Strategic autonomy in trade

A policy response to global tariff pressures

Trade policy series

KPMG Middle East

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Contents

Foreword

The global economy has entered a more complex and fragmented phase. Productivity is slowing across both advanced and emerging economies. Traditional drivers of growth such as technological diffusion, open markets, and capital mobility are no longer delivering the same returns. In advanced markets, aging populations are reducing labor force growth. At the same time, investment is being held back by high debt levels, tight fiscal space, and rising uncertainty around trade and geopolitics. Global trade, once a powerful engine of growth, has stagnated since the global financial crisis of 2008. Value chains have matured, and rising protectionism is reshaping how countries engage with global markets. The multilateral trading system is under pressure, and countries are increasingly turning to bilateral and unilateral tools to protect domestic industries and secure critical supply chains.

In this context, the Gulf Collaboration Council (GCC) faces a critical decision point. The region's historically low tariffs and open trade model have enabled its integration into global markets, enabling broad access to international inputs. This openness reflect the need to strengthen resilience through diversified sourcing and robust regional supply chains. Under Vision 2030 and other national strategies, GCC states are expanding industrial capacity in high-tech and precision sectors—building on emerging capabilities to reduce reliance on external suppliers.

Individual member states are pursuing different responses. Saudi Arabia is focused on industrial localization and is working to build domestic production in strategic sectors such as chemicals, metals, and renewable energy components. The UAE is expanding its role as a logistics and re-export hub by streamlining customs procedures and negotiating bilateral trade agreements. These approaches reflect distinct national priorities, but they also create opportunities for coordination. Regional integration can help connect complementary strengths, reduce duplication, and build collective leverage.

This paper proposes a two-track strategy. At the national level, trade policy should be more closely aligned with industrial development goals. This means identifying supply chain vulnerabilities, diversifying sources of critical inputs, and supporting outbound investment in upstream production. At the regional level, GCC countries should use the Customs Union as a platform to align trade and industrial policy, coordinate negotiations in priority sectors, harmonize incentive frameworks, and co-finance joint industrial projects. Together, these measures would strengthen supply chain resilience, reduce external dependencies, and allow the region to engage globally from a position of strategic strength.

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A new growth era and the rise of protectionism

The global economy is entering a new phase marked by sluggish growth. Demographic aging is sharply reducing labor force growth in advanced economies.[1] Productivity growth has weakened globally. The easy gains from technological promulgation have largely been exhausted, while generating new breakthrough innovations has become increasingly complex and resource intensive. This slowdown in total factor productivity reflects both the maturing of global technology adoption and diminishing research efficiency.[2]

Investment growth has similarly decelerated. High debt burdens, constrained public finances, and elevated policy uncertainty are weighing on both private and public capital formation across economies.[3] Importantly, global trade, a traditional powerful growth multiplier, has stagnated since 2008.[4] Global value chains have largely matured, while rising geopolitical tensions, stalled multilateral liberalization, and a resurgence of protectionist measures are fragmenting global trade flow.

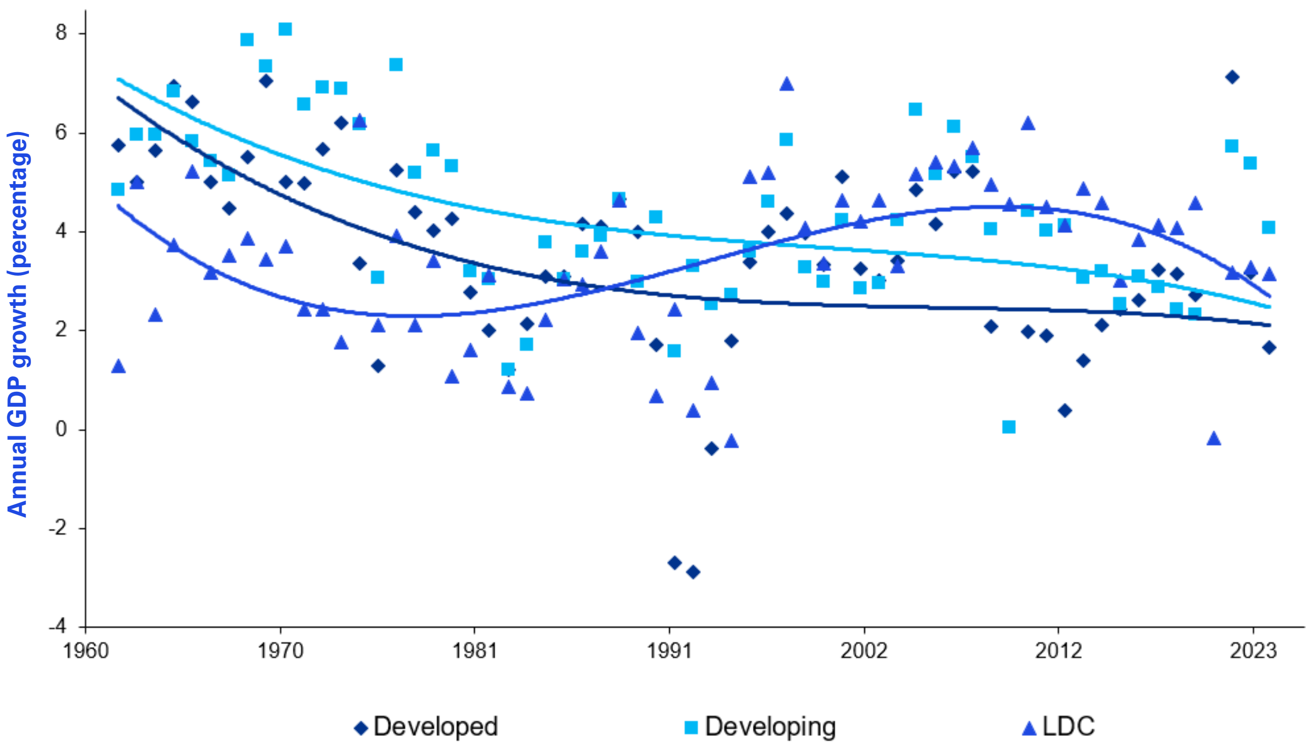
The rise of protectionism

The rules-based system that has governed global trade is undergoing significant strain. The World Trade Organization (WTO) is facing mounting challenges. Its capacity to govern global trade has eroded as key members increasingly prioritize unilateral or regional trade strategies, leading to stalled negotiations, selective rule adherence, and diminished confidence in its system.[5]

The organization's dispute arbitration and resolution system has been effectively paralyzed due to the prolonged United States vetoing of appellate judge appointments that began during the Trump administration's first term and continued under the Biden administration.[6] The U.S.'s recent announcement of tariff tranches and trade escalation with China[7] underlines a clear message: it is disengaging from a liberalized, rules-based trade order.

Global GDP growth

Average growth rates aggregated by development status



Source: World Bank, Development Indicators, UN Development Classifications

[1] Aging Is the Real Population Bomb.
[2] World Economic Outlook, April 2024: Steady but Slow: Resilience amid Divergence.
[3] Falling Long-Term Growth Prospects.
[4] OECD Economic Outlook, Interim Report September 2023, OECD.
[5] The WTO at 30: The return of higher tariffs, Peterson Institute for International Economics.
[6] U.S. blocks WTO judge reappointment as dispute settlement crisis looms, Reuters; Biden officials try to revive a key world trade referee after Trump steamrolled it, POLITICO.
[7] Trump launches plan to target countries with 'reciprocal' tariffs.

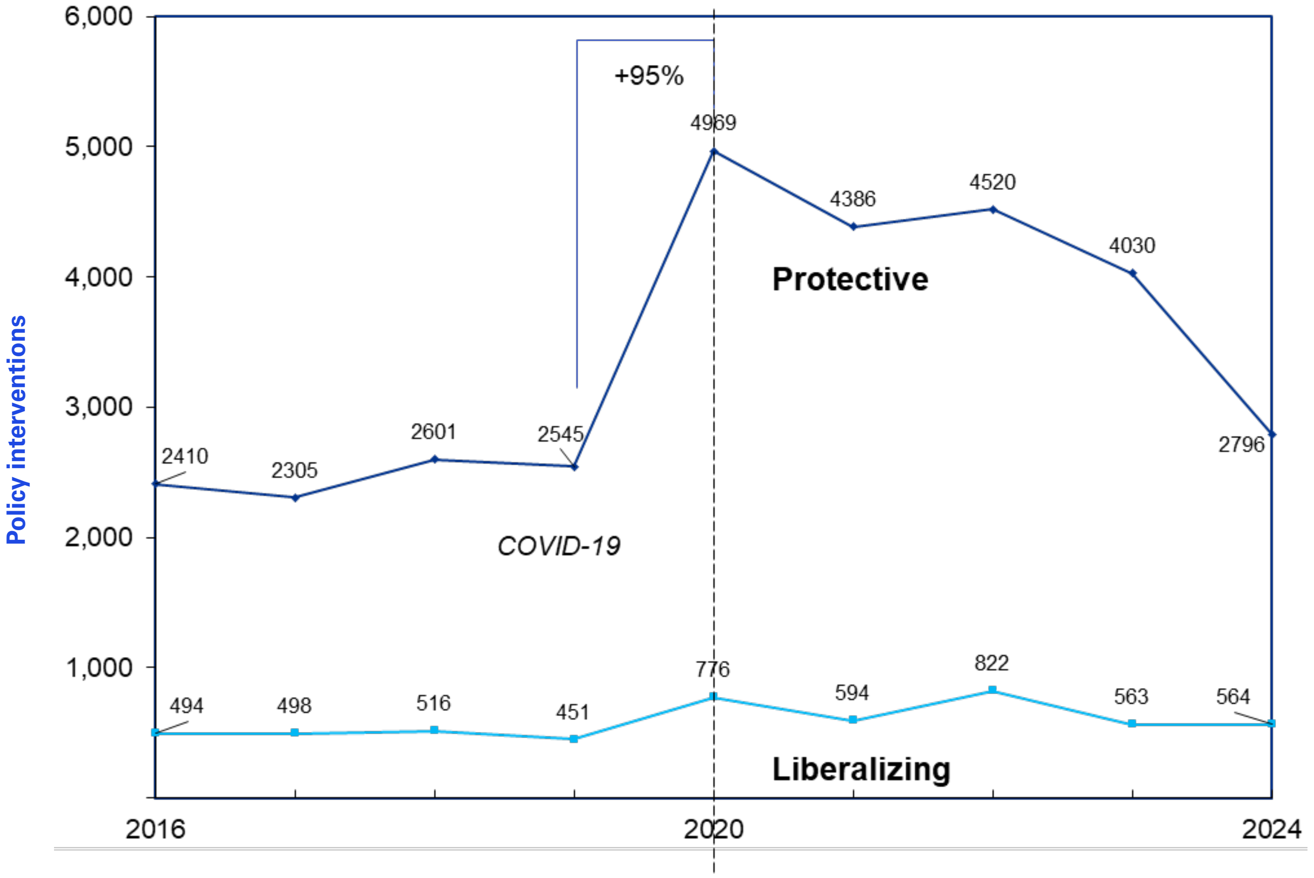
In the absence of robust multilateral leadership, tariff-based measures have reemerged as a prominent feature of national trade policies. The Covid-19 pandemic further accelerated this shift, as governments moved quickly to protect domestic industries and secure critical supply chains. During this period, the number of protectionist industrial measures nearly doubled, reflecting a broader transition toward more interventionist industrial and trade practices and a departure from centralized, liberal trade paradigms.

Increasingly, countries are asserting strategic autonomy through bilateral and unilateral measures. Traditional tools such as export controls, subsidies, technical standards, and tariffs are now being deployed alongside new trade agreements, enabling governments to shape economic outcomes on their own terms. Rather than relying on a multilateral, rules-based trading order that may not align with domestic development models, many economies are constructing bespoke frameworks tailored to national priorities.

The U.S. for instance, have leveraged broad tariff regimes as a negotiation tool to secure more favorable trade terms, a precedent that may tempt others to adopt similar strategies. However, the global shift away from liberalized markets carries real economic costs. Protective industrial policies and reactive counterparty measures have increased policy uncertainty, imposed excessive administrative burden on individual firms, and heightened investor caution. The ensuing impact has led global institutions to depress economic forecasts. J.P. Morgan downgraded U.S. growth prospects and raised its assessment of global recession risks[8]. The IMF, World Bank and OECD similarly downgraded global growth forecasts.

Government policy interventions

Classified as protective and liberalizing, (2017 - 2024)

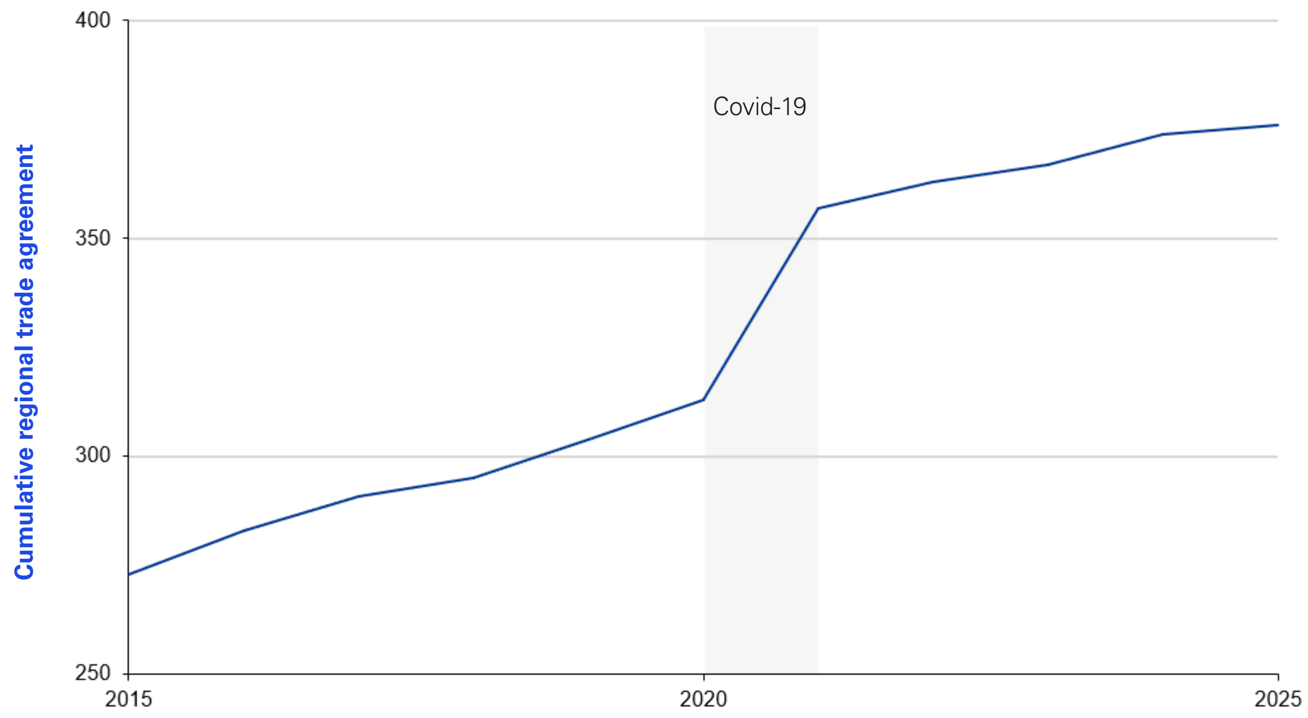


Source: Global Trade Alert

[8] US Tariffs: What's the Impact? | J.P. Morgan Research.

Regional trade agreements have risen sharply since Covid-19

Regional trade agreements in force (2015-2025)



Source: World Trade Organization Regional Trade Agreements Database

GCC policy gaps and recommendations

The trade regimes of Saudi Arabia and the broader the GCC have historically been characterized by low average tariffs (approximately 5 percent), limited use of trade defense instruments, and significant dependence on global imports for industrial inputs. While these policies have facilitated access to international markets and enabled re-export hubs like Dubai, they have also introduced structural vulnerabilities.

Even with ambitious industrial policy efforts, the GCC sources much of its raw, intermediate, and capital goods through strategic global supply relationships--while actively advancing localization and targeted outbound investment to secure critical inputs. Domestic capacity in these areas has yet to reach sufficient scale, creating exposure to global supply chain disruptions. Recent trade data reflects this structural vulnerability: while the GCC's overall trade volume reached an estimated US$1.5 trillion in 2024, growth in trade slowed by 4 percent.[9]

Industrial ecosystems

GCC member states have adopted differing approaches to addressing these challenges. Saudi Arabia, under the Vision 2030 framework, is advancing a strategy centered on industrial localization, with a focus on building local supply chains, expanding domestic manufacturing capacity, and strengthening strategic autonomy in critical sectors. This includes targeted initiatives in chemicals, metals, pharmaceuticals, and components for renewable energy, supported by national industrial clusters and government-backed financing tools.

In contrast, the UAE has positioned itself as a global logistics and trade hub. Rather than pursuing deep localization, it has prioritized re-exports, streamlined customs processes, and bilateral economic agreements to enhance its connectivity with global value chains. Free zones such as Jebel Ali and Khalifa Economic Zone have been central to this model, offering integrated infrastructure and incentives for regional distribution.

These diverging strategies reflect each country's broader economic priorities. While Saudi Arabia is seeking to reduce import dependence and foster self-sufficiency in strategic sectors, the UAE is leveraging its global connectivity to facilitate trade flows and attract investment. Both models aim to enhance competitiveness and resilience but follow different paths to do so. As both economies continue to evolve, opportunities for complementarity and regional coordination remain significant, especially in areas such as logistics integration, standards harmonization, and coordinated trade negotiations.

GCC trade regime

Trade policy is increasingly executed by individual countries. While the GCC central entity pursues bloc-based trade agreements, member states have moved forward individually to pursue individual trade policies that align with respective national strategies.

Saudi Arabia has opted to rely on trade agreements ratified under the auspices of the GCC instead of pursuing individual FTAs and RTAs. This regional approach has gained renewed momentum, with 2024 ushering in an agreement with New Zealand, and negotiations underway with Australia, Japan, the UK, Malaysia, Indonesia and Turkey.[10] At the same time, Saudi Arabia has signed mutual recognition agreements in key sectors and concluded tax treaties that facilitate cross-border service provision and investment. These efforts reflect the Kingdom's commitment to market openness and highlight the growing importance of the services sector as an additional lever of economic growth.

The UAE has adopted a policy of streamlined bilateral agreements. Instead of engaging within the GCC framework, the government has pursued individual economic arrangements to bolster its position as logistics hub. Since 2021, the UAE has concluded 26 bilateral Comprehensive Economic Partnership Agreements (CEPAs) that cover services, investment, and digital trade.[11]

The diverging trade strategies within the GCC reflect complementary national ambitions. While Saudi Arabia reinforces its commitment to a bloc-based approach, others like the UAE have pursued rapid bilateralism to secure their own trade interests. This presents an opportunity to align strengths for greater regional influence and resilience. The following recommendations outline a path forward to operationalize strategic autonomy through smarter trade instruments, deeper regional cooperation, and enhanced policy coordination.

[9] UN ComTrade.
[10] WTO, 2025 WTO | Regional trade agreements; Alarabia MBS, UK PM discuss global trade tariffs in phone call: Downing Street; Saudi Press Agency (SPA) GCC Secretary-General, Malaysian Investment Minister Discuss FTA Developments; Saudi Press Agency (SPA) GCC-Indonesia Free Trade Agreement Negotiation Round Concludes in Riyadh; Saudi Press Agency (SPA) GAFT Heads Saudi Team at GCC-Türkiye Free Trade Negotiations.
[11] Emirates News Agency (WAM). UAE's CEPA programme strengthens global economic ties with 26 strategic agreements.

The way forward: Strategic autonomy through trade policy

Strategic autonomy in trade involves the selective use of trade instruments to promote national capabilities, resilience, job creation, and growth. It does not advocate for disengagement, but for policy coherence across trade, industrial development, and regional integration. Liberalization for the sake of liberalization is not a driver of growth. Trade agreements should be focused on building strategic resilience. Ensuring lines of trade remain open for critical intermediate and final goods should be the cornerstone. Building on this, protections should be reserved for nascent or critical industries germane to national security. In the absence of a WTO-based system, bilateral and multilateral trade agreements can serve as a mechanism to preclude trade disputes and a channel to resolve critical industrial and trade challenges.

Smart measures

Trade policy should reflect and reinforce national strategies. Horizontal (non-targeted) policies should be limited as reprisals and reciprocal trade partner measures will likely ensue. Leveraging local supply chain and trade data, policymakers can identify critical supply chain dependencies, localization opportunities, and priority counterparties for trade agreements.

Identify and map high-risk supply chain concentrations

Using national input-output tables, customs import data, and firm-level supply chain mappings to identify single-source or high concentration points in upstream and downstream supply chains that have consequential economic effects. Understanding the cascading impact of disruptions to trade or supply can aid in determining the counterparties and focus products for future trade negotiations. If implemented correctly it can increase national resilience and reduce the impact of increasing trade fragmentation.

Diversifying raw and intermediate material sources

Resilient industrial growth hinges on securing access to stable, diversified inputs across the production value chain. In an era marked by geopolitical uncertainty and supply disruptions, countries are increasingly adopting trade-linked incentives to shape the sourcing behavior of firms and reduce supply chain bottlenecks.

The Saudi Export Development Authority (Saudi Exports) has partnered with the Ministry of Industry and Mineral Resources to launch duty exemptions for imported and exported industrial outputs.[12] Adding an additional layer of sourcing origin to customs exemptions can enhance industrial resilience and reduce the impact of supply chain or political disruptions.

The EU has already implemented programs to ensure that financial incentives and tax breaks are tied to stable, resilient supply chains. Last year, it passed the European Critical Raw Materials Act (CRMA), setting out ambitions to diversify sourcing across all stages of the value chain, while granting exemptions to sources from countries with which the EU has free trade agreements. Through this act, the EU can limit its exposure to external supply chain shocks and retain its regional sovereignty and resilience.

Trade policy to support outbound investment

As global competition for raw and intermediate materials intensifies, countries are rethinking how to secure the inputs essential to industrial growth and national resilience. For Saudi Arabia, this means not only developing local capabilities, but also looking outward to ensure stable, long-term access to critical resources. Outbound investment in upstream supply chains serves as a strategic complement to localization, especially in sectors where domestic production is constrained by natural, environmental, or economic factors. By establishing a presence in key supply nodes abroad, the Kingdom can enhance the resilience of its industrial ecosystem and safeguard its transformation agenda from external shocks.

By securing external supply chains and strengthening its production base, the Kingdom can access critical inputs that may not be feasible to localize, thereby reducing long-term risks and fostering a supply chain that is more resilient to global shocks. This also enables greater productivity and efficiency through targeted vertical integration. To advance this objective, national champions should be encouraged to invest in upstream supply sources abroad, particularly in strategic areas such as agricultural land leasing, raw material joint ventures, and petrochemical or intermediate goods production facilities in third markets.

Enhanced regional integration

The GCC Customs Union provides a critical platform for advancing economic integration across the region. By aligning industrial development and trade policy at the bloc level, member states can strengthen cross-border value chains, expand manufacturing capabilities, and enhance collective leverage in global trade negotiations. To fully capitalize on the Union's

[12] New customs exemption introduced to support experimental production in Saudi Arabia; Saudi Arabia launches customs duty exemption for industrial inputs to boost export of local goods, Saudi Gazette.

potential, policymakers should deepen coordination on both industrial strategy and external trade policy. Country-specific negotiations, if not coordinated, can miss opportunities for shared value creation and bloc-based trade alignment.

Launch joint regional industrial projects co-financed by multiple states

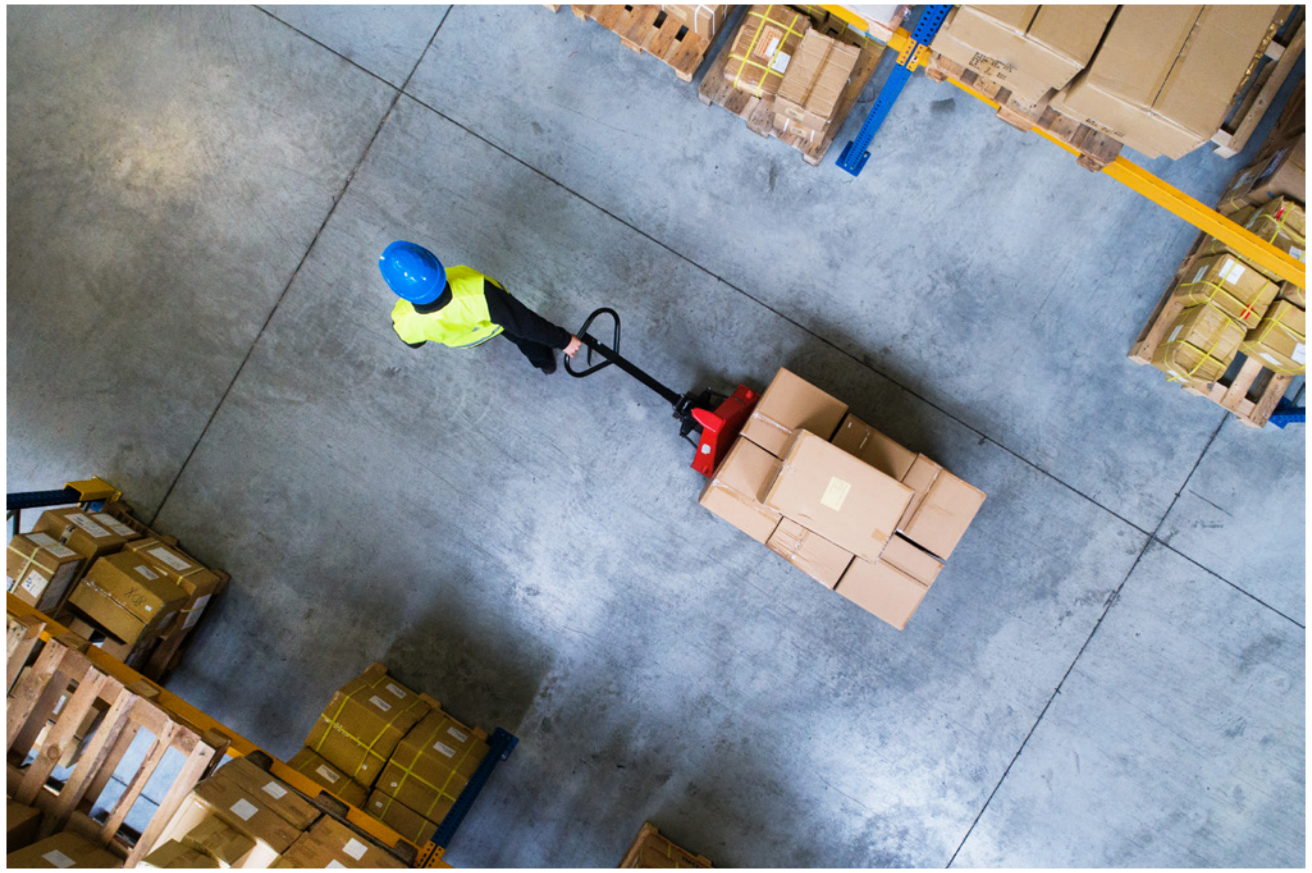
To strengthen the GCC's collective trade position, member states should coordinate trade negotiations in strategic sectors such as petrochemicals, green technologies, and critical minerals. Rather than pursuing fragmented bilateral deals, countries can form sector-specific negotiating blocs that develop unified offers for market access, investment protections, and dispute resolution. This coordination would also allow for shared rules of origin, enabling products manufactured across multiple GCC countries to qualify for trade benefits under external agreements. By negotiating as a bloc, the GCC can enhance its leverage in global trade talks and ensure more equitable access to international markets for all member states.

Develop a GCC industrial incentive harmonization framework

At the industrial level, the GCC must harmonize its incentive frameworks to avoid harmful subsidy competition. Currently, overlapping and uncoordinated incentives risk attracting investment that is low in quality, short-term in scope, and opportunistic in nature. A shared framework should define ceilings for fiscal and financial support, and tie incentive eligibility to clear performance indicators such as local content development, research and development (R&D) investment, and workforce localization. Coordinating these policies will prevent undercutting among member states, direct investment toward sectors of strategic interest, and ensure that the benefits of industrial growth are distributed across the region in a sustainable manner.

Pilot regional industrial projects co-financed by multiple states

To demonstrate regional commitment and create tangible integration wins, GCC countries should co-invest in joint industrial projects that span national borders. Projects such as a regional battery manufacturing cluster, a pharmaceutical production hub, or shared logistics and packaging centers can be co-financed by sovereign wealth funds and development institutions from multiple states. These initiatives should be paired with joint supplier development programs and workforce planning across borders to ensure broad-based economic participation. Co-invested projects not only reduce duplication and increase scale but also signal the GCC's seriousness about collective economic development.



Navigating a fragmenting trade order

The shift in global trade dynamics is not a passing phase. It reflects deeper structural changes in how countries pursue growth, protect strategic sectors, and manage risk. For the GCC, adapting to this new reality will require more than incremental adjustments. Trade policy can no longer be treated as separate from industrial development. The two must work together to support long-term resilience, job creation, and national competitiveness.

At present, GCC countries are pursuing different trade strategies. Some are doubling down on regional coordination, while others are moving quickly to sign individual agreements with global partners. Each approach reflects legitimate national goals, but taken together, they create a fragmented policy landscape that weakens the region's collective voice and limits opportunities for shared value creation. The absence of alignment also increases the risk of internal competition for investment and reduces the credibility of the region in global trade negotiations.

There is a clear opportunity to move toward a more coordinated path. Aligning trade and industrial strategies across the GCC, starting with shared negotiations, common incentive frameworks, and co-funded manufacturing projects, would reduce inefficiencies and help the region scale its economic ambitions. Integrated supply chains, joint ventures, and shared standards can all contribute to building a more resilient and competitive bloc.

The goal is not to retreat from global trade but to re-engage with greater clarity and leverage. By linking national priorities with regional cooperation, the GCC can avoid fragmented competition and instead position itself as a serious player in shaping the future of global trade. This requires a shift in mindset, stronger political will, and long-term coordination. The benefits of acting together far outweigh the costs of going it alone.

Ultimately, strategic autonomy in a fragmenting trade order requires a two-track approach: smarter national trade instruments that support domestic industrialization, and deeper regional coordination to strengthen collective leverage. These tracks are not mutually exclusive; they are mutually reinforcing. Aligning trade and industrial policy across both levels will be the cornerstone of the GCC's long-term competitiveness, resilience, and voice on the global stage. In doing so, the region can shape – not merely respond to – the new rules of global trade.

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KPMG Middle East is a part of the KPMG global organization of independent member firms that operate in 143 countries and territories and are affiliated with KPMG International Limited. We provide audit, tax and advisory services to public and private sector clients across Saudi Arabia, United Arab Emirates, Jordan, Lebanon, Oman, and Iraq, contracting through separate legal entities. We have a strong legacy in the region, where we have been established for over 50 years. KPMG Middle East is well-connected with its global member network and combines its local knowledge with international expertise.

KPMG serves the diverse needs of businesses, governments, public-sector agencies, not-for-profit organizations, and the capital markets.

Our commitment to quality and service excellence underpins everything we do. We strive to deliver to the highest standards for our stakeholders, building trust through our actions and behaviors, both professionally and personally.

Our values guide our day-to-day behavior, informing how we act, the decisions we make, and how we work with each other, our clients, and all our stakeholders. Integrity: We do what is right. Excellence: We never stop learning and improving. Courage: We think and act boldly. Together: We respect each other and draw strength from our differences. For Better: We do what matters.

Our purpose is to inspire confidence and empower change. By inspiring confidence in our people, clients and society, we help empower the change needed to solve the toughest challenges and lead the way forward.

KPMG's Impact Plan guides our commitments to serving our clients, people and communities across four categories: Planet, People, Prosperity, and Governance. These four priority areas assist us in defining and managing our environmental, social, economic and governance impacts to create a more sustainable future. We aim to deliver growth with purpose. We unite the best of KPMG to help our clients fulfil their purpose and deliver against the United Nations Sustainable Development Goals, so all our communities can thrive and prosper.

We are dedicated to delivering growth with purpose, helping our clients achieve their goals, and advancing sustainable progress to ensure that all our communities thrive. Empowered by our values, and committed to our purpose, our people are our greatest strength. Together, we are building a values-led organization of the future. For better.

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