By Nicholas Blank

China Plus 10? In the Wake of COVID-19, Manufacturers Will Face an Ever More Diffuse World

Within the lexicon of global business, few expressions have gained as much currency in recent years as "China Plus One." Often employed as a catch-all distillation of the tectonic shifts occurring in global manufacturing, the term fares less well as a one-size-fits-all prescription for multinational companies seeking to diversify their production bases. China's role in this formulation is clear; less evident is which nation (or set of nations) will replace the Middle Kingdom. While economic factors—principally the rising cost of labor in China—have, for years, spurred the migration of manufacturing southward to markets including Vietnam and Thailand, as well as to markets further afield, the epochal disruption unleashed by COVID-19 has added new dimensions to the problem of how to best reconfigure supply chains to guard against risks, both anticipated and unforeseen.

"China Plus One" was reportedly conceived in 2003, in the wake of the last great epidemic to befall Asia, the outbreak of SARS. Origination of the concept is credited to Japanese manufacturers, who, perhaps more so than other international investors, are all too familiar with the risks of over-reliance on Chinese manufacturing. On more than a few occasions, Japanese businesses have found themselves to be targets of government-instigated anti-Japanese riots and collateral damage in diplomatic spats between China and Japan over territorial claims.

Throughout the 2010s, "China Plus One" became a common expression used by corporations of all stripes to describe their "China risk" mitigation strategy. While the preponderance of their production remained in China, foreign companies began investing in new plants and forging supplier relationships in Southeast Asia. The US-China trade war of 2019 increased the urgency to implement and expand "China Plus One" plans. Many began to envision a future where production in China focused solely on supplying the domestic Chinese market. The companies would expand their supply chains in Southeast Asia, India, and new emerging economies in Africa, while reserving a slice of technology-intensive manufacturing for China's comparatively high-value production capacity. Benefiting from a trade détente with the US, China would continue to serve as a central artery of global supply, and business would carry on.

Such idealism was rooted in expectations that predate the deleterious impact of the COVID-19 crisis on global commerce. "China Plus One" will now likely be implemented in a far different way, and for entirely new reasons, with vastly different consequences for China and the rest of the world. The fall–out from COVID–19 is already revealing itself to be much more severe, precipitating an overdue reckoning with China's domineering influence over the global supply chain. Failing to address structural risks inherent to global supply chains jeopardizes the safety and survivability of multinational corporations in their home markets.

When the post–COVID–19 enterprise risk guidelines are written, they will likely include contingency plans for the rapid shut down of a supply chain passing through any country host to a public health crisis that threatens to spill over into other jurisdictions. The greatest COVID–19 lesson will be: Overexposure to a single country can create an existential threat to integrated supply chains and, potentially, to the entire global community. To mitigate this, companies will need to pay higher salaries to develop manufacturing bases in jurisdictions with orderly markets and strong reputations for transparency. In contrast, countries with weak public health systems, or worse, those that censor crucial health and safety information, will find it difficult to attract pre–COVID–19 levels of investment.

In a globalized world, isolating and temporarily cutting–off a country will require substantial political and economic capital, but not doing so carries the heavier risk of enabling a global catastrophe. Companies themselves may face calls to assume more responsibility. In early 2019, the South Korean government introduced an amendment to the Occupational Safety and Health Act to expand the liability of employers who fail to protect employee health and safety. Should they proliferate in the wake of the COVID–19 pandemic, similar guidelines might greatly influence where a company establishes its supply chains.

Our collective experience in 2020 demonstrates that it is possible to "shut down" an economy and temporarily remove it from the global supply chain. This requires a halt to customs clearance, business travel, retail sales, manufacturing, and routine office work. Any country with a domestic health crisis would be blocked off from unaffected jurisdictions and given time to focus on stopping the spread of the crisis. Non–affected areas of the world economy should continue operating as normal, thereby guaranteeing adequate supply of food and medical supplies and, crucially, averting a global depression.

Companies are already familiar with the concept of "Net Zero," balancing emissions produced with emissions taken out of the atmosphere. Post COVID–19, companies will likely consider a "Country Net Zero" strategy for manufacturing capacity—balancing the ability to drastically decrease manufacturing and supply from one jurisdiction while making compensating increases in other jurisdictions. As one executive at a large multinational manufacturer noted recently, "We already have plants in Brazil, Thailand, and Eastern Europe. It's not a matter of finding new bases of manufacturing to replace or complement China. Rather, we need to revamp production lines in those countries to make them more resilient to shocks coming from other areas."

A more equitable distribution of supply chain risk between China and the world will benefit everyone. Manufacturers, who will reap the rewards of production facilities positioned closer to local markets, may foster innovations such as crowd–sourcing product ideas better tailored to specific geographic regions. These changes need not challenge China's position as the world's second largest economy. Indeed, given China's deep pool of human talent, companies will undoubtedly continue to build R&D facilities there, as well as to use it as a test market for the latest consumer trends and high–end technology developments.

"China Plus One" will hardly become "China Plus 100," but it is likely that in the post–COVID era, companies will make significant strides in developing "China Plus" strategies with more equal weighting among several production and supply bases. In an age of crumbling economic and political standards, businesses will be forced to embrace diffusion, rather than continuing to rely on elongated supply chains with China at their head.

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