreement

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