



"China Plus 1" Strategy: Simple Idea, Hard Goal

For years, China had played a key role in the global supply chain and has earned the reputation as "The World's Factory". As the total cost of production and trade tension increases, the "China Plus 1" strategy (or "Plus 1") has gained interest and discussion, a strategy to avoid investing only in China and diversify a company's global operation to lower risk.

Over the years, the Plus 1 concept has further developed. Here are some findings and comments on this strategy.

More European Manufacturers Are Moving Their Supply Chains into China Rather Than Moving Out

Source: [*The European Union Chamber of Commerce in China*](#)

European Chamber released "A Business Confidence Survey 2021" in June 2021 – and annual survey of 585 European Chamber members. The following are key highlights related to China Supply Chains:

- In a separate February 2020 joint survey of European and German chamber members in China, half of the respondents reported expected year-on-year decrease in revenue, with a paltry 0.5% expecting any increase. Companies spoke extensively of making their global supply chains resilient and diversifying into other markets.

CCA Newsletter July 2021

The CCA Newsletter is summary of articles about the Asia Business environment that is published monthly. This month's topic is "China Plus 1".

Takeaways

- "China Plus 1" Strategy: is obtaining alternatives outside China to release costs and labor pressures.
- The supply chain infrastructure in China is well developed and it may be too risky to relocate in the near term.
- Some enterprises are moving a portion of production/sourcing outside of China to tackle tax and tariff issues and maintaining portions serving China in China.
- Higher costs and lower quality in other countries have created hesitation for investors from moving their facilities out of China.
- "In China for China" seems to be a realistic option for some manufacturing groups.
- China is still the top investment destination for many companies.
- No. of companies moving into China is still higher than outside of China.

- Contrary to those expectations, 42% of the respondents are planning to adjust in some way. 25% of manufacturers intend to further maintain at least some of their supply chains in China and 4% intend to fully source in China. One in 10 are diversifying future investments into other markets but will leave their operations in China untouched. Finally, of respondents engaged in production, 4% intend to shift current investment out of China and 1% intend to fully divest. In other words, five times as many companies are moving into or maintaining sourcing/operations in China as there are moving outside of China.
- The European business community has steadily come to the conclusion that a company cannot be globally competitive without a strong presence in China. According to the European Chamber's joint report with the Mercator Institute for China Studies (MERICS) on decoupling, if the US and China continue the path of trade conflicts and technological divergence, it will be imperative that exposure be minimized. For many European companies in China, this means a China presence will be critical.

94% of American Companies Still Remain in China

Source: [The American Chamber of Commerce in South China](#)

In the 2021 White Paper on the Business Environment in China and the 2021 Special Report on the State of Business in South China conducted by The American Chamber of Commerce in South China, they highlighted that:

- 94% of American companies see a bright future in China's market.
- None of the companies surveyed showed willingness to leave China completely. China remains a top investment destination by more than half of the studied companies despite its decreasing attraction as a manufacturing base.



European Chamber A Business Confidence Survey 2021 Results

- 9% considered shifting some investments out of China
- <1% plan to fully divest out of China
- 26% are moving suppliers in China
- 26% of JV's increased their shares and half want to increase shares in future
- 34% use equipment and components that have no viable alternatives to China suppliers
- 13% report China alternatives are higher costs
- 27% report China alternatives are lower quality
- 15% reports China alternatives have compatibility issues

"China do encounter some impacts from the China Plus 1 strategy, but the status of The World's Factory is not in a threat."

~Lianhe Zaobao, a Singapore Chinese Newspaper June 13, 2021

Keep Production sites "in China for China"

Source: [Foreigners rush inside the Great Wall/ The Economist](#)

In "Foreigners rush inside the Great Wall" of Economist (dated June 21, 2021), the author mentions:

- Foreign firms pledged to build more resilient supply chains by diversifying into other countries, while noting that they would keep production sites "in China for China", to serve Chinese demand when it returned.
- Diversification does not make economic sense, it turns out. But politically the world is decoupling. That shock will have lasting effects.

A matured and efficient Supply Chain is not easy duplicated in short-run

Source: ["中国+1"难行 世界工厂地位难撼/ 联合早报 \(Lianhe Zaobao\)](#)

- Shifting Part of Production to other countries is a significant engineering project to implement.
- Some enterprises have launched Plus 1 projects because of Tax and Tariff benefits in neighboring countries and have maintained parts of its business serving China in China.
- There have been other companies that have been planning supply chain relocation for years but still have concerns and hesitation for project kick off.
- Changing supply chains to other countries is not just moving the production facilities but the sub-supply chains ecology.
- It's not easy to relocate your supply chain when you are in a well-developed supply chain network. For example, manufacturers in Jiangsu or Dongguan area have 2nd and 3rd tier suppliers (or sub suppliers) within a few kilometers radius to support their customers.
- Most of scholars and people from the industries believe that China do encounter some impacts from the China Plus 1 strategy, but the status of The World's Factory is not in a threat.

About China Centric Associates

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