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# China Plus One Policy: A Strategic Approach amid De-escalation of Trade Tensions<sup>1</sup>

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## Abstract

With trade uncertainty between China and US escalating after Trump's re-election, supply chain resilience and the relocation of manufacturing and production lines away from China to other developing countries, or even back to the US, is more current than ever emerging as a strategic choice. The strategy of China Plus One aiming to offer competitive advantage to companies diversifying their activities outside of China, is brought to surface and faces reversal; becoming competitive disadvantage. The recent 90-day truce between US and China, that will allow Chinese goods to be traded at tariffs much lower of the initial 145% threat, combined with the US Federal Court's ruling that tariffs are illegal, shifts the landscape. Companies that diversified early into alternative markets like Vietnam or Mexico, once seen as strategically agile, may now find themselves at a cost disadvantage compared to firms that retained full operations in China, as lower or no tariffs re-favor centralized production.

**Keywords:** China, USA, diversification, tariffs, C+1, competitive advantage, supply chain.

## Introduction

After the economic crisis of 2008 and especially after the pandemic, the global environment has become more fragmented and unstable, due to various reasons, including supply chain disruptions and shifting dynamics amongst major economic powers. China's undeniable dominance in global manufacturing has led to a high level of dependency on its market, leaving the global economy vulnerable to internal Chinese policies and external trade tensions. Although discussions around reducing reliance on China began in the mid-2010s, it was the pandemic and China's Zero-COVID policy (Rahaman et al., 2021) that reignited urgency around supply chain diversification, due to the supply chain disruptions and product shortages caused. Prolonged lockdowns, shipping delays, and product shortages exposed the risks of concentrated production, re-kindle the need for supply chain diversification outside of China.

The current macroeconomic environment, where U.S. trade policy has taken center stage, resurfaced the China Plus One strategy. Many companies have already shifted part of their operations to lower-cost countries such as Vietnam, Indonesia, and Mexico; markets that, until recently, have not been subject to the tariffs imposed on Chinese goods. The latest and unexpected development of pause of

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the 145% additional tariffs on Chinese goods, and the 125% imposed to US by China (Fong, et al. 2025), although remaining significantly higher compared to the rest of the world, as well as court's decision that tariffs are illegal, have introduced new layer of uncertainty. The new tariff truce agreement included a US 30% baseline tariff, and additional tariff rates to specific products, with the Chinese side lowering the rate to 10% (Nava, 2025).

Initially, companies that diversified away from China appeared to gain a competitive advantage, avoiding heavy trade barriers and additional costs. Yet, if the latest trade war truce agreement between China and US maintains the current tariff levels, these companies are likely to face increased operational costs, compared to ones that did not diversify away from China. Unlike those choosing to their operations solely in China, C+1 firms are burdened by the complexities and inefficiencies of operating across multiple jurisdictions. In that case, what was once considered as a competitive advantage, safeguarding financial stability, could quickly turn into a competitive disadvantage.

This paper focuses on the business strategy aspect of the China Plus One strategy (thereof C+1 strategy) that would “normally”, meaning in case of a stable tariff environment, be a competitive advantage, and discuss how the pause-or-retreat case of tariffs on companies following this supply chain strategy that would eventually lead to a competitive disadvantage.

### **China Plus One Strategy**

The C+1 emerged in mid-2010 's, as companies understood their dependence on Chinese production lines and as the costs of Chinese labor started increasing. This diversification strategy suggests companies that have traditionally relied heavily on China for manufacturing, to adapt a plus one approach, instead of fully relocating their operations outside of China. Companies shall maintain their operations in China while expanding or shifting part of their manufacturing capacity to additional countries. The diversification is related whether with supplementary investments in other countries (new facilities and production lines) or relocation of a part of the production lines in countries such as Mexico, Indonesia, Bangladesh, Vietnam, Thailand and India (Koçakoğlu, 2024) (Sourcify, 2025). The goal is to reduce overdependence in a single country, enhance resilience against geopolitical risks, and manage rising production costs – this kind of diversification offers the company the chance to remain resilient (Madden, 2023).

While initially C+1 strategy was seen as a strategic and cost-effective solution, recent signs of U.S.–China trade de-escalation—such as the proposed 90-day tariff truce—have shifted the dynamics (Nava, 2025). If Chinese goods are allowed to enter U.S. markets at significantly lower tariffs than previously expected, companies operating in C+1 countries may find themselves at a cost

disadvantage compared to competitors that maintained full-scale operations in China. Thus, in a changing trade environment, the C+1 strategy could risk becoming a competitive disadvantage rather than a safeguard.

To sum up the above, the aim of the C+1 strategy is to safeguard the company against the reliance on one country, avoiding the risks of geopolitical instability (including tariffs and political tension), supply chain disruptions (Zero-Covid policy), and rising labor costs (Sourcify, 2025).

### **Understanding the C+1 under Strategy Scope**

To determine and comprehend the C+1 strategy and whether it really offers a competitive advantage – or under circumstances disadvantage (Georgopoulos, 2013) – one must examine its place within the layers of corporate and business strategy.

At the corporate level, the highest level of strategy, companies determine the broad direction of their activities, opting for growth, stabilization, or turnaround (Papadakis, 2016). In the case of the C+1, the corporate strategy that fits is the growth through diversification. This diversification strategy (new product or enter a new market by acquiring a new company or extending the current ones' operations) is a calculated shift from geographic dependency on China for manufacturing, to spread the operations' risk to more than one country (Freund, et al, 2023). As Chinese labor costs surged and trade tensions escalated, firms began to diversify production across emerging economies such as Vietnam, India, Indonesia, Thailand, and Mexico. These countries not only provided cheaper labor but also served as buffers from the escalating economic friction between the United States and China (Koçakoğlu, 2024).

Focusing on the business strategy level, the objective becomes to obtain competitive advantage: the corporation's core competence favoring the organization, setting it at a superior position than its competition by offering significant and perceived by the client value (Papadakis, 2016; Kotler, 2005). According to the theory, to gain a competitive advantage, the company has to choose amongst the cost leadership, where the company suppresses the costs, the differentiations, company aims to offer value through a unique product and the focus strategies, aiming to a niche market with either cost or differentiation (Georgopoulos, 2013; Deszczynski, 2021).

The C+1 supply chain strategy is considered to correspond to the diversification corporate strategy, as companies choosing to follow the strategy diversify their operations in more than one country (Papadakis, 2016; Georgopoulos, 2013). On the business side level, the strategy fitting is the cost leadership model, since the core objective of relocating part, or the whole, production to China-like, lower-cost countries is to capitalize on reduced labor expenses and—especially in the context of

tariffs—to benefit from lower transportation and trade-related costs with the U.S. This strategy aims to offer a competitive advantage by limiting exposure to China and avoiding supply chain risks and costs related to tariffs, against companies deciding to maintain their investments and production lines only in the Chinese market.

The strategic decision of C+1, as mentioned before, came as a reaction from companies that were heavily dependent on China for manufacturing of their products. The increasingly Chinese labor costs, geopolitical and political pressure – made companies understand that being reliant only to one country for production could pose long term risks (Freund, et al, 2023). Keeping in mind the context under which the concept was created, it was understood that this shift would temporarily raise a company's CAPEX, as the new facilities and production lines needed to be established in alternative countries; but eventually, these expenses would be offset by the financial benefit this companies would have against their competitors, if Chinese trade faced future restrictions, limitations, or further cost escalations.

However, strategic advantage does not come without trade-offs. Relocating operations to other jurisdictions introduces complexity. It demands substantial capital expenditure, organizational redesign, occasionally the cost of a loan, and in many cases, new institutional knowledge, or hiring people that may help. Building new facilities from scratch, training new labor pools of local workforce, navigating unfamiliar regulatory frameworks, and securing logistics in developing economies all create short-term complexities and long-term strategic risk. The assumption, of course, was that these up-front costs would be justified over time—particularly in the event of intensifying tariffs, political disruption, or cost increase inside China (Madden, 2023; Marianni, 2025).

### **Tariffs Pause: leading to C+1 competitive disadvantage**

The C+1 strategy appeared as a well-calculated strategic choice — an organized attempt to mitigate the risk of operating on a single nation or protectionist acts, such as tariffs are. Since 2018, regardless of the political leadership, the US policy toward China is remaining consistent. A succession of administrations has employed trade barriers, particularly tariffs, as tools to contain China's growing economic influence and reduce dependency on Chinese-manufactured goods and critical commodities. Trump's re-election in October 2025, with widespread public expectation that the trade war with China would persist, or even intensify (Fong, et al. 2025), became a reasonable argument that companies applying C+1 strategies have a competitive advantage. The political climate validated the strategic decision as these companies have acted proactively by mitigating the risk of increased tariffs Chinese-manufactured products.

The Trump Administration, consistent to the “Make America great again” doctrine (Castleberry, 2025), within the first 100 days of his presidency announced aggressive protectionism measures that would protect American companies and individuals, in an attempt to boost the American domestic production. Subject of tariffs and trade barriers were not only Chinese goods, but countries such as Canada and UK, as well as unions such as EU. While the increase on tariffs on Chinese goods imported in the US was expected, given the continuity of U.S. trade strategy over the past decade, reciprocal tariffs to the rest of the world caught companies and organizations off guard. To be more specific, the tariffs imposed in Canada, UK and EU reached a 10% baseline tariff rate and some additional 25% on specific products (steels, aluminium, cars); (Jozepa, et al., 2025). Most other nations faced similar tariffs, while China saw tariffs ranging from 30% on general imports to a staggering 145% on certain commodities. These developments lead to increased levels of uncertainty into global markets (Fajgelbaum, et al. 2021), prompting many companies and governments to delay decision making.

By the end of the first 100 days, when many assumed that tariff policies had been solidified, a surprising turn of events unfolded: delegations from the United States and China met in Geneva for negotiations aimed at the temporary de-escalating the trade war. The outcome was an unexpected agreement to reduce the tariffs – or pause - the next 100 days. Both sides reduced the percentage of tariffs, with US tariffs to be relatively higher for Chinese imports, than the tariffs imposed by China. In the same spirit, parallel discussions have commenced with other nations and economic blocs, suggesting a broader reconsideration of tariff policies (Siqi, 2025).

Complicating matters further, a U.S. federal court ruling recently challenged the legality of certain tariffs, casting doubt on their future enforceability (Knauth, et al. 2025). While the Supreme Court has not yet made a definitive judgment, the possibility of a judicial rollback on tariffs introduces yet another layer of unpredictability for global business planning.

The unpredictability and complexity of the global environment create a volatile and uncertain scene, affecting businesses and the total of world economy (Knauth, et al. 2025). In this uncertain environment, business decision making has become quite challenging, as a major economy as the U.S. is, through abrupt and unpredictable policy shifts, creates effects that disrupt global markets (Chen et al., 2025). If we consider the current situation and assume that whether a trade war de-escalation may be established, or even tariff cancellation by the US Supreme Court, it could mean the strategic act of choosing the C+1 diversification strategy (Freund, et al, 2023) will lead to uncertain paths, as for the moment there is no clarity regarding tariffs and how trade barriers will move. Although the geographic diversification strategy remains a key risk management principle

(Papadakis, 2016; Georgopoulos, 2013), mitigating risks against not only tariffs but also geopolitical tensions, natural disasters, and regulatory shocks, in the scenario of political stability and minimal trade barriers, companies adopting the C+1 approach may find themselves at a competitive disadvantage. Dispersing production across multiple jurisdictions, while it might be a competitive advantage in the long run, it raises operational complexity and overhead, which could surpass the costs incurred by firms that remained concentrated in China. What was initially designed as a protective strategy could, under altered trade conditions, evolve into a competitive liability.

## Conclusions

The China Plus One strategy was introduced as a strategic choice that provides a solution to limiting operational dependence on China, responding to increasing production costs, tariff exposure, and geopolitical instability. At first, it provided a clear long-term competitive advantage, in terms of cost, for companies that diversified their manufacturing to other developing economies. However, with the recent pause on tariffs, or to be more precise, with the uncertainty around trade conditions, following the US–China truce and legal decisions questioning the validity of these tariffs, the strategy’s benefits are no longer evident and straightforward. Companies that have diversified their supply chain may face higher operational costs compared to competitors who kept their operations solely in China, especially if lower tariffs become the new norm.

The uncertainty around the future of the US trade policy, tariff enforcement and its legal grounding, complicates strategic planning. While diversification is a strategy that still protects companies from potential disruptions—such as political tensions, trade barriers, or natural disasters—if the global environment stabilizes and tariffs remain low, the financial burden of operating across multiple countries may outweigh these benefits.

Concluding, C+1 remains a potentially valuable long-term strategy, but in the short term, it risks becoming a competitive disadvantage for companies caught between shifting policies and unpredictable economic signals.

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