India Lags In Leveraging China+1 Strategy

For Prelims: China Plus One Strategy, **PLI (Production Linked Incentive)**, **Inflation**, **GDP**, **India's trade agreements**, **GST**, **Foreign Direct Investment (FDI)**.

For Mains: Opportunities and Challenges for India in Leveraging China+1 strategy, Steps taken by India present itself as an alternative to China.

Source: IE

Why in News?

The recently released **NITI Aayog's** **Trade Watch report** highlights India's trade prospects, challenges, and growth potential, especially in light of the **US-China trade conflict** and the **'China Plus One' strategy**.

- It stated that India has had **"limited success so far"** in capitalizing on the 'China Plus One' strategy adopted by multinational companies to diversify and de-risk their supply chains.

Why Has India Seen "Limited Success" in China+1 Strategy?

- **Competitive Disadvantages and Regulatory Challenges:**
    - Countries like **Vietnam, Thailand, Cambodia, and Malaysia** have leveraged **cheaper labor, simplified tax laws, and lower tariffs** to attract multinational corporations looking to diversify away from China.
    - India's **complex regulations, bureaucratic hurdles, inconsistent policies** and **higher labor costs** deter investment, with slow administration and unpredictable reforms reducing business competitiveness.
        - Additionally, **corruption** has eroded investor confidence, increased transaction costs, and undermined India's appeal as an investment destination, despite ongoing anti-corruption efforts.
- **Free Trade Agreements (FTAs):**
    - South-Asian countries like **Vietnam, Thailand, Cambodia, and Malaysia** have been **more proactive in signing Free Trade Agreements (FTAs),** which has **helped them expand their export shares**.
    - India's slower pace in negotiating and finalizing FTAs has put it at a disadvantage.
- **Geopolitical Tensions and Limited Market Share:**
    - **India's limited share in global trade** (less than 1% in 70% of global trade) highlights **untapped potential.**
    - While geopolitical tensions, like the **US-China trade conflict,** offer opportunities for India to emerge as a **neutral alternative**, they also **create uncertainty, complicating trade strategies** and **hindering market expansion.**
- **Supply Chain Disruptions:**
    - US export controls and tariffs on China have **fragmented supply chains**, offering India an opportunity. However, **poor infrastructure, inefficient ports,** and **high logistics**

costs have limited India's ability to attract foreign investment.
- **Carbon Tax Risks and Land Acquisition Issues:**
  - The EU's **Carbon Border Adjustment Mechanism (CBAM)** risks raising costs for India's iron and steel exports, reducing competitiveness.
  - Additionally, India's c**omplex tax regime and slow land acquisition processes** increase business costs, delaying industrial projects and hindering growth.

What is the 'China Plus One' Strategy?

- **About:**
  - The **China Plus One (or China+1) strategy** refers to the **global trend of companies diversifying their manufacturing and supply chains** by setting up operations in **countries beyond China**.
  - This strategy aims to r**educe risks from over-dependence on a single country**, particularly due to geopolitical tensions and supply chain disruptions.
- **Background of China+1 Strategy:**
  - **China as "World's Factory":**
    - For decades, China has been the hub of global supply chains, earning the title of "World's Factory" due to its **favorable production factors** and **strong business ecosystem.**
    - In the 1990s, companies from the **US and Europe** shifted production to China, attracted by **low manufacturing costs** and **access to its large domestic market.**
  - **Disruptions During the Pandemic:**
    - However, the **Covid-19** pandemic caused significant disruptions, with **China's zero-Covid policy** leading to industrial lockdowns, **inconsistent supply chain** performance, and container shortages.
  - **Evolution of the China+1 Strategy:**
    - The confluence of factors, including China's zero-Covid policy, supply chain disruptions, high freight rates, and longer lead times, has led many global companies to adopt a "China-Plus-One" strategy.
      - This involves relocating manufacturing to alternative countries such as India, Vietnam, Thailand, Bangladesh, and Malaysia to mitigate dependency on China.

What are the Key Growth Drivers for India under the China+1 Strategy?

- **Large Domestic Market and Demographic Advantage:**
  - India's **1.3 billion population,** with a **youthful demographic** and **rising incomes,** creates a growing consumer base and a strong workforce.
  - With India's **real GDP** is projected to grow between **6.5-7%** in 2024-25 and **around half of the population under 30**, India is poised for **sustained economic growth,** positioning it as a key driver of global trade and an attractive investment destination.
- **Cost Competitiveness and Infrastructure Advantage:**
  - India's production sector benefits from **lower labour and capital costs** compared to competitors like Vietnam, with **manufacturing wages 47% lower than China's**.
  - The government's infrastructure initiatives, such as the **National Infrastructure Pipeline (NIP)**, aim to **reduce manufacturing costs and improve logistics by 20%**, enhancing India's global competitiveness.
- **Business Environment and Policy Initiatives:**
  - Recent reforms, including the **Production Linked Incentive (PLI) scheme,** **tax changes**, and relaxed **FDI norms**, have improved India's business climate.
  - The **Make in India** initiative and simplified business processes further attract foreign investments through incentives for global companies.
- **Strategic Economic Partnerships:**

    - India’s focus on strategic partnerships, such as the **India-UAE Comprehensive Economic Partnership Agreement (CEPA)**, enhances its global trade position. These agreements are projected to **boost bilateral trade** by **200% in five years,** opening new markets while **reducing dependence on any single economy**.
- **Dynamic Diplomacy and Global Influence:**
    - India’s active role in forums like **QUAD, I2U2, G20,** and **Shanghai Cooperation Organisation** strengthens its diplomatic and economic ties. By leading global discussions, India influences **trade trends, attracts investments, and facilitates technology transfer** and **financial cooperation.**

Potential Indian Sector Having Advantage Under the China+1 Strategy

- **Pharmaceuticals:** With a valuation of Rs 3.5 lakh crore in 2024, India is the world's **third-largest pharmaceutical producer**, supplying **70%** of WHO’s vaccine needs and offering **33% lower manufacturing costs** than the US.
- **Metals and Steel:** India’s **natural resource wealth** and the **PLI scheme** for specialty **steel**, expected to draw Rs 40,000 crore by 2029, strengthen its position as a major steel exporter, further boosted by China's export policy changes.
- **Information Technology (IT/ITeS):** India is a key player in **IT services exports,** supported by initiatives like **"Make in India"** and a focus on manufacturing IT hardware, attracting global technology firms.

Way Forward

- **Structural Reforms**: **Streamline regulations, improve ease of doing business**, and **enhance logistics efficiency** to **reduce the high costs of** road transport, which currently handles 60% of freight.
    - Adopt strategies used by countries like **Vietnam and Malaysia,** such as offering **cheaper labor, simplified tax laws,** and **redistributed land for industrial development.**
- **Specialized Industrial Clusters:** Develop dedicated manufacturing hubs with world-class infrastructure, **plug-and-play facilities,** and shared services to enhance sectoral competitiveness.
- **Skill Development**: Strengthen **vocational training, promote STEM education**, and **upskill the workforce** to meet the demands of high-tech manufacturing.
- **Sectoral Manufacturing Boost:** Provide **long-term tax incentives and support growth** in emerging sectors like **mobile phones and defense,** while leveraging strengths in t**extiles, leather, auto components, and pharmaceuticals.**

Conclusion

India's journey to capture the 'China Plus One' opportunity has been marked by challenges, including competitive disadvantages, regulatory hurdles, and sector-specific issues. However, with strategic investments in infrastructure, regulatory reforms, and a focus on innovation, India can position itself as a viable alternative in the global supply chain landscape. The potential for economic growth is significant, but it requires proactive measures to turn challenges into opportunities.

Drishti Mains Questions:

What is the 'China Plus One' strategy, and what are the opportunities and challenges it presents for India?

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims

Q. What is the importance of developing Chabahar Port by India? (2017)

(a) India’s trade with African countries will increase enormously.
(b) India’s relations with oil-producing Arab countries will be strengthened.
(c) India will not depend on Pakistan for access to Afghanistan and Central Asia.
(d) Pakistan will facilitate and protect the installation of a gas pipeline between Iraq and India.

Ans: (c)

Mains

Q. A number of outside powers have entrenched themselves in Central Asia, which is a zone of interest to India. Discuss the implications, in this context, of India’s joining the Ashgabat Agreement. **(2018)**