

The China Plus One Strategy in Flux: GCC's Opportunity Amid Trump's Reciprocal Tariffs and Global Realignment

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In recent years, the global manufacturing landscape has undergone significant changes, largely influenced by the "China Plus One" strategy. This approach focuses on diversifying manufacturing operations beyond China to reduce risks, improve profitability, and strengthen supply chain resilience. South-East Asian nations such as Vietnam, Thailand, Indonesia, and Malaysia have reaped substantial benefits from this strategy.

However, the "China Plus One" strategy recently encountered a speed bump following the announcement of reciprocal tariffs by the Trump administration. These tariffs have significantly impacted many of the countries favoured for manufacturing offshoring. The hardest-hit nations include Cambodia (49%), Vietnam (46%), Sri Lanka (44%), Bangladesh (37%), Thailand (36%), Indonesia (32%), Pakistan (29%) and Malaysia (24%).

As of April 10, 2025, the Trump administration introduced a 90-day tariff pause on the implementation of tariff policies against certain countries except China with a temporary 'baseline' tariff of 10%, allowing for individual countries to renegotiate their tariffs with the USA. As for South-East Asian countries, this leaves uncertain whether tariff percentages could revert to the previously high levels set after the 90-day pause, where negotiations are unsuccessful. Regarding China, the Trump administration increased tariffs to a total of 125%. The Trump's administration's escalation of the US-China Trade War, coupled with the uncertainty facing South-East Asian countries with high proximity to Chinese supply chains, exacerbates the importance of diversifying manufacturing through the China Plus One strategy.

Amid this uncertainty, a silver lining emerges for the Gulf Cooperation Council (GCC) countries. These nations have only been subjected to a baseline 10% tariff, positioning them to potentially capitalise on this opportunity. This development could provide the much-needed impetus for GCC countries to expand their non-oil manufacturing sectors.

Understanding the China Plus One Strategy

The China Plus One strategy emerged as a response to mounting operational risks associated with manufacturing in China, including escalating labour and operational costs, geopolitical tensions with Western economies, and increasing regulatory complexities. Initially, companies relocated secondary or supplementary production facilities to neighbouring Southeast Asian nations such as Vietnam, Thailand, Malaysia, and Indonesia. These countries offered competitive labour costs, logistical advantages and improving regulatory environments, making them natural beneficiaries of manufacturing diversification efforts.

However, recent disruptions - most notably the COVID-19 pandemic and subsequent supply-chain vulnerabilities - highlighted the limitations of overly concentrated manufacturing bases. Global corporations recognised the urgent need for greater geographic diversification to build supply-chain resilience and agility, further amplifying the China Plus One strategy's momentum.

GCC Countries: Rising Manufacturing Stars?

The GCC region, comprising Saudi Arabia, UAE, Oman, Qatar, Bahrain, and Kuwait, has historically relied heavily on oil revenues. Recognising the risks inherent in such dependence particularly in the post 2050 era, GCC governments have embarked on ambitious economic diversification strategies, with non-oil manufacturing and logistics sectors identified as strategic areas for growth and investment.

Key Diversification Initiatives in the GCC

- **Saudi Arabia's Vision 2030:** One of the most ambitious economic diversification plans globally, Vision 2030 aims to increase private-sector GDP contribution from 40% to 65% and foster a robust manufacturing ecosystem. Targeted sectors include automotive, aerospace, renewable energy and advanced manufacturing technologies. Saudi Arabia is investing heavily in industrial clusters, infrastructure upgrades, and workforce training to create a globally competitive manufacturing environment.
- **UAE's Economic Transformation:** The UAE has already established itself as a leading regional commercial and logistics hub, with world-class infrastructure such as Jebel Ali Free Zone and Khalifa Industrial Zone Abu Dhabi (KIZAD). The country continues investing aggressively in advanced manufacturing capabilities, digitalisation and innovation, positioning itself strongly in sectors like aerospace, pharmaceuticals, biotechnology, and high-tech manufacturing.
- **Oman's Diversification Efforts:** Oman has committed substantial resources to expanding its industrial base, targeting sectors such as petrochemicals, metals processing, logistics and light manufacturing. Its strategic port developments, particularly Sohar and Duqm, are promising gateways that directly link Asian and European markets.

Trump's Reciprocal Tariffs: A Paradigm Shift

On April 2, 2025, President Trump introduced a comprehensive reciprocal tariff scheme targeting nearly all of America's trading partners. Although labelled as "reciprocal" the tariffs primarily focused on correcting perceived trade imbalances, penalising nations with substantial trade surpluses against the U.S.

The highest tariffs (excluding China) were imposed on Cambodia (49%) with many other manufacturing offshoring countries also badly hurt including: Vietnam (46%), Sri Lanka (44%), Bangladesh (37%), Thailand (36%), Indonesia (32%), Pakistan (29%) and Malaysia (24%).

In contrast, GCC countries were assigned a considerably lower baseline tariff rate of 10%.

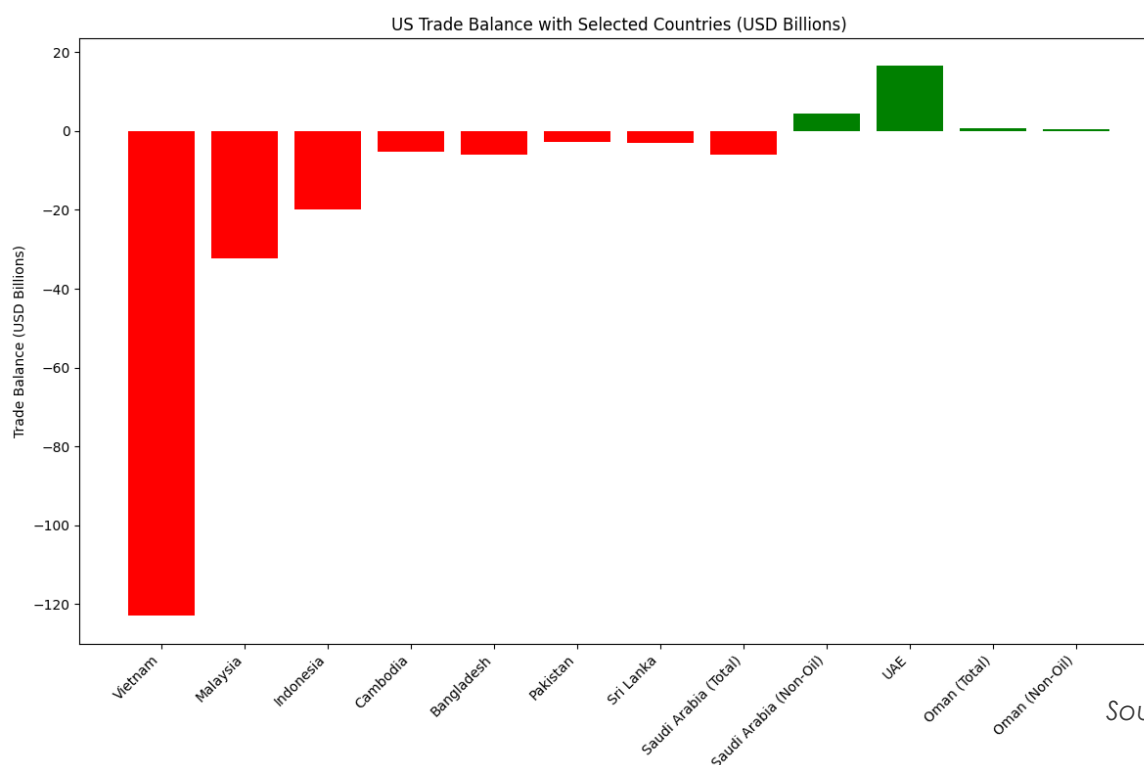
These tariffs fundamentally altered the competitive landscape for Southeast Asian manufacturing hubs, undermining their previous cost advantage and placing significant pressure on profitability and supply-chain predictability.

While the Southeast Asian nations face rising tariffs and geopolitical uncertainties, Trump's tariff scheme could boost GCC countries' attractiveness to Chinese companies looking to offshoring their manufacturing capabilities.

Going forward, one critical consideration for those evaluating manufacturing relocations under the China Plus One strategy will be the long-term stability of tariff regimes. Trump's reciprocal tariffs, fundamentally linked to trade balance deficits, introduce uncertainty for countries whose trade surpluses with the U.S. could trigger heightened future tariffs.

Here, GCC countries enjoy a comparative advantage. While GCC countries typically maintain large trade surpluses with the U.S, these surpluses are predominantly attributable to energy exports, which remain exempt from tariffs. In non-oil trade, GCC countries often maintain trade deficits with the U.S due to significant reliance on imports of machinery, technology and consumer goods. This position significantly reduces the risk of sudden tariff spikes triggered by improved manufacturing and export performance in non-oil sectors.

Consequently, GCC countries potentially offer Chinese manufacturers greater long-term tariff predictability and stability relative to Southeast Asian competitors.



Source: US Census Bureau

Comparing Manufacturing Competitiveness: GCC vs. Southeast Asia

GCC countries such as the UAE and Saudi Arabia have a long history of industrialisation in their oil-related sector. Consequently, they compete very effectively against other manufacturing offshoring countries.

The following is the ranking of various countries according to the Global Competitive Index (GCI):

Country	Ranking
Malaysia	20
UAE	25
Thailand	31
Indonesia	34
Saudi Arabia	36
Vietnam	68
Cambodia	106

Further:

- UAE ranked 7th globally in the IMD World Competitiveness Ranking 2024. This demonstrates UAE's exceptional economic performance, infrastructure quality, business efficiency and innovation readiness.
- Saudi Arabia ranked 16th globally in the IMD World Competitiveness Ranking 2024. This reflects Saudi Arabia's remarkable progress in business reform, regulatory efficiency and economic diversification.

For those contemplating manufacturing offshoring to the GCC countries, GCC countries also benefit from:

Strategic Geographical Positioning: GCC countries strategically bridges Europe, Asia and Africa, providing unparalleled access to key global markets. This advantageous location significantly reduces logistical complexities, transit times and transportation costs, enabling efficient supply-chain management and attractive export opportunities.

Robust Infrastructure and Business-Friendly Environment: A number of GCC countries boast world-class infrastructure, including deep-water ports, extensive road and rail networks, and modern logistics zones. Free zones, offering streamlined regulatory environments, tax incentives and ease of business setup, enhance operational flexibility and cost efficiency.

Energy Availability and Cost Efficiency: Abundant energy resources are inherent strengths of GCC countries, providing reliable, cost-effective energy supplies critical for energy-intensive industries. This is particularly appealing for industries such as chemicals, metallurgy, automotive manufacturing, and advanced industrial processes.

Financial Strength and Investment Incentives: GCC governments have the financial resources and willingness to support foreign investment through incentives, subsidies, and streamlined administrative processes. National investment promotion agencies actively facilitate market entry, joint ventures, and industrial partnerships.

Conclusion: Capitalising on an Emerging Opportunity

The China Plus One strategy is evolving rapidly amid new geopolitical realities. Trump's reciprocal tariffs have disrupted traditional offshore manufacturing destinations, creating a unique opening for GCC countries to accelerate their economic diversification and industrialisation efforts.

For senior executives, GCC countries offer compelling, stable, and strategically advantageous alternatives to Southeast Asia. Leveraging these benefits can mitigate geopolitical risks, enhance operational resilience and deliver competitive advantages in a rapidly shifting global marketplace.

(At the time of writing, the Trump administration's 90-Day tariff pause for certain countries and additional Chinese tariffs to 125% had not yet been introduced. This article has been updated to include these developments and their implications for Chinese supply chains.)

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