

Navigating the "China Plus One" Paradigm: A Comparative Study of Global Manufacturing Realignments and Theoretical Frameworks .

Abstract

Systemic wage inflation, demographic shifts, strict environmental regulatory enforcement, and rising geopolitical frictions are eroding China's historical manufacturing cost advantages. Global multinational corporations are transitioning from hyper efficient just-in-time networks to resilient, just-in-case value chains through the China Plus One (C+1) strategy. To address this, this study systematically compares the structural readiness, competitive factor conditions, and strategic advantages of key emerging manufacturing hubs: Vietnam, Mexico, India, Indonesia, and Malaysia. The research integrates John Dunning's Eclectic (OLI) Paradigm, Michael Porter's Diamond Model, the Uppsala Internationalisation Model, and the Environmental Kuznets Curve (EKC). While China retains core Ownership (O) and Internalisation (I) advantages, declining Location (L) benefits are driving labor-intensive manufacturing to lower-cost alternatives. India and Vietnam lead as comprehensive friendshoring alternatives due to favorable cost-to-scale structures and trade architectures. However, country-specific bottlenecks (e.g., Mexico's utility deficits, Indonesia's youth training gaps, and India's agricultural protectionism) presents critical trade-offs for corporate strategy. This paper provides an integrated theoretical roadmap for mapping global value chain (GVC) restructuring and outlines targeted policy adjustments for host countries aiming to capture foreign direct investment (FDI).

Keywords

China Plus One (C+1) Strategy; Global Value Chains (GVC); Eclectic (OLI) Paradigm; Porter's Diamond Model; Uppsala Model; Friendshoring; Supply Chain Resilience.

JEL Codes

- **F23** - Multinational Firms; International Business
- **L60** - Industry Studies: Manufacturing; General
- **O14** - Industrialization; Choice of Technology
- **F13** - Trade Policy; International Trade Organizations

30

31 **Introduction**

32 China's historical position as the world's factory is facing a critical inflection point due to a rise
33 in domestic cost inflation, demographic contractions, and strict regulations. This is causing a
34 decline of John Dunning's Location (L) and Internalisation (I) advantages within its mainland
35 manufacturing zones. Behind this shift, key underlying catalysts drives the China Plus One
36 (C+1) strategy. On a micro economic level, there are frictions like rising industrial wages,
37 skyrocketing land prices, and shrinking labor dividends. Meanwhile, state-enforced green
38 transitions through the implementation of strict environmental rules and regulations to reverse
39 environmental degradation is raising capital compliance overheads for legacy manufacturers.
40 Add to this macro geopolitical realities, where trade and technology friction (export controls and
41 countervailing tariffs) between Western democracies and China are creating vulnerabilities.
42 Ultimately, this results in the structural shift and transition from vulnerable "just-in-time" hyper-
43 efficiency to redundant, resilient "just-in-case" value chains via friend shoring.

44

45 **Identification of the Research Gap**

46 Existing literature strongly concentrates on structural stickiness and path dependencies that bind
47 multinational configurations to mainland China's specialized, capital-intensive clusters. However,
48 an important research gap exist here. Existing studies often analyze the China Plus One
49 phenomenon through isolated country reports or individual theoretical frameworks (e.g., solely
50 trade agreements or labor costs). Consequently, there is an academic deficit in research that
51 integrates micro-level operational frictions (e.g., utility deficits, local social capital, and firm-
52 level ESG readiness) with macro-level trade/geopolitical dynamics under a unified, multi-theory
53 framework.

54

55 **Theoretical and Conceptual Framework**

56 Michael Porter's Diamond Model evaluates the competitive advantage of a country based on
57 factor conditions, demand conditions, related/supporting industries, and firm strategy, structure,
58 and rivalry. It explains how Chinese factor conditions like wage inflation and demographic shifts
59 are falling off. Domestic rivalry with state subsidies favoring national champions are forcing
60 MNCs to seek secondary manufacturing bases. Alongside this, Dunning's Eclectic Paradigm
61 (OLI Framework) connects international expansion to Ownership, Location, and Internalisation
62 advantages. It maps the erosion of China's location advantages including cheap assembly and
63 lower regulatory compliance. Intact ownership and internalization assets prompt hybrid C+1

models rather than complete operational withdrawals. Furthermore, the Uppsala Internationalisation Model models how a company should do its foreign expansion as a gradual, step by step learning process that mitigates uncertainty. It articulates why firms do not exit China overnight. Instead they test alternative host nations such as Vietnam, India, and Malaysia with small-scale investments before committing major capital. Also widening institutional and political distance between Western economies and China's authoritarian regime accelerates this step-by-step diversification. Finally, the Environmental Kuznets Curve (EKC) talks about an inverted U-shaped relationship between environmental degradation and economic growth of a country, where environmental degradation eventually peaks and declines as economic development crosses a critical per capita threshold. This links China's aggressive, state regulated green transition to skyrocketing regulatory compliance overheads like automated, low-emission Industry 4.0 systems, which drive low margin, energy intensive manufacturing industries to relocate to less punitive developing nations.

Research Methodology

A. Research Design: A comparative qualitative study utilizing secondary academic literature, policy papers, and global industrial datasets .

B. Comparative Parameters (The 10-Variable Evaluation Matrix):

1. Labour Cost Dynamics and Workforce Productivity: Comparing productivity gains and wage spillovers.
2. Geopolitical Risk and Political Stability: Analyzing geoeconomic hedging strategies of potential countries and structural leverage reductions.
3. Trade Agreement Architecture and Tariff Exposure: Evaluating regional integration amongst countries (RCEP rules of origin, USMCA high-value upgrades, and CPTPP non-tariff barrier reductions).
4. Logistics Performance and Infrastructure Readiness: Evaluating global bottlenecks, transshipment delays, and infrastructure digitalisation.
5. Currency Stability and Exchange Rate Risk: Measuring the impact of exchange rate volatility on export performance of countries and their policy response
6. Ease of Doing Business (EODB) and Regulatory Reforms: Evaluating regulatory reform impacts and contract enforcement that makes it easier for firms to carry out their businesses.

- 97 7. Supply Chain Ecosystem Maturity: Mapping supply chain readiness, physical security
98 risks, and regional industrial cluster resilience
99
- 100 8. Fiscal Incentive Structures and Industrial Policy: Evaluating targeted fiscal policies of the
101 host country towards FDI
102
- 103 9. Demographic Trends and Human Capital Development: Projecting youth dividends and
104 educational capacity (e.g., India's female literacy driver vs. Indonesia's competency-based
105 youth training).
- 106 10. Environmental Regulatory Compliance and ESG Considerations: Assessing corporate
107 ESG disclosure and country specific frameworks.

108

109 Sub Theme 1: CHINA AS A GLOBAL MANUFACTURING HUB

110 The global manufacturing industry is undergoing its most profound structural realignment in
111 decades as macroeconomic shifts force multinational corporations to transition itself from single
112 source dependencies. This turbulence has caused the widespread adoption of the **China Plus**
113 **One (C+1) strategy**, an operational strategy where companies choose to couple their Chinese
114 establishments with parallel operations in secondary nations like Vietnam, India, Mexico, or
115 Thailand rather than fully exiting China (Free et al., 2026). Complete disengagement from China
116 remains operationally impractical because its true competitive edge lies in highly sophisticated,
117 geographically concentrated industrial clusters and infrastructure networks built on massive
118 capital formation that has averaged 38% of GDP since 1978, as detailed by (Mckay & Song,
119 2010). China's deeply integrated "supply chain cities" align closely with John Dunning's
120 Eclectic Paradigm and Michael Porter's Diamond Model which talks about why companies
121 operate where they do, making the advanced Chinese manufacturing ecosystems largely
122 irreplaceable and forcing a state of partial release where final assembly moves abroad (secondary
123 countries) but component sourcing remains anchored in the mainland (China), as demonstrated
124 in (Free et al., 2025). This structural stickiness to operate in China is reinforced by the evolution
125 of the Chinese labor force; while Karel Eloot, Alan Huang, and Martin Lehnich (2013) argue in
126 (Eloot et al., 2013) that a tripling of manufacturing wages has eaten away China's baseline
127 competitiveness in low tech, labour intensive sectors like textiles, alternative hubs still face
128 severe bottlenecks in specialized technical skills. To deal with the rising costs, China actively
129 leveraged its 11th Five Year Plan to transition from volume based growth to high precision, high
130 value engineering, a policy evolution tracked in (Sung, 2007). Historically, this ascendance was
131 accelerated by strategic frameworks like Processing & Assembly (P&A) and Processing with
132 Imported Materials (PIM), which circumvented transitional rigidities to tap into globalized
133 production networks, as outlined in (Sung, 2007). These structural benefits were expanded when
134 China intentionally liberalised its Foreign Direct Investments by trading domestic markets for

technology, a trend examined by Kevin Honglin Zhang (2001) in (*Zhang, 2001*). Decades of subsequent wealth accumulation, increase in per capita income with addition to an annual GDP growth rate averaging 9.9% have created an expansive, brand conscious domestic middle class, as observed by Mingu Kang, Xiaobo Wu, and Paul Hong (2009) in (*Kang et al., 2009*). This immense internal demand has forced MNCs to adopt **in China for China method** to serve local consumers directly while buffering against external shocks, making China an irreplaceable market leader, as highlighted in (Free et al., 2026). Ultimately, the C+1 strategy is an exercise for adaptive conservation and to remove pure dependency on china rather than exit. Firms temporarily rely on existing networks for short term continuity, actual domestic reshoring is marginal at less than 16%, and intermediate parts continue to flow from China's specialised clusters, thereby distributing rather than dismantling China's central position as a global supply chain powerhouse, as concluded in (Free et al., 2026).

Sub Theme 2: WHY IS CHINA LAGGING BEHIND

Building upon the structural stickiness (the immense difficulties that countries face in moving out of China) and adaptive path dependencies characterising multinational configurations in the mainland China, a secondary yet equally important body of literature isolates a critical counter viewpoint: a simultaneously occurring array of domestic labor constraints, regulatory compliance pressures, and systemic geopolitical vulnerabilities that are collectively accelerating the operational necessity of the China Plus One strategy talked in (Ban & Scepanovic, 2026; Wade, 2023) . While China's specialised, capital intensive industrial clusters remain operationally anchor heavy, the country is rapidly losing its historical Location (L) and Internalisation (I) advantages under John Dunning's Eclectic Paradigm due to a sharp erosion of its baseline that is cost competitiveness. The primary catalyst within this microeconomic realignment is the systematic inflation of localised raw materials needed for production . In major coastal manufacturing powerhouses and special economic zones, operations are confronting an acute margin squeeze which is caused by skyrocketing land prices and rapidly increasing industrial wages as talked in (To et al., 2021). This cost inflation reflects a structural deterioration in Porter's foundational Factor conditions. China's inexhaustible reservoir of surplus labor is rapidly dissolving under a shrinking demographic dividend and a contracting working age population (Feng et al., 2018). Which is further added by intense urban housing affordability crises and a rising sandwich class of workers, factories are experiencing severe worker retention deficits and mounting labour friction (To et al., 2021) . Consequently, in strict alignment with Raymond Vernon's Product Life Cycle Theory (which talks about how product's manufacturing location move across different countries during its different stages of production), standardised, highly labour intensive mass production segments such as basic electronics assembly, textiles, and computer hard drives are naturally leaving China and relocating to lower cost emerging alternatives like Vietnam, Bangladesh, Cambodia, and the Philippines(To et al., 2021). This

microeconomic wage and land friction is further exacerbated by a hardening domestic regulatory laws and shifting towards stricter environmental mandates within China's industrial geography (Feng et al., 2018). Over decades of hyper growth, premier technology and manufacturing hubs led to intense ecological degradation, characterised by highly problematic, seasonal winter haze and severe air pollution that induced measurable human mortality risks (To et al., 2021). To reverse this ecological curve, an evolution that closely mirrors an Environmental Kuznets Curve relationship which is an economic hypothesis of relationship between economic development of a country and its environmental quality. In China, environmental degradation peaks and subsequently drops as GDP per capita crosses a critical development threshold the Chinese state has heavily intervened (To et al., 2021). Driven by sweeping national mandates, local governments have initiated aggressive structural reforms: closing down traditional fuel oil power plants, completely prohibiting the use of fuel oil in heavy industrial enterprises, and pushing a systemic migration toward low energy intensive production methodologies and clean energy integration (To et al., 2021). For legacy manufacturers in China, this state enforced green transition transforms environmental compliance into a highly capital intensive proposition, forcing firms to either absorb the cost of automated, low-emission Industry 4.0 systems or seek alternative geographical bases where regulatory overheads are less punitive (Feng et al., 2018; To et al., 2021). Furthermore, Porter's Diamond Model is experiencing severe distortions within Firm Strategy, structure, and rivalry. The state has intensified direct intervention and strong control over the domestic economy, aggressively subsidising the national champion private firms and state owned corporations. This protectionist environment protecting domestic corporations frequently isolates foreign investors from fair market competition. Prominent examples include the state's strategic manipulation of emerging sectors, such as enforcing restrictions that freeze out major international suppliers from national subsidy eligibility, which fundamentally unbalances the domestic playing field for multinational corporations (Ban & Scepianovic, 2026). Crucially, these microeconomic and regulatory factors are unfolding against a macro level backdrop of severe geopolitical fractures and weaponised economic vulnerabilities that directly threaten international supply chain stability (Wade, 2023). The intensifying trade and tech friction between Western democracies and Beijing has structurally destabilised an open global economy. To disrupt China's technological monopoly, the United States and its allies have implemented strict, highly coordinated export controls on foundational high tech inputs, most notably advanced semiconductor manufacturing equipment and supercomputing architectures. To shield local industries from these heavily subsidised market distortions, Western governments have imposed aggressive countervailing tariffs (tariffs imposed to offset unfair foreign subsidies), making single source dependency on China financially unviable for export oriented corporations as discussed in (Ban & Scepianovic, 2026). This macro political distance is conceptualised effectively through the lens of the Uppsala Internationalization Model (which talks about how companies gradually expand their operations in alternative foreign countries); under an increasingly authoritarian domestic regime, the institutional, political, and cultural distance between China and Western market economies has widened into an unbridgeable gulf. From a

Western perspective, persistent risks regarding weak intellectual property protection, a pervasive *shanzhai* counterfeit economy (unlicensed, unauthorised manufacturing operations in china), forced technology transfers, and sophisticated state sponsored cyber espionage targeting corporate source code have made single hub models politically and operationally untenable (Bontje, 2014). Moreover, China's aggressive foreign policy and maritime territorial assertiveness in regional choke points like the South China Sea have resulted in severe regional alienation, leading to a global anti China security and economic coalition (Anwar, 2023). Neighboring Indo Pacific states are actively executing dominance denial (not letting China be a dominant power), hedging, and economic diversification policies to avoid catastrophic reliance of all other countries on an assertive superpower like China . (Anwar, 2023). Challenged with the clear threat of sudden export controls or the potential weaponisation of critical minerals and refined earth processing, to level decision makers are executing a profound architectural redesign from vulnerable just-in-time (a model focused on keeping inventory as low as possible and making it available whenever its needed) hyper efficiency toward redundant, resilient just-in-case value chains (Wade, 2023). This risk mitigation strategy directly leads the corporations towards operational philosophy of friend shoring , routing their supply chain expansions towards politically allied, stable, and psychically close nations (Wade, 2023). Thus, while the specialised clusters detailed in the preceding section prevent a complete operational withdrawal from the mainland, the compounding realities of increasing production costs, aggressive environmental cleanup mandates, structural state protectionism, and severe geoeconomic fragmentation have transformed the China Plus One framework into a necessity for modern global enterprises (Wade, 2023).

Models for project research

I. Michael Porter's Diamond Model

Porter's Diamond Model talks about how nations build their national competitive advantage through four core interconnected factors: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry, with government role. Connecting this to China, it initially built an unbeatable competitive advantage by leveraging low cost factor conditions, deeply integrating its industrial clusters, and massive domestic demand for goods and services being produced. But today, core factor conditions are changing rapidly across manufacturing hubs. Skyrocketing land prices, acute worker retention deficits, and a contracting demographic dividend are making it tough to continue with traditional production operations. Heavy government interventions and subsidies also distorts firm strategy, and domestic rivalry by favouring domestic champions. Consequently, these rising production costs and unbalanced market conditions are forcing foreign firms to search for secondary manufacturing bases outside mainland China.

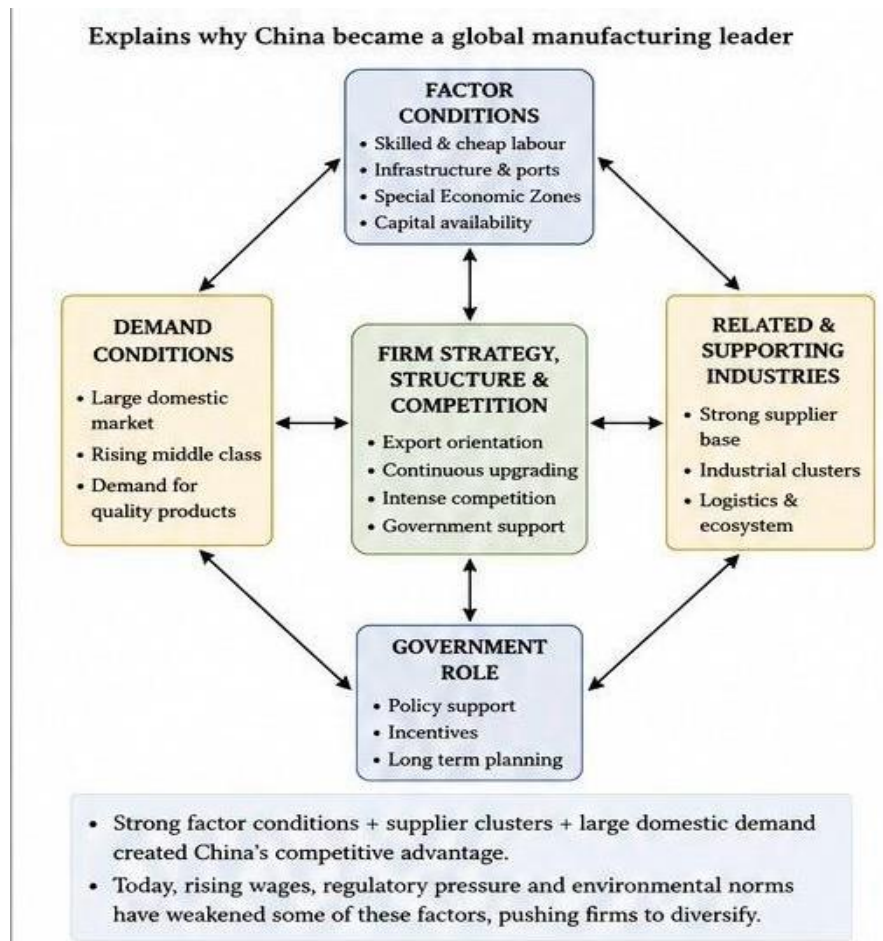


Figure 1: Michael Porter's Diamond Model
Source: Author's own creation using python

II. Dunning's Eclectic Paradigm (OLI Framework)

Dunning's OLI framework helps understand why companies expand their bases abroad based on three specific advantages: Ownership advantages (proprietary tech or brand), Location advantages (cost benefits or market access), and Internalisation advantages (protecting operations in house).

In the context of China, Multi National Corporations initially invested heavily to capture key Location (L) advantages, such as cheap labour assembly and a massive domestic market. Now these Location advantages are rapidly declining due to wage inflation, rising regulatory compliance, and escalating geo economic tensions. However, core Ownership (O) and Internalisation (I) advantages remains mostly intact within existing Chinese operations. Therefore, companies are adopting a China Plus One strategy to retain access to China's domestic market while trying to hedge against single source operational risks.

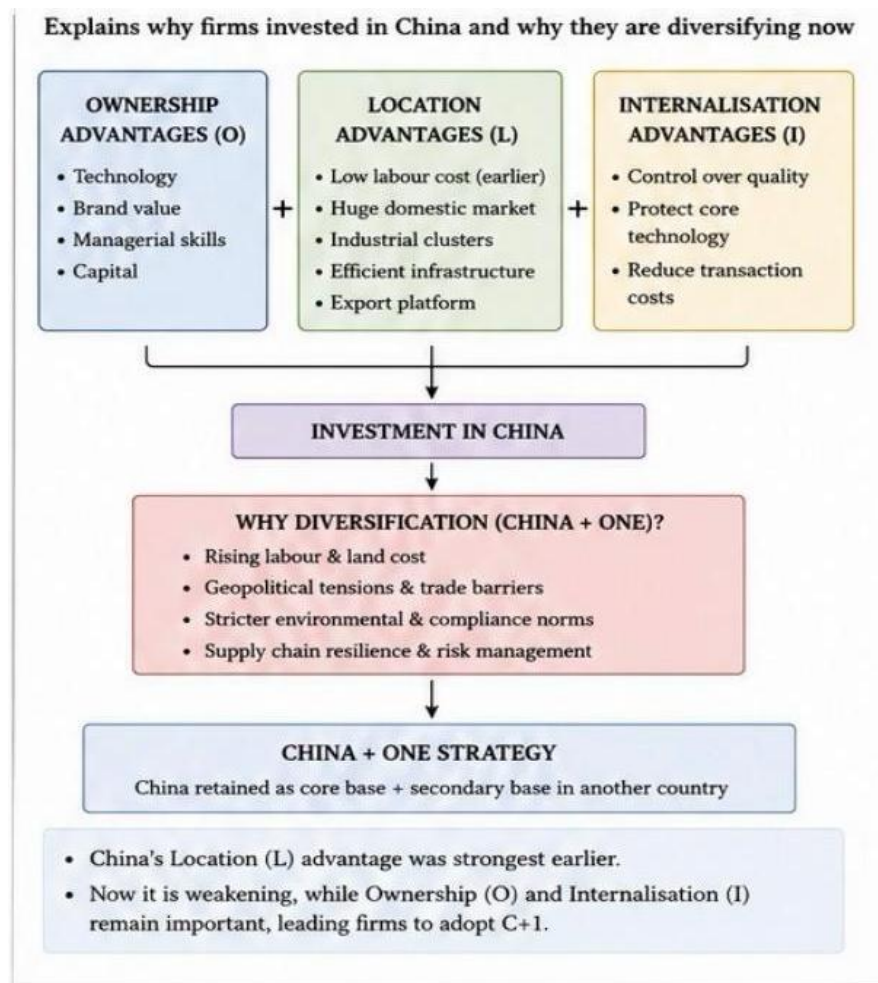


Figure 2: Dunning's Eclectic Paradigm (OLI Framework)

Source: Author's own creation using python

III. Uppsala Internationalisation Model

The Uppsala Model suggests that companies should expand into foreign markets gradually through an incremental learning process, slowly increasing their resource commitment towards the new country as they gain market knowledge and reduce perceived risk.

Applying this to China, corporations rarely exit the mainland completely overnight because of extreme structural stickiness, complex supplier networks, and deep cluster reliance. Instead, they follow a step by step learning process to lower their foreign expansion uncertainty. Firms first test alternative host nations like Vietnam, India or Malaysia on small scale investments before committing larger capital investments. Also, the widening political, cultural, and institutional distance between China and Western economies is accelerating this step by step diversification process.



Figure 3: Uppsala Internationalisation Model

Source: Author's own creation using python

IV. Environmental Kuznets Curve (EKC)

The Environmental Kuznets Curve creates an inverted U shaped relationship between economic development and environmental quality, where pollution increases during initial industrialisation but begins to decline once income per capita of a country crosses a critical development threshold.

In China, decades of unchecked hyper growth caused severe ecological degradation across major industrial zones. Once per capita income crossed critical economic thresholds, the government heavily intervened with strict national environmental mandates and clean energy policies. This state has enforced green transition elevated capital compliance overheads for legacy manufacturers. As a result, the high compliance costs are pushing low margin, energy intensive industries to relocate themselves towards cheaper developing nations with less punitive regulatory environments.

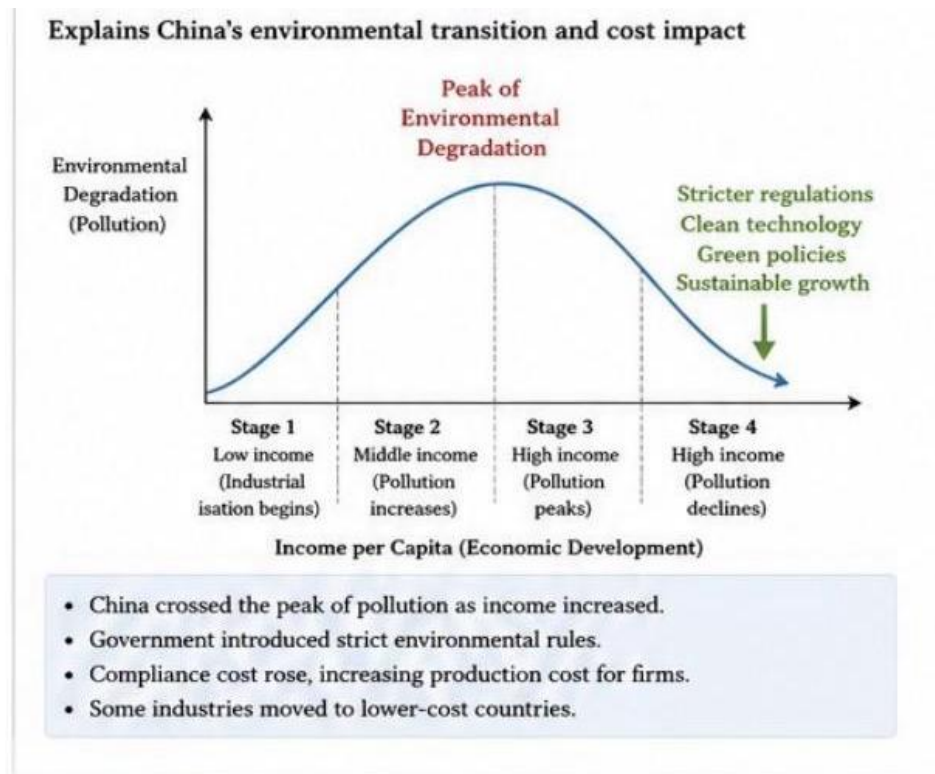


Figure 4: Environmental Kuznets Curve (EKC)

Source: Author's own creation using python

Sub Theme 3: ANALYSIS ON GVCs

(What companies expect in a country to diversify their production in that country)

Building on the realities of global industrial shifts toward Asia, companies looking to expand their production through a China Plus One lens expect potential host nations to offer much more than cheap assembly of raw materials into finished goods (Rodionova, 2021). They need to target countries to excel at connecting factories and protecting critical assets (Dutta, 2018). Time is money in modern supply chains. Delays lead to massive tariff equivalent costs. Consequently, firms want the host countries to possess highly reliable multi modal logistics platforms and transnational infrastructure corridors to prevent costly supply chain disruptions (Rimmer, 2004). Location choices are no longer just resource seeking. They are heavily driven by efficiency seeking, total cost reduction, supply chain interruption risk and predictable government trade policies (Offshoring and Reshoring, 2012). Corporations expect robust legal frameworks that enforce incomplete contracts and protect proprietary intellectual property from leakage to the competitors. (Background and Literature Review of Global Value Chains) (Dutta, 2018).

Infrastructure deficits like frequent power cuts or slow customs processing will immediately disqualify candidate countries from serious consideration (Yusuf et al., 2007). Companies often look for industrial ecosystems where rapid labour productivity gains are higher than rising wages, allowing factories to automate and move toward Industry 4.0 standards (Colotla et al., 2018). Rather than hosting basic routine assembly of products, host nations must offer skilled workforces capable of high productivity knowledge intensive tasks like design and R&D (Levinson, 2013). Because global production exhibits a deepening smile curve where value concentrates in pre and post fabrication stages, candidate site countries must have local absorptive capacity, to learn and adopt with foreign knowledge and technology and institutional quality so firms can upgrade into higher value activities rather than remaining stuck in low wage fabrication tiers (Buckley et al., 2020). Host nations must also offer strong territorial embeddedness and balanced governance power to ensure local value creation, enhancement, and capture global production networks (Henderson et al., 2002). The intermediate trade regionalises due to transaction costs, target countries are expected to function as central supply hubs who anchors the regional blocs like Factory Asia or Factory Europe (Factories Europe, Asia, and North America, 2018; Meng et al., 2019). Firms evaluate prospective expansion sites using complex network positions, requiring candidates to demonstrate strong forward and backward centrality, high reciprocity in trade flows, and multi-country cyclical clustering (Amador et al., 2018; Criscuolo & Timmis, 2018). Ultimately, host economies must demonstrate high upstreamness (providing raw materials, technology etc to start production), midstreamness (processing and assembling), or downstreamness (final product packaging, branding, delivery etc) centrality within specific sector networks to prove there are no productivity spillovers and seamlessly integrate into global production (Cingolani et al., 2017; Criscuolo & Timmis, 2018).

Sub Theme 4: COMPARISON OF COUNTRIES

Table 1: Labour Cost Dynamics and Workforce Productivity

Source: Author's own creation using MS Word

VARIABLE	COUNTRY	ARGUMENT	CITATION
(1) Labour Cost Dynamics and Workforce Productivity			
	VIETNAM	In Vietnam, human resource development and the structured installation of technology have been confirmed as positive influences on labour productivity, while key variables such as firm size, age, investment, and competition also shape performance, highlighting the lower productivity observed in informal firms.	(Hien et al., 2021; T. N. Nguyen, 2023; Thang et al., 2025)

		Furthermore, Vietnamese manufacturing industries can significantly improve their per worker productivity by adopting efficiency wage models, which involve paying wages based on efficiency of workers.	
	MEXICO	Research in Mexico shows that localised increases in manufacturing labour productivity generate positive wage spillover effects in neighboring states. By using the municipal level data, the study proves that productivity gains in one location create economic benefits that drive up wages in adjacent areas.	(López Cabrera et al., 2024)
	GLOBAL EMERGING HUBS	For developing countries to catch up to the world's leading manufacturing countries, they cannot simply wait for new technology to appear or spread naturally. The most effective way to grow is to actively invest in physical assets like building new factories, buying modern machinery, and improving infrastructure.	(AlKathiri, 2022a)

Country Summaries

- **Vietnam:** Human resource development and technology adoption are key factors of labor productivity, with efficiency wage models boosting the output for enterprises.
- **Mexico:** Localised manufacturing productivity gains create positive wage spillovers into neighbouring states, reinforcing regional industrial growth.
- **Global Emerging Hubs:** Developing nations must actively invest in physical capital like factories, machinery, infrastructure, rather than passively awaiting technology diffusion to close the productivity gap.

Table 2: Geopolitical Risk and Political Stability

VARIABLE	COUNTRY	ARGUMENT	CITATION
(2) Geopolitical Risk and Political Stability			
	VIETNAM	Vietnam strategically navigates US China decoupling pressures by working with a geoeconomic hedging model that balances relations between Western powers and China, effectively positioning the nation for diversified FDI. Vietnamese firms proactively mitigate financial risk during heightened geopolitical uncertainty by reducing total debt and short-term leverage.	(AlKathiri, 2022b)(Vong & Bui, 2026)
	MEXICO	The research shows levels of uncertainty in both Mexico and the United States act as an important factor in determining whether investors feel confident enough to invest capital to Mexico. When trade policies in any of the two countries become less predictable, it statistically correlates with changes in the volume or stability of foreign direct investment flowing into Mexico.	(Galani & Kanellopoulos, 2025)
	SOUTHEAST ASIA	Geopolitical shocks disrupt the global economy through a two channel feedback loop: (1) The Real Economy Channel Physical trade disruptions send ships rerouting and companies hoarding inventory just in case, massively increasing logistics and operational costs. (2) The Financial Channel - The logistical unpredictability triggers global market volatility, causing rapid fluctuations in exchange rates and driving investor sentiment toward safer, risk-averse assets.	(Alhalwachi & Danish, 2026)

Country Summaries

- **Vietnam:** Vietnam employs a geoeconomic hedging strategy to attract diversified foreign direct investment while firms reduce leverage to manage geopolitical financial risk.
- **Mexico:** Trade policy uncertainty in the US and Mexico positively correlates with FDI instability, making predictable regulation critical for investor confidence.
- **Southeast Asia:** Geopolitical shocks affect both, real economy (logistics cost) and financial (exchange rate volatility) channels, with cascading systemic effects.

Table 3: Trade Agreement Architecture and Tariff Exposure

Source: Author’s own creation using MS Word

VARIABLE	COUNTRY	ARGUMENT	CITATION
(3) Trade Agreement Architecture and Tariff Exposure			
	SOUTHEAST ASIA	The RCEP streamlines Factory Asia by replacing a fragmented noodle bowl of bilateral trade agreements with a single, harmonized set of rules of origin. This harmonisation helps in regional value chain integration through regional cumulation. Manufacturers can source intermediate inputs from any of the 15 member states and have those inputs count towards the regional value content required for tariff free trade. This significantly lowers the administrative burden and costs of cross-border production for Southeast Asian economies.	(Flach et al., 2021)
	MEXICO	Driven by the United States-Mexico-Canada Agreement (USMCA), North America has developed a deeply integrated production sharing network. This structural integration allows the region to use its comparative advantages, driving a shift in Mexico's low-cost assembly jobs towards higher value added, skill intensive industries, such as advanced technology products and medical devices.	
	INDIA	India's engagement with Southeast Asian trade reveals it maintains a difficult balance between domestic agricultural vulnerability and political	(Gupta, 2026)

		protectionism. For example, regional liberalization under AIFTA caused a structural shift that drastically increased India's reliance on cheap Vietnamese black pepper imports, taking away long term benefits to domestic producers. To counteract such vulnerabilities, India often resorts to protectionist measures, as seen in the 2019–2020 palm oil dispute with Indonesia. Even when Indonesia proposed a mutually beneficial trade-off lowering its tariffs on Indian sugar in exchange for reduced Indian tariffs on palm oil, the strategy failed due to India's diplomatic reluctance, characterized by hesitation, delays, and policy reversals.	
	Global (Asia-Pacific)	Deep regional trade agreements like the CPTPP (comprising New Zealand, Malaysia, Singapore, Vietnam, Canada, Chile, Mexico, Peru, and the United Kingdom) and the RCEP (including China, Japan, South Korea, Australia, New Zealand, and the ten ASEAN economies) promote higher value added Global Value Chain (GVC) participation by going beyond basic tariff cuts to reduction of non-tariff barriers. This approach lowers the transaction costs that occurred in multistage manufacturing, effectively smoothing the cross border flow of complex intermediate goods.	(Chen et al., 2025)

Country Summaries

- **Southeast Asia:** RCEP's harmonised Rules of Origin helps to reduce administrative trade costs, incentivising firms to anchor supply chains within the regional bloc.
- **Mexico:** USMCA has driven Mexico's industrial upgrade from low-cost assembly towards high-value sectors such as advanced electronics and medical devices.
- **India:** Agricultural protectionism and diplomatic hesitancy undermine India's regional trade cooperation.

- **Global (Asia-Pacific):** Deep agreements like CPTPP and RCEP lower non-tariff barriers and transaction costs, enabling members to enter high-value GVC segments in electronics, chemicals, and machinery.

Table 4: Infrastructure Quality and Logistics Efficiency

Source: Author’s own creation using MS Word

VARIABLE	COUNTRY	ARGUMENT	CITATION
4. Infrastructure Quality and Logistics Efficiency			
	Global Benchmark	The World Bank has introduced the Logistics Performance Indicators 2.0 , shifting to an objective, data-driven framework powered by large scale tracking data from maritime, aviation, and postal operators that handle over 80% of global goods trade. By evaluating supply chain connectivity, speed, and reliability through 21 specific indicators, the LPI 2.0 replaces industry perceptions with observed outcomes to provide precise, actionable results.	(Connecting to Compete, 2026)
	Vietnam	Vietnamese logistics firms struggle with operational inefficiencies caused by fragmented processes, a lack of high quality human resources, and infrastructural barriers like traffic congestion and lack of warehouses, all of which increase transportation and storage costs.	(Dr. Tran Thi Thanh Xuan et al., 2023; Le & Pham, 2026; Thi Van Anh & Nguyen Viet Hoang, 2025)
	Developing Countries	The study demonstrates that in developing economies, logistics performance is a critical factor of production that directly drives economic growth. While these countries frequently struggle with customs procedures, improvements in physical infrastructure such as roads, rail, telecommunications, and electricity can serve as powerful positives for economic	(Khadim et al., 2025)

		expansion. Particularly for nations with the lowest logistics ratings, upgrading these systems provides a direct value addition to their physical capital, making their employed labor and resources function more effectively.	
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393 **Country Summaries**

- 394 • **Global Benchmark:** The World Bank's LPI 2.0 provides data driven analysis across 21
- 395 indicators, talking about port unpredictability and transshipment time penalties as critical
- 396 global bottlenecks.
- 397 • **Vietnam:** Fragmented logistics processes and infrastructure gaps inflate costs. Digital
- 398 transformation via AI and IoT is the strategic priority over cost cutting.
- 399 • **Developing Countries:** Logistics performance is a direct growth driver in developing
- 400 economies. Physical infrastructure upgrades and customs digitalisation are essential to
- 401 unlock supply chain efficiency.

402

403 Table 5: Currency Stability and Exchange Rate Risk

404 Source: Author’s own creation using MS Word

VARIABLE	COUNTRY	ARGUMENT	CITATION
5. Currency Stability and Exchange Rate Risk			
	INDIA	A commodity level analysis of India's merchandise sectors reveals that nominal exchange rate volatility has severe negative impacts on the country's cross border trade in both, short and long term. While short term fluctuations affect export volumes, Indian exporters can partially remove this risk by hedging through financial instruments. However, long term nominal volatility causes more intense structural damage to India's overall export performance because these uncertainties cannot be easily or cost effectively hedged. To remove these significant barriers and achieve higher export growth, the study concludes that it must be a primary policy objective for developing	

		economies like India to aggressively reduce exchange rate uncertainty and maintain long term price stability.	
	INDONESIA	The impact of exchange rate volatility on Indonesian exports is highly fragmented. It is different for a specific commodity and a destination country. While highly sensitive markets like India, Japan, and South Korea sharply reduce their long term imports of Indonesian ores, chemicals, and rubber during volatile periods, markets like China remain unaffected from these effects. This confirms that currency fluctuations act as complex, product specific barriers rather than uniform hurdles across global markets.	(Hannafi Ibrahim et al., 2024)
	VIETNAM	Exchange rate volatility structurally harms Vietnam's long term export performance, with a 1% increase in volatility causing a 0.11% drop in export volume. To mitigate this risk, the study supports the State Bank of Vietnam's shift to a multi currency central rate benchmark rather than a strict US dollar peg.	(Kim Lien et al., 2022; Sugiharti et al., 2020)

Country Summaries

- **India:** Long-term exchange rate volatility inflicts structural damage on Indian exports that financial hedging cannot offset, making price stability a top policy priority.
- **Indonesia:** Currency volatility affects Indonesian exports unevenly sensitive markets (Japan, South Korea) reduce imports significantly, while China remains largely insulated.
- **Vietnam:** A 1% rise in exchange rate volatility cuts Vietnamese export volume by 0.11%; adopting a multi-currency benchmark rather than a USD peg is the preferred policy response.

Table 6: Regulatory Environment and Ease of Doing Business

Source: Author's own creation MS Word

VARIABLE	COUNTRY	ARGUMENT	CITATION
6. Regulatory Environment and Ease of Doing Business			

	INDIA	National level Ease of Doing Business reforms have successfully driven record foreign direct investment into India. By streamlining regulations through initiatives like the GST tax simplification and improving processes for securing construction permits and electricity, India climbed from 142nd in 2014 to 63rd in the 2019 global EODB rankings. This enhanced, business friendly regulatory environment significantly boosted global investor confidence, resulting in a massive surge in overall FDI inflows that rose from \$45.14 billion in 2014-15 to a record \$84.83 billion in 2021-22, effectively securing \$667.41 billion in investments over a ten-year period.	(Johari, 2024)(Kale Guest Faculty, 2026)
	Southeast Asia	An analysis of seven Southeast Asian nations from 2006 to 2019 reveals a significant correlation between Foreign Direct Investment inflows and key ease of doing business metrics. Specifically, the enforcement of contracts, investor protection, simplified tax compliance, and GDP per capita serve as crucial drivers for attracting foreign capital.	(Chizema et al., 2025)
	Developing Countries	The impact of a developing country's ease of doing business depends almost entirely on its level of natural resource wealth. For resource rich nations, strict climate conditionality severely disrupts the business environment by forcing costly and painful transitions away from traditional extractive industries. In contrast, resource poor nations experience a significant boost to their overall ease of doing business, as climate funding successfully stimulates technological innovation and economic growth, particularly within their service sectors.	(Kabutey et al., 2025; Morano et al., 2023)

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Country Summaries

- India:** Regulatory reforms (SPICe+, GST) propelled India from 142nd to 63rd in EODB rankings, attracting a record \$84.83 billion in FDI in 2021–22.
- Southeast Asia:** Contract enforcement, investor protection, and tax simplification are the most powerful EODB drivers for attracting FDI across seven Southeast Asian economies.
- Developing Countries:** Climate finance boosts business conditions in resource-poor nations through innovation, but imposes costly disruptions on resource-rich economies subject to climate conditionalities.

Table 7: Supply Chain Ecosystem Maturity

Source: Author’s own creation using MS Word

VARIABLE	COUNTRY	ARGUMENT	CITATION
7. Supply Chain Ecosystem Maturity			
	Mexico	Mexico's semiconductor supply chain is severely affected by utility deficits, transport insecurity, and logistical issues. Heavy manufacturing is hindered by a fragile electricity grid lacking clean energy and acute water scarcity worsened by a 46% infrastructure leakage. Transporting valuable, fragile components is highly risky and expensive due to low national rail density and weak network and widespread highway cargo hijacking, which forces businesses to fund costly private security convoys. Finally, the supply chain is further slowed by inadequate customs operations and invasive physical border inspections that risk damaging sensitive technical inputs.	<i>(Promoting the Development of the Semiconductor Ecosystem in Mexico, 2026)</i>
	Malaysia	Malaysia occupies a highly specialised and critical position within the global semiconductor supply chain, which serves as a foundational pillar for the country's economic development. Specifically, the nation has worked out on a vital niche focused heavily on the manufacturing, assembly, and testing	(Lee & Hutchinson, n.d.; Nur Aifiah Binti Ibrahim, 2026)

		of electrical and electronics components. By securing this specific high tech segment of the global value chain, Malaysia's semiconductor sector effectively drives the country's transition toward a technology driven, high income economy while contributing massively to increasing employment rates, overall export volumes, and the attraction of significant foreign direct investment (FDI).	
	Global networks	The global automotive supply chain operates as a highly vulnerable multilayer network, divided between upstream mineral extraction in resource rich nations and downstream manufacturing in industrial hubs like China, the US, and Germany. A disruption in foundational raw materials does not just affect the immediate next step; it exponentially cascades through intermediate parts, causing massive, hidden structural damage to finished automotive production. To manage these complex systemic risks, nations must move beyond isolated bilateral trade deals and implement coordinated international governance and resilience strategies.	(Yue & Zhong, 2026)
	India	A longitudinal study of the Ranipet leather cluster in Tamil Nadu, India, reveals that the economic resilience of small industrial towns during severe disruptions, such as continuous power cuts and strict environmental regulations, relies heavily on localised social capital rather than solely on state policies. The industry's survival is driven by local capitalism, as it is predominantly controlled by deeply rooted local family businesses. Furthermore, this resilience is bolstered by an increasingly feminised and casualised workforce, which provides the critical labour flexibility needed for factory owners to	(Yue & Zhong, 2026)

		instantly adjust production to match global market fluctuations and infrastructure failures.	
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Country Summaries

- **Mexico:** Utility deficits, cargo hijacking, and inadequate customs operations severely restrict Mexico's semiconductor supply chain readiness despite nearshoring potential.
- **Malaysia:** Malaysia has secured a vital niche in semiconductor assembly and testing, anchoring its transition to a high-income, technology-driven economy.
- **Global networks:** Automotive supply chain disruptions cascade exponentially from upstream raw materials to downstream manufacturing, demanding coordinated international governance beyond bilateral deals.
- **India:** Ranipet's leather cluster demonstrates that local family capitalism and flexible, feminised labour are the true resilience engines for India's peripheral manufacturing hubs.

Table 8: Fiscal Incentive Structures and Industrial Policy

Source: Author’s own creation using MS Word

VARIABLE	COUNTRY	ARGUMENT	CITATION
8. Fiscal Incentive Structures and Industrial Policy			
	India	A study of the Indian stock market confirms that the government's Production Linked Incentive Scheme successfully generates positive, statistically significant short term abnormal returns for listed firms. These favourable market reactions helps in gaining strong investor confidence in targeted industrial policies, although the exact impact varies by sector. Specifically, the electronics and renewable energy industries experienced the strongest positive market responses, while the telecommunications and textiles sectors saw comparatively moderate gains.	(Anand, 2026; Karnik, 2025)
	Indonesia	In Indonesia, labour resource seeking is the primary motive for foreign direct investment, yet discretionary tax incentives fail to influence location decisions. These incentives are distributed indiscriminately; they do not favor	(Sudiana et al., 2026; Wulandari, 2023)

		cost sensitive firms and are widely ignored during investment appraisals, even within export processing zones. Instead, 87% of investors favor predictable, automatic corporate income tax rate reductions over discretionary benefits.	
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Country Summaries

- **India:** India's PLI Scheme generates significant short-term stock market gains, with electronics and renewable energy leading sectoral responses to targeted industrial policy.
- **Indonesia:** Discretionary tax incentives fail to attract FDI in Indonesia; investors overwhelmingly prefer predictable automatic corporate tax reductions over ad hoc tax holidays.

Table 9: Demographic Trends and Human Capital Development

Source: Author's own creation using MS Word

VARIABLE	COUNTRY	ARGUMENT	CITATION
(9) Demographic Trends and Human Capital Development			
	Indonesia	Indonesia's demographic bonus can support productivity, provided it is accompanied by competency based training programs for the unskilled youth.	(Adriani & Yustini, 2021)
	India	A demographic projection of India reveals that accounting for state level heterogeneity, rural and urban divides, and education levels provides a much more accurate outlook than traditional models. The data demonstrates that education, particularly for women is the most powerful driver of demographic growth, consistently leading to lower fertility rates. To successfully capture its demographic dividend and experience rapid, human capital driven economic growth like China, India must keep working on towards its current trajectory of expanding broad based education and health initiatives. On the other hand, if this educational expansion stalls, a massive segment of India's	(Samir et al., 2018)

		growing workforce will remain under educated, limiting the nation's future development potential.	
	Vietnam	Measuring its structural shift toward global economic integration through a historical analysis, Vietnam's human capital development shows that while investments in specialised skills heavily influence employee mobility and retention within the local labour market, they also drive a strong positive relationship between digital technology adoption and overall organisational performance.	(Ghi et al., 2022; Hong Nguyen, 2021; Truong & Nguyen, 2026)

Country Summaries

- **Indonesia:** Indonesia's demographic dividend translates into productivity gains only when paired with structured, competency-based workforce training programmes.
- **India:** Women's education is the single most powerful lever for India's demographic transition; stalled educational expansion risks leaving a vast undereducated workforce.
- **Vietnam:** Specialised skill investment improves both employee retention and digital technology adoption, creating a positive feedback loop between human capital and organisational performance.

Table 10: Environmental Regulatory Compliance and ESG Considerations
Source: Author's own reation using MS Word

VARIABLE	COUNTRY	ARGUMENT	CITATION
10. Environmental Regulatory Compliance and ESG Considerations			
	Vietnam	Although environmental regulations in Vietnam do not directly increase corporate performance, they do so indirectly by encouraging green innovation and resilience, while corporate ESG disclosure concurrently amplifies the positive impact of enterprise risk management on profitability and long term value.	(Huynh et al., 2024; T. A. Nguyen & Nguyen, 2026)
	Malaysia	Research on Malaysia's manufacturing sector	(Akhtar et

		reveals a inconsistent level of Environmental, Social, and Governance readiness. While multinational corporations and government related firms display strong ESG commitment, Small and Medium sized enterprises face severe implementation barriers due to a lack of capabilities, information, and financial resources. To bridge this critical gap and maintain global competitiveness, the study strongly encourages for adopting Malaysia's National Industry ESG Framework 1.0 to standardise sustainability reporting, actively support SME participation, and align the nation's supply chains with broader global climatic conditions.	al., 2025; Binti et al., 2025)
	Indonesia	Talks about the relationship between ESG performance and firm value in Indonesia is shaped by country specific regulatory and institutional frameworks.	(Surya et al., 2026)

Country Summaries

- **Vietnam:** Environmental regulations drive corporate value indirectly via green innovation, while ESG disclosure strengthens the link between risk management and firm profitability.
- **Malaysia:** ESG readiness is polarised between MNCs and SMEs; Malaysia's National Industry ESG Framework 1.0 is recommended to close the SME capacity gap.
- **Indonesia:** ESG performance impacts firm value in Indonesia through country-specific institutional channels, underscoring the importance of tailored regulatory frameworks.

Sub Theme 5: WHY INDIA SERVES AS A GREAT OPTION FOR COMPANIES

It is clearly visible that there exists an operational necessity for multinational value firms to hedge against mainland China's wage inflation, demographic decline, and geopolitical friction. India has emerged as a prominent "China Plus One" destination by offering a rare and unique alignment of competitive factor conditions, targeted industrial policy, and geoeconomic stability (Anjum,2025; Mrigendra et al., 2026; Tiwari et al., 2025). Under John Dunning's OLI framework, India presents compelling location advantages, driven by an average manufacturing labor cost of \$1.90 per hour, which is substantially lower than China's inflated \$6.50 per hour, and an unmatched demographic population featuring the world's largest working age population

of nearly 900 million youth (Anjum, 2025; Li, 2025; Mrigendra et al., 2026). To capitalise on these factors of production, national Ease of Doing Business regulatory reforms such as tax simplifications, alongside performance based Production Linked Incentive schemes allocating ₹1.97 lakh crore (\$26 billion) across almost 14 strategic sectors, has drastically elevated investor confidence, attracting record Foreign Direct Investment in sectors like high-value electronics, semiconductor, automobile, and pharmaceutical ecosystems (Anjum, 2025; Boro, 2026; Dhiman & Twinkle, 2025). This industrial transition is already visible as electronics exports reached past \$23 billion, led by global giants like Apple, Samsung, and Foxconn expanding local assembly and shifting supply chain gravity to India (KUMAR, 2021; Tiwari et al., 2025). Furthermore, infrastructure modernisations under schemes like PM Gati Shakti, Dedicated Freight Corridors (that has helped reducing transit times by 40–60%), the National Logistics Policy, and digital tracking through the Unified Logistics Interface Platform are directly dismantling major historical logistics bottlenecks (*India's Supply Chain Transformation*, n.d.). Supported by advanced Digital Public Infrastructure system like the Aadhaar identity system, UPI payments, and ONDC, alongside coastal Assembly & Re-Export Zones operating on a Spend in Yuan, Operate in Rupee, Earn in Dollar tri currency model to conserve foreign exchange, India offers multinational corporations a geopolitically stable, tariff resilient friendshoring platform. (Boro, 2026; Dhiman & Twinkle, 2025; Marlecha, 2025). Moreover, India's massive 1.4 billion consumer market provides a unique domestic market pull condition that is unavailable in export only hubs, enabling firms to hedge global trade fragmentation by balancing export manufacturing with direct local demand capture (Li, 2025; Vanvari, 2025).

Country Case Synthesis & Major Findings

A. Vietnam: Excellent geoeconomic hedging and regional integration (RCEP, CPTPP), though facing fragmented logistics and currency volatility.

B. Mexico: Deeply integrated with North America via USMCA, leading to advanced high-value sector growth, but severely hindered by semiconductor utility deficits, water scarcity, and cargo hijacking.

C. India: Emerges as a highly competitive C+1 destination due to an average manufacturing labor cost of \$1.90/hour (vs. China's \$6.50/hour), a 900M youth working population, extensive fiscal incentives (PLI), and robust logistics/freight corridors.

D. Indonesia: Rich demographic bonus but requires structured youth training programs, with investors favoring automatic tax cuts over discretionary incentives.

E. Malaysia: Holds a highly specialized global niche in semiconductor assembly and testing, though requiring targeted ESG frameworks to support SMEs.

Recommendations Based on Findings

A. For Corporate Decision-Makers:

- Leverage Tailored Policy Frameworks: Align investments with host nations offering targeted industrial incentives, such as India's PLI scheme in electronics and renewables.
- Implement Redundancy & Private Security Firms nearshoring in Mexico must budget for water/power redundancies and private security convoys to combat utility scarcity and highway cargo hijacking.
- Utilize Tri-Currency Models: Maximize capital efficiency in India by exploiting coastal Assembly & Re-Export Zones that utilize "Spend in Yuan, Operate in Rupee, Earn in Dollar" models.

B. For Host Country Policymakers:

- Shift from Discretionary to Automatic Incentives: Replicate the preferred Indonesian model by establishing predictable, automatic corporate income tax rate reductions over ad-hoc tax holidays.
- Standardize Sustainability Reporting: Replicate Malaysia's National Industry ESG Framework 1.0 to help domestic SMEs bridge the ESG capacity gap and remain integrated into global GVCs.
- Prioritize Physical and Customs Infrastructure: Upgrade physical transport grids and digitalize customs procedures to eliminate transshipment and port bottlenecks.

Suggestions for Future Research Directions

A. Non-Tariff Barriers and Rules of Origin:

Investigate how RCEP's harmonized rules of origin and regional cumulation affect real-world transaction costs and GVC integration compared to traditional bilateral deals.

Explore the long-term impact of deep agreements (e.g., CPTPP) on non-tariff barrier reductions in high-value machinery and electronics.

B. Social Capital and Localized Industrial Resilience:

Analyze the microeconomic survival of peripheral industrial hubs during structural power/environmental failures using informal networks, localized family capitalism, and workforce flexibility (e.g., Tamil Nadu's leather cluster).

C. Empirical Testing of the Uppsala Psychic Distance in the Tech Sector:

Measure how the widening institutional and political "psychic distance" under authoritarian regimes statistically correlates with the scale and speed of high-tech manufacturing diversification.

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Future Scope of Work (To Expand on Current Study)

A. Quantitative Gravity Modeling:

Develop a mathematical gravity model using empirical export volumes and tariff rates to predict exact shift volumes from China to the 5 studied hubs.

B. Long-Term PLI Effectiveness Assessment:

Conduct a longitudinal study tracking whether India's PLI schemes generate long-term competitive advantages and domestic supply integration, or simply short-term stock market abnormal returns.

C. Supply Chain Cascading Analysis:

Map multilayer global networks (e.g., automotive or semiconductor GVCs) to mathematically model how upstream raw material disruptions cascade downstream through the C+1 hubs.

Conclusion

A. Summary of Key Findings:

Multi-dimensional factors specifically micro-level cost inflation, aggressive environmental policies, protectionism, and geo-economic fragmentation have made the "China Plus One" strategy an operational necessity for modern MNCs.

B. Synthesis of Alternatives:

No single emerging hub serves as a perfect, direct replacement for China. Instead, MNCs must strategically align their specific manufacturing needs with country-specific strengths (e.g., Vietnam's trade architecture, Mexico's nearshoring proximity, Malaysia's semiconductor niche, and India's unparalleled cost-to-scale factor advantages) while actively managing localized risks.

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