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# Prospects of India as China +1

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## ABSTRACT

*The term "China Plus One" refers to a business strategy used by organisations, particularly multinational firms, to diversify their supply chain and production activities by include a different manufacturing or sourcing location in addition to China. This strategy gained popularity in reaction to a number of causes, such as the need to reduce the risks brought on by an overreliance on a single production base, rising costs in China, and geopolitical unpredictability. India presents itself as a desirable alternative location as multinational companies (MNCs) and enterprises try to diversify their production and sourcing activities away from China.*

**Keywords:** *China plus one, multinational corporations, businesses, India.*

## I. INTRODUCTION

China Plus One, also referred to as Plus One or C+1, is a business strategy that aims to diversify investments away from China and into other nations, or to direct investments into manufacturing in other promising developing economies like India, Thailand, or Vietnam, which has the fastest growing major economy in the world and the second-largest population. Western businesses have invested heavily in China over the past 20 years, attracted by the country's low production costs and sizable domestic consumer markets. It may be done for reasons of cost, safety, or long-term stability and results from the overconcentration of commercial interests in China. Additionally, it has been called a "macro-level phenomenon."

## II. REASONS FOR THE RISE OF CHINA+1 STRATEGY

The following are the main causes behind the development of the China Plus One strategy:

1. **Cost factors:** Due to rising labour and production costs in China, some sectors are finding it less appealing to continue manufacturing there exclusively. In search of cost-effective solutions, businesses frequently explore for alternate places with cheaper labour.
2. **Risk diversification:** Relying too much on one manufacturing location can expose businesses to risks including supply chain interruptions, trade conflicts, and policy

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changes, particularly in an economically and politically unstable nation like China.

3. Access to new markets: Setting up production facilities in another nation might give businesses better access to regional markets and possibly lower trade restrictions or tariffs.
4. Proximity to customers: By locating manufacturing facilities closer to target markets, businesses can respond to client requests more quickly and at lower cost.
5. Talent pool and innovation: To promote innovation and enhance product development, certain businesses may want to draw on the technological prowess and skilled labour force of other nations.
6. New business challenges must also be overcome. For instance, international technology companies have been leaving or limiting their presence in mainland China as a result of a strict data privacy legislation that prescribes how they must gather and maintain data.

The adoption of the China Plus One strategy does not imply that businesses are leaving China entirely. Instead, they are expanding their business and establishing themselves in new cities while continuing to source or manufacture their products in China. Other Southeast Asian nations including Vietnam, Thailand, Malaysia, and Indonesia are popular choices for businesses following the China Plus One approach because they provide cheaper labour costs and alluring investment incentives. As businesses look to expand outside of China, there has been a rise in foreign direct investment (FDI) in these nations.

### **III. OPPORTUNITIES FOR INDIA**

The competition to become the +1 in the China+1 contest is currently in full swing due to the gradually increasing tensions between the United States and China. Southeast Asian nations, including Vietnam, Indonesia, Thailand, Malaysia, the Philippines, and Cambodia, as well as South Asian nations, primarily India and Bangladesh, compete in the big league.

Japan, South Korea, Taiwan, and Singapore have also occasionally hosted China+1, although due to their high salaries, they are not major league competitors. India has an advantage over other major league players for at least four factors.

- 1) To begin with, it employs the vast majority of people. According to the UN Population Division, India's working-age population (those between the ages of 15 and 64) will total 950.2 million in 2021. For all of Southeast Asia, the equivalent number was 456.6 million. It's expected that the difference would widen over time. In contrast to India, which would gain 152 million people of working age between 2021 and 2040, Southeast

Asia would only add 50.8 million.

- 2) India has a second benefit that is closely related: it pays less because of its larger workforce and lower per capita income. This wage advantage will last for many years since up to 45% of the labour force is still employed in agriculture and because the working-age population is expected to increase more than in Southeast Asia.
- 3) The third benefit of India is that its internal market is a single market. This indicates that there are no obstacles preventing the free flow of goods and services inside it. It is possible for components made in various parts of the nation to transit freely to regions where they are required.

Despite having a free trade agreement, the nations of Southeast Asia are nonetheless divided by their own borders. Products must adhere to the free trade area (FTA) agreement's rules of origin in order to cross the border duty-free. Another argument would be that India's infrastructure needs to catch up. However, it is quickly catching up to the other nations.

- 4) India's sizable domestic market ranks as the final benefit. With a GDP of \$3.4 trillion in 2022, India would already have a GDP that is much higher than Southeast Asia's \$3 trillion, excluding Singapore, which is part of Southeast Asia but is not a China+1 competitor. More importantly, it is expected that India will continue to grow more quickly than Southeast Asia for a very long time. Southeast Asia is not a single, open market either.

These are significant advantages India has over competing nations. The Indian economy is expected to grow at a strong 6.6% in FY24, according to the World Bank, despite the world being in a recession and several economies experiencing negative growth. As per the International Monetary Fund, United Nations and World Bank, India is better positioned to navigate global headwinds than other major emerging economies. India is a true bright spot in the middle of a global downturn. India has a committed, well-trained Central Indian Security Force (CISF) that offers round-the-clock security to its major industries. The CISF also plays a critical role in national security and has been deployed across all of the major airports, atomic energy stations, sea ports, space installations, thermal power plants, defence production units, coal fields, important government buildings, and Metro systems throughout the nation. With time, the significance of these benefits will only increase.

But India also has a significant drawback. Southeast Asian nations are a part of the Regional and Comprehensive Economic Partnership (RCEP), which also covers nearly all of East Asia, Australia, and New Zealand. Since the existing supply chains are predominately located in

China, China's inclusion in RCEP gives them a significant advantage. Also one-sixth of the global GDP is represented by the Comprehensive Progressive Trans-Pacific Partnership (CPTPP), which includes Malaysia and Thailand. Members of the CPTPP include the Americas' Chile, Mexico, Peru, and Canada.

Absence of India from these two large free trade area arrangements in Asia is a major handicap especially when considered in conjunction with its significantly higher tariffs on most products. Even setting aside the China+1 race, India's limited engagement with Asia is a cause for concern. With three of the five largest economies of the world already in Asia, the economic centre of gravity of the global economy is now in this region. India needs deeper engagement with it.

During his early years in office, PM Modi had given a major boost to India's engagement with Asia by upgrading its "Look East" policy to "Act East". But the momentum generated in those years has suffered, especially since the deterioration of our relationship with China. But this deterioration in our relations should serve as even more of an incentive for us to build closer relationships with the rest of Asia.

We are unlikely to think about RCEP membership given that China is a participant in it. This only leaves the Association of Southeast Asian Nations (ASEAN) and applying for membership in the CPTPP as the two primary routes for deepening engagement with Asia.

It is sad that we automatically rejected signing up for CPTPP without giving it more thought. Whatever the potential price of giving in on non-trade-related parts of this deal, it urgently needs greater examination.

We would also encounter RCEP-like circumstances if we waited until China, who already has a membership application pending with the grouping, was admitted. Being the second largest economy in Asia and the third largest economy overall while remaining outside of both of the region's major free trade blocs cannot be in our best interests.

In order to achieve our goal of becoming a developed nation by 2047, we must have the guts to reform our legal and regulatory frameworks. We may have the chance to do this by joining CPTPP with a 20-year implementation time established as part of the agreement. At the same time, having duty-free access to this sizable market will undoubtedly elevate us to the top China+1 destination.

#### **IV. WAY FORWARD**

Beijing's Zero-Covid policy, the ensuing supply chain disruptions, and the protracted lead times

from China ultimately helped many global firms to favour the China-Plus-One strategy. The EU, Mexico, Taiwan, and Vietnam have emerged as the clear winners of the China plus one model in areas like machinery, automobiles, transportation, and electrical equipment.

Having said that, in India, the NITI Aayog has launched a number of efforts on blockchain applications in e-governance and has named the technology stack "IndiaChain." The ambitious initiative to create a national blockchain network is known as IndiaChain and is led by Niti Aayog.

IndiaStack, the digital infrastructure that serves as the foundation of the Aadhaar project, will be connected to IndiaChain in the long term. With the support of the NITI Aayog's blockchain effort, contracts will be enforced more quickly, fraudulent transactions will be stopped, and farmers would benefit from the prompt payment of subsidies. This initiative serves as the foundation for a more extensive system of record keeping and public good distribution. The Indian government has a number of revolutionary flagship initiatives designed to completely reshape India, including Startup India, Skill India, Stand-Up India, and the Swachh Bharat Mission.

For negotiating the challenges and grabbing chances in India, extensive market research, local alliances, and a long-term outlook are necessary. Businesses intending to expand into India must do in-depth market research and understand the unique opportunities and dangers associated with each industry and region.

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