Research note

Driving factors of China Plus One

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May 2025

Institute of Strategic & International Studies (ISIS) Malaysia

ISIS Malaysia

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Foreword

Over the last two decades, the world order has been reshaped by great-power rivalry, technological advancements and the fragmentation of global institutions. We are now witnessing a period of interregnum, with geo-economics emerging as the primary arena where power is exercised, contested and recalibrated. The chip war exemplifies this struggle, as major powers vie for supremacy in technological innovation and control of critical supply chains.

Amid this competition, global supply chains are undergoing major reconfiguration. For decades, China's role as the world's factory has anchored global manufacturing. Its scale, efficiency and integration into international supply chains have been unparalleled. Yet, the tide is turning.

American trade measures – whether through the chip war or the recent "Liberation Day" tariffs – have added to uncertainty surrounding geopolitics and the global economy. This has given rise to the China Plus One strategy, which urges countries and corporations to reduce their dependence on China. It reflects a broader strategic effort to reconfigure technological dependencies and economic linkages.

In this evolving landscape, Malaysia has emerged as a key beneficiary, particularly in the semiconductor sector. Boasting more than five decades of industry experience and a steadfast commitment to a non-aligned foreign policy, Malaysia is well positioned to play a pivotal role in the global semiconductor supply chain.

By examining the interplay of great-power rivalry, technological innovation and strategic economic diversification, we hope to provide policymakers, industry leaders and scholars with valuable insights to navigate this critical juncture. As nations and corporations increasingly adopt China Plus One strategies to diversify supply chains, Malaysia must act decisively to secure its status as a hub within the global value chain.

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Executive summary

- China Plus One is a strategy driven by corporations to diversify their operations by expanding manufacturing or sourcing in pursuit of alternative supply chains while maintaining a presence in China. By looking beyond China, this strategy aims to mitigate risks associated with full dependence on the country's market or supply chain in the context of rising geopolitical tensions and uncertainty.

- While major-power rivalry is a key driver of China Plus One, China's internal problems have also contributed to supply chain shifts. These include rising labour costs, economic slowdown, ambiguous regulatory frameworks, stringent zero-Covid policies and cross-strait tensions.

- Key beneficiaries of China Plus One are India, Vietnam and Malaysia, especially in the semiconductor sector. While India and Vietnam are trying to establish themselves as players in the global semiconductor supply chain, Malaysia has a mature industry boasting more than five decades of manufacturing experience.

- The trajectory of China Plus One remains uncertain as evolving trade policies coming out of Washington continue to influence the global economic landscape. Nevertheless, the underlying need for diversification is pertinent and Malaysia continues to present itself as an attractive option, given its strategic non-alignment and experience in the semiconductor sector.

1 Introduction

Persisting geoeconomic tensions, escalating trade disputes and supply chain disruptions have prompted businesses to reassess the structure and resilience of their global operations, particularly their dependence on China. This has given rise to terms such as "decoupling" and "de-risking", whereby countries and corporations seek to strategically reduce their exposure to China. While China remains a critical node to global supply chains as the world's second largest economy, pressure to diversify is mounting.

In response, some companies have pivoted towards an "In China, For China" model, tailoring operations to meet the needs of the Chinese market while limiting vulnerability to external shocks. Others have begun pursuing a China Plus One (C+1) strategy. This research note examines the driving factors behind C+1, identifies key actors and beneficiaries, and the implications of US trade restrictions on this strategy.

1.1 What is China Plus One?

C+1 entails "diversifying manufacturing or sourcing operations by maintaining a presence in China while simultaneously expanding into other countries to mitigate risks associated with full dependence on China's market or supply chain."[1] Hence, it is primarily driven by corporations and relates to supply chain shifts, with governments and policies playing an influencing, not central, factor.

C+1 does not mean uprooting from China completely, as this is unfeasible for most foreign businesses. China's manufacturing ecosystem is unparalleled, with complete supply chains, developed logistical infrastructure, low cost and high value. This can't be easily replicated elsewhere and any kind of supply chain shifts will be gradual. However, C+1 may lead businesses to look beyond China as alternative sources while maintaining or possibly decreasing production capacity within the country. The aim of C+1 is to insulate business operations in China from rising tensions and potential risks while remaining competitive.

C+1 is often confused with other supply chain shift terms, such as decoupling and de-risking. Table 1 offers a brief description of each strategy.

Table 1: Brief description of supply chain shift terminology

Decoupling	Bifurcation of the two largest economies – US and China – towards complete economic disentanglement.[2]
De-risking	Attempt to reduce exposure to the Chinese market to minimise risk and vulnerability to shocks. China Plus One is a de-risking strategy.
China Plus One	One approach of de-risking, best understood as an expansion of business operations beyond China in pursuit of alternative supply chains.

1.2 What are the factors driving China Plus One?

While major-power rivalry is often perceived as the key motivator for a C+1 strategy, other factors such as China's internal economic problems, ambiguous regulatory frameworks and overdependence have played a role as well.

1.2.1 China's internal economic problems

Sluggish domestic demand, persistent overcapacity, rising labour costs and an overall economic slowdown have raised concerns about the long-term viability of relying on China for manufacturing and market growth. Weak consumer spending has dampened business confidence while overcapacity has strained economic efficiency. Rising labour costs are eroding China's traditional manufacturing advantage, making production less competitive.[3] Meanwhile, broader signs of economic slowdown – reflected in weakening GDP numbers and investor uncertainty – have further dampened optimism in China's outlook.

1.2.2 Inconsistent or ambiguous regulations

The lack of clear legal frameworks, unpredictable legislative environment and uneven regulatory enforcement in China are major obstacles faced by European and American businesses. According to an AmCham China survey, these issues have fostered a sense of unfair treatment, making foreign companies feel less welcome in China.[4]

1.2.3 Impact of China's Covid-19 lockdown

The draconian zero-Covid lockdowns imposed by the Chinese government caused unprecedented disruptions to supply chains globally. For example, pandemic necessities, such as masks and personal protective equipment (PPE), faced global shortages as supply depended on China, the largest producer. The 90-day Shanghai lockdown in 2022 also shut down Shanghai port, the world's busiest container port, causing significant delays to items ranging from iPhones to automobiles and even semiconductor production. The zero-Covid policy highlighted the world's dependence on China, which prompted strategic shifts towards diversification.

1.2.4 Rising geopolitical tensions

Intensifying geopolitical rivalries have turned the South China Sea and Taiwan Strait into key flashpoints, raising concerns over regional stability in some of the world's most critical shipping lanes. The US-China trade war – which introduced a slew of tariffs, export controls and sanctions – has further deepened uncertainty and regulatory ambiguity (see more in Section 3). This has made long-term planning more difficult, heightened investor caution and prompted businesses to consider diversifying away from the Chinese market to minimise risk and disruption. [5]

2 Actors and beneficiaries

2.1 Sentiments on the ground

Supply chains have been shifting out of China even before the 2018 trade war. Sectors, such as textiles, started relocating to lower-cost manufacturing hubs like Bangladesh since the mid-2010s, driven by rising wages and production costs in China.[6] However, major-power rivalry as well as China's internal issues (i.e. dual-circulation strategy,[7] zero-Covid policies, cross-strait relations) are now the main catalyst to de-risk from China. While the reach of C+1 is broad, the scope of this research note focuses on the semiconductor sector.

According to an AmCham survey, fewer US companies now regard China as their primary destination. Although a majority of American companies have not considered a C+1 strategy, the thinking behind this is shifting. More companies are re-evaluating their supply chains as US-China trade tensions show no signs of abating. Meanwhile, 17% of respondents, particularly those in the tech and R&D sector, are already in the process of relocating production and procurement outside of China.[8]

Box 1 - Case study of Apple Inc

China is Apple's second-largest consumer market after the US and its main production centre. Like many multinational corporations, Apple's production in China relies on a network of suppliers – including Foxconn, Pegatron and Luxshare – for product assembly.

In 2018, the Trump administration imposed tariffs ranging from 10% to 25% on China, citing unfair trade practices and intellectual property theft. Apple, along with other companies, applied for exemptions. While it successfully lobbied for an exemption on iPhones, other products continued to be subject to tariffs.[9]

The trade war prompted Apple to begin assessing shifting 15% to 30% of its production out of China and consider options in Southeast Asia.[10] The tech giant began expanding operations in India and Vietnam in 2019. To diversify its supply chain and reduce exposure to disruptions, Apple expanded iPhone production in India while maintaining operations in China. It also began shifting the production of AirPods to Vietnam to circumvent tariffs.

Despite these developments, China remains the major producer for Apple products and it will not be easy to shift supply chains entirely away from its comprehensive ecosystem. However, the company is increasingly boosting its capacities in India and Vietnam, and is exploring additional production bases, such as Indonesia.[11]

The Europeans appear more pessimistic, according to Eurocham reports.[12] Uncertainty continues to erode business confidence, making it increasingly difficult for firms to justify sustained levels of investment in the Chinese market. In addition to the factors outlined in Section 1.2, European companies are also concerned about the lack of reciprocal market access and uneven playing field. Incidences of economic coercion – i.e. import restrictions on Lithuanian goods in 2021 – have also raised alarms. As such, there is growing pressure to de-risk and diversify supply chains. While a majority of Eurocham members have reviewed their supply chain strategies, identifying viable alternatives remains a challenge. Efforts to onshore or reshore often come with additional cost and reduced efficiency but are seen as necessary trade-offs to mitigate long-term risks.[13]

The Americans and Europeans are not the only ones affected. Chinese businesses have also considered diversifying supply chains beyond their borders, looking for alternative bases to circumvent trade barriers. Increasing attention is being paid to Mexico and Eastern Europe but most Chinese investments are concentrated in ASEAN, particularly Vietnam, Thailand, Indonesia and Malaysia.[14] Moreover, some Chinese firms are also relocating their headquarters to downplay their Chinese origins[15] i.e. Pinduoduo relocating to Ireland or Shein moving to Singapore.

2.2 Beneficiaries of China Plus One

Developing Asia has emerged as the primary beneficiary of C+1. In particular, India, Vietnam and Malaysia are preferred destinations for their competitive labour costs and friendlier foreign policies.[16] Although no country could offer a supply chain ecosystem comparable to that of China, these markets offer unique advantages and challenges for C+1, especially in the semiconductor sector.

India

Many global manufacturers view India as a potential back-up if trade tensions with China escalate, given its large domestic market and geopolitical non-alignment.[17] Prime Minister Narendra Modi has said that India is working towards being "a centre for diversification, de-risking and a hub for global trade and manufacturing", as espoused by its mantra "Make in India, Make for the World".[18]

Most of the supply chain shifts have been concentrated in electronics and semiconductors as the government aims to develop India's semiconductor manufacturing capability, particularly in the back-end segment of assembly, testing and packaging (ATP).[19] Apart from Apple (Box 1), other large corporations are also deepening investments in the country, including a joint venture announced in 2023 between Foxconn and local player Vedanta to build India's first semiconductor plant.[20]

Samsung opened a new research and development facility in Bengaluru. AMD also announced plans to invest US$400 million (RM1.72 billion) to set up its largest design centre, while Intel has designated India as its fifth geographic region, highlighting its strategic importance in the firm's global operations.[21]

Box 2 - Micron diversifying amid chip war

In May 2023, the Cyberspace Administration of China concluded that Micron Technology Inc had failed its cybersecurity review, citing a risk to national security. As a result, Micron products were banned from use in critical infrastructure and other key domestic sectors in China.[22]

This move comes after the US announcement in October 2022 of export restrictions on advanced semiconductors and chip-manufacturing equipment to China. The following March, Japan and Netherlands separately introduced similar export controls on semiconductor technology and advanced manufacturing equipment. This was widely understood as an act of solidarity with the US to curb China's access to cutting-edge technology, despite not naming China explicitly.

China's ban on Micron is widely seen as retaliatory, part of the broader tech and trade rivalry between Washington and Beijing. Micron noted that the ban may result in a single-digit-percentage-point revenue loss.[23]

In June 2023, Micron announced a US$2.75 billion investment in India to build an assembly, testing and packaging facility in Sanand, Gujarat. While this move is not directly linked to China's ban (one month is not sufficient time to strategise in response to the ban), it does signal Micron's strategic intent to diversify its operations, expand its global footprint and hedge against risks as geopolitical tensions ramp up.

Micron itself will invest US$825 million on the project, with the Indian central government covering 50% of the total cost and the Gujarat state government providing an additional 20% of financial support. The plant will produce both DRAM and NAND products and aims to create 5,000 new jobs and 15,000 community jobs over the next several years.[24]

Other industries that have been attracting attention include automobiles and capital goods.[25] However, complex regulatory environment and infrastructure gaps remain key challenges for investors.[26]

Vietnam

Vietnam has emerged as Southeast Asia's rising star for manufacturing. There are several factors underpinning its appeal, including competitive labour costs, robust free-trade networks, high growth rate and strategic location.[27] Its proximity to China, particularly the special economic zones, by both land and sea borders coupled with access to ASEAN's emerging markets provide robust trading routes and strong supply chain connectivity.
While industries like apparel and furniture have seen growing investments, higher-value products like automobiles, electronics and semiconductors are attracting major players into the country with the likes of Samsung, Amkor Technology and Nvidia expanding operations.

Samsung is the largest individual foreign direct investor in Vietnam, having invested US$22.4 billion and plays a leading role in supporting the development of the semiconductor industry.[28] Intel also operates one of its largest facilities in Ho Chi Minh City, responsible for ATP of 60-70% of its chips sold worldwide.[29] In December 2024, Nvidia signed a memorandum of understanding to establish two cutting-edge AI centres to strengthen Vietnam's technology infrastructure and talent.[30] Meanwhile, Amkor Technology will invest US$1.6 billion to build a packaging and testing facility, with rumours that the equipment installed were transferred from factories in China.[31] The inpouring investments from major semiconductor firms signal their confidence in Vietnam's future as a potential hi-tech manufacturing hub and its growing strategic role in the global supply chain.

Chinese manufacturers have also been flocking to Vietnam, with China ranking as the third largest foreign direct investor behind Singapore and South Korea. Chinese semiconductor firms – including those part of the Apple supply chain like Goertek, Luxshare, Green Precision and Victory Giant – have been expanding operations in Vietnam.[32] There are also significant Chinese investments in the renewable energy and electric vehicle (EV) sectors.[33]

Vietnam's outlook as a hi-tech manufacturing hub is promising but investors note challenges with infrastructure gaps, talent shortage and complex regulatory environment. The country also faces competition from Malaysia, a neighbouring country that is already established in the global semiconductor supply chain, especially in the ATP segment.

Malaysia

Unlike India or Vietnam, Malaysia has a deep-rooted and mature semiconductor ecosystem. With more than five decades of experience, the country is the sixth largest semiconductor exporter and accounts for 13% of global ATP processes.[34] It boasts renowned manufacturing capability, well-developed infrastructure and a strategic location with proximity to global shipping routes and access to regional markets.

With its track record, Malaysia presents an attractive alternative for semiconductor firms seeking to diversify. The country has seen an uptick of investments, most recently with 14.9% year-on-year growth in foreign direct investments recorded in 2024 – a large slice of which went to the electrical and electronics sector.[35] Major investors in 2024 included the US, Germany, China and Singapore.

Big players have been doubling down on their Malaysian operations. Intel invested US$7 billion to build a 3D chip packaging plant. Infineon, which operates its largest ATP production in Malaysia, has committed US$5.4 billion to build the world's largest silicon carbide power fabrication plant to produce chips for EVs. Micron opened a second ATP facility in Penang in 2023, while ASE Technology launched its fifth ATP plant in February 2025. Benchmark Precision is also expanding its footprint in Malaysia with its fifth manufacturing facility.

Chinese semiconductor firms have also increased engagement with Malaysia. In 2023, xFusion set up its first global supply centre in Malaysia in partnership with local firm NationGate.[36] StarFive invested nearly US$60 million to build a design centre in Penang.[37] TF-AMD Microelectronics, a joint venture between Chinese Tongfu Microelectronics and US-based Advanced Micro Devices (AMD), has announced plans to expand its manufacturing facility with an estimated US$470 million investment.[38] Meanwhile, three Chinese packaging companies – China Wafer Level CSP, Ningo SJ Electronics and Wuxi AMTE – are planning to invest in Penang with an estimated total of US$100 million.[39]

Malaysia's experience, ambitions to produce more sophisticated chips and its strategic non-alignment inspire investors' confidence. However, there is a shortage of high-skilled talent to satisfy industry demands. Moreover, escalating trade conflicts (i.e. Trump's Liberation Day tariffs – see Section 3) may put Malaysia's non-alignment under strain.

3 Implications of US trade barriers on China Plus One

The key geopolitical factor driving C+1 strategies is the intensifying US-China rivalry. The trade war initiated by the first Trump administration drove up the cost of goods produced in China, prompting the first wave of C+1 shifts, especially in lower-value sectors such as apparel. It became evident that the perception of China as a strategic risk is not unique to the Trump era, as the Biden administration maintained and subsequently added trade barriers targeting China, underscoring a bipartisan consensus in Washington on the need to decouple from China and uphold American primacy.

As the two largest economies, friction between the two countries can create serious ripple effects across the global economy. Therefore, US-imposed tariffs, export controls and other trade barriers targeting China – the world's factory – will inevitably prompt businesses to reassess their operations. Supply chain shifts are difficult to reconfigure and take a long time to materialise, hence the impacts of derisking and decoupling are still taking shape. Meanwhile, it is becoming increasingly clear that China can no longer be relied upon as the primary manufacturing hub. Diversifying through C+1 is now increasingly important for businesses seeking to stay competitive and reduce their vulnerability to supply chain shocks.

Although uncertainty is a major factor driving C+1, the future of this phenomenon is uncertain. The Liberation Day tariffs announced on 2 April 2025 by President Donald Trump exceeded the most conservative estimates and have complicated the arguments for C+1. One such consideration for pursuing C+1 is to explore third-party workarounds that could avoid trade barriers targeting China, hence the "reciprocal" tariffs undercut the viability of this strategy.[40] While there was a 90-day suspension of the "reciprocal" tariffs, uncertainty has not quelled and business confidence remains pessimistic.

However, while C+1 beneficiaries like India, Vietnam and Malaysia have been hit with high levels of tariffs (26%, 46% and 24% respectively), they remain significantly lower than the 145% imposed on China.[41] For businesses servicing the US market, diversifying away from China remains relevant and options like Malaysia continue to offer viable alternatives given its comparatively lower tariff burdens. In the long run, it is also uncertain whether the Trump administration or its successors will maintain this tariff regime.

4 Conclusion: what this means for Malaysia

Uncertainty is the only constant in today's geopolitics. Ongoing shocks and disruptions continue to challenge supply chains, reinforcing a bleak outlook for the global economy. As a de-risking strategy, diversification through C+1 is meant to enhance resilience of supply chains. However, developments, such as the "Liberation Day" tariffs and the 90-day pause by the US, have compounded the uncertainty, complicating long-term strategic planning and challenging the integrity of diversification.

Thus far, Malaysia has been able to benefit as a preferred C+1 destination. The surge in semiconductor-related investments is in line with its New Industrial Mater Plan (NIMP) 2030, which aims to transform Malaysia into a hi-tech, high value manufacturing hub, particularly in front-end circuit design and fabrication. It underscores the confidence in Malaysia's semiconductor manufacturing capabilities and its trajectory to produce more sophisticated semiconductor products.

While the unpredictability of US trade policies has dampened overall investor confidence, it is worth noting that Malaysia was granted temporary exemptions on semiconductors.[42] For the US, Malaysia is an important semiconductor trading partner, accounting for 20% of its semiconductor imports, a larger source than Japan, South Korea or Taiwan.[43] This exemption is, therefore, mutually favourable and plays an important role in stabilising semiconductor trade. However, uncertainty surrounds its continuation. Should it be withdrawn, not only will semiconductor trade face severe disruptions, future US investments in Malaysia's semiconductor industry – where US firms are major players – could also be at risk.[44]

To maintain its strategic position as a C+1 destination, Malaysia should:

1. **maintain active engagement with the US** to uphold favourable and stable trade relations. Malaysia's official position on the "Liberation Day" tariffs is to engage in dialogue rather than retaliate. The visit by the Minister of Investment, Trade and Industry to Washington in late April for tariff-related talks underscores this commitment to a fair and equitable solution for both sides.

2. **deepen ties with key stakeholders** – including governments and corporations from the EU, China and Taiwan – to ensure continued trust and confidence in Malaysia's semiconductor industry as a global manufacturing hub.

3. **uphold strategic non-alignment.** A key appeal for Malaysia as a C+1 option is its positioning as a "non-China, non-Taiwan" alternative – a non-aligned player without the geopolitical undertones of major-power rivalry.

4. **advance progress on NIMP 2030** to upscale semiconductor manufacturing capabilities. As the industry moves up the value chain, producing more sophisticated and indispensable chips will not only enhance competitiveness but also make it harder to usurp Malaysia's position in the supply chain or undermine it through external pressures.

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5 In light of the 2018 trade war, Chinese manufacturers began looking for alternative production bases to ship their goods to the US tariff-free. As a result, Vietnam saw an influx of FDI and booming exports to the US. From 2016 to 2024, Vietnam has attracted almost USD 290 billion in FDI. This third-country workaround represents an example of a China Plus One strategy. See: https://www.wsj.com/economy/trade/vietnam-trump-trade-war-target-4182a943?mod=article_inline

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41 At the time of writing, the temporary 90-day pause in the US-China trade war was just announced. The US agreed to cut tariffs on Chinese imports from 145% to 30%, while China reciprocated to reduce US import duties to 10% from 125%. One can only speculate how this might inform future US-China trade relations or the impact on the overall trajectory of China Plus One. Should high tariffs be re-introduced between the two countries, the global economy will be pushed towards decoupling. However, the purpose of the temporary pause is to allow space for negotiation. If the US' country-specific tariffs are maintained and a lower tariff rate was granted to China, then the motivations to diversify away from China will be reduced, slowing the momentum for China Plus One.

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