NEWS

Trump's tariff plan is throwing into disarray companies' efforts to diversify out of China

By Anniek Bao, CNBC and Dylan Butts, CNBC • Published April 9, 2025 • Updated on April 9, 2025 at 7:35 am

A container cargo ship at a port terminal in Thailand.

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A container cargo ship at a port terminal in Thailand.

- U.S. President Donald Trump's move to impose tariffs on goods from around the world is now putting those diversification plans in disarray and leaving companies scrambling to decide where and how their goods are produced.

- Imports from India, Vietnam and Taiwan are now hit with additional levies totaling 26%, 46% and 32%, respectively. Meanwhile, a punitive 104% tariff on China took effect Wednesday.
- While the sincerity of Trump's tariff rates remains uncertain, many expect them to be lowered based on negotiations between the Trump administration and individual countries.

Many companies had been steadily reducing their reliance on China as a manufacturing hub since President Donald Trump's first term, hoping to blunt the impact of punitive levies from the United States. Then his latest "reciprocal" tariffs came along.

Trump's move to impose tariffs on goods on a broader swathe of countries is now putting those diversification plans in disarray and leaving companies scrambling to decide where and how their goods are produced.

Steve Greenspon, CEO of Illinois-based houseware company Honey-Can-Do International, started moving more of his production from China to Vietnam during Trump's first presidential term. The company supplies household durables such as shelving units, coat hangers and laundry hampers to U.S. retail giants such as Walmart, Target and Amazon.

The company relied on Chinese suppliers for as much as 70% of its products before Trump's first term. That share has since fallen to less than a third as Vietnam and Taiwan have become increasingly important as sourcing destinations.

News of high tariffs on Taiwan and Vietnam stings, given the significant investments made, Greenspon said.

"It's crushing to our company. It is disappointing. It is saddening. It's frustrating," Greenspon said.

Money Report

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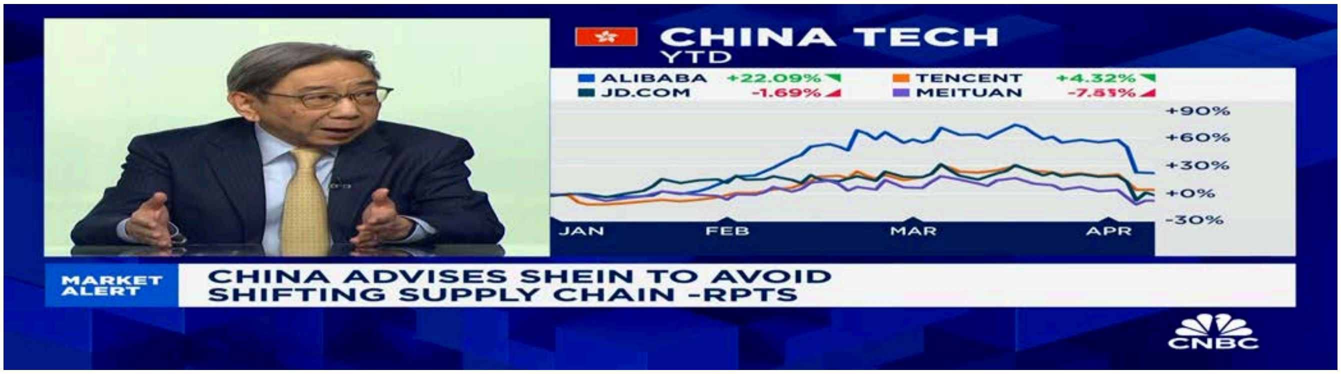
"As a U.S.-based company, this is incredibly hurtful that our own government is doing this to us," he said, noting that moving production back to the U.S. is not an option, given high labor costs and the absence of the requisite infrastructure.

The tariffs will only force businesses to charge higher prices from consumers, eventually making these products' pricing less competitive, he said.

Trump's trade war with China in his first term fueled the "China Plus One" strategy, which saw many manufacturers shift part of their production away from China to other Asian countries with lower labor costs and moderate tariff risks from the U.S.

But after Trump's latest announcement of a much broader tariff regime — including a minimum 10% baseline tariff on all countries and much higher tariff rates on certain Asian economies — firms that adhered to "China Plus One" may be forced to reevaluate their options.

"The 'China Plus One' strategy has been severely undercut by Trump's tariffs that have by now encompassed every U.S. trading partner," Eswar Prasad, professor of international trade and economics at Cornell University, told CNBC.



"The viability of rerouting output and restructuring supply chains through countries such as Vietnam and India, with whom the U.S. had more constructive trading relationships, has been shattered by the latest round of tariffs," he added.

India and Vietnam were two major beneficiaries of that shift away from China, particularly in the apparel and consumer electronics sectors. American tech giant Apple, for example, has been producing more products in both countries.

Imports from India, Vietnam and Taiwan are now hit with additional levies totaling 26%, 46% and 32%, respectively. A punitive 104% tariff on China also took effect Wednesday.

According to Prasad, the high level of tariffs imposed on U.S. imports from China means that there is still an advantage in routing supply chains through countries subject to relatively lower tariffs.

"However, the entire logic underpinning global supply chains as a means to cut costs and improve efficiency has been decimated by tariffs," he said, adding that it will substantially add to the costs of maintaining "lean and mean supply chains" that cross national borders, often many times over.

Shifting ground

Economic and supply chain experts note that the sincerity of Trump's tariff rates remains uncertain, with many expecting them to be lowered based on negotiations between the Trump administration and individual countries.

Daniel Newman, CEO and chief analyst at tech-focused research firm The Futurum Group, told CNBC he doesn't believe the tariffs will stay in their current form, and while he expects "more fair trade deals" will be made with trading partners such as Vietnam and India, the China-U.S. outcome is far less certain.

There have been signs that Vietnam and India intend to bargain with Trump on trade terms. Still, the uncertainty surrounding these negotiations poses a dilemma for companies.

"I have spoken to a few CEOs and business leaders that have talked about their workarounds over the last decades potentially being problematic and the current uncertainty making it nearly impossible to build sufficient mitigation plans for really any time horizon," Newman said.

According to Newman, businesses affected by the tariffs will diligently work with their supply chain teams to determine the proper mitigation strategy. But, "if the tariffs stick in their current form, some of the China Plus One investments made could prove to have been in vain," he added.

Wait and see?

As trade negotiations unfold, many companies are waiting before altering any production plans.

"I think they'll wait to see how things settle out. Countries, including Vietnam, are trying to bargain with Trump. I can't predict how that will turn out, but companies will likely wait to see if it leads to reduced tariffs," said William Reinsch, Scholl chair in international business at the Center for Strategic and International Studies.

If those bilateral negotiations fail, companies will be forced to consider further tariff arbitrage over the long term — moving parts of their supply chains to countries with lower tariffs, he added.

VIDEO 4:06

Apple planning to blunt impact of China tariffs by importing more Indian-made phones to U.S.: Report

According to the Trump administration, tariffs are part of a plan to bring about a massive resurgence of U.S. manufacturing. Some experts told CNBC that a certain amount of onshoring and investment back in the U.S. will likely occur in particular industries.

"Faced with a highly uncertain and volatile landscape of tariffs and other trade restrictions, corporations are likely to emphasize resilience rather than efficiency of supply chains," said Prasad.

"This could mean a greater degree of reshoring of production [to the U.S.] as well as friend-shoring to countries that are at least seen as geopolitical allies of the U.S.," Prasad added.

However, moving production can be a long, capital-intensive process for many supply chains, especially those in high-tech industries.

For example, Apple's partner Foxconn took a number of years to begin producing cutting-edge iPhones in India, and the factories reportedly encountered many struggles.

"Investments in factories once made cannot be easily or instantaneously reversed... Moving those factories to another destination will take several years," said Arthur Dong, professor of strategy and economics at Georgetown University.

Additionally, depending on the industry, firms are constrained by various factors when considering shifts in supply chains, such as the availability of supply inputs, infrastructure, the quality and cost of local labor, regulation and governance.

Such factors leave companies with a difficult decision, said Dong, who added that some may choose to ride out the storm on supply chains for Trump's three- to four-year term, hoping for a change in U.S. politics in the upcoming midterm elections.
