THE NATIONAL INTEREST

How American Importers Can Cushion the Blow of Higher Tariffs

September 16, 2025

Jerry Haar

It was Benjamin Franklin, in a letter to French physicist Jean-Baptiste Le Roy in 1789, who asserted: "In this world nothing can be said to be certain, except death and taxes." Were Ben alive today, he probably would have added "tariffs" as a third certainty.

As nationalist-protectionism envelops the globe, one can expect higher tariffs to be with us and our trading partners for some time, impacting producers and consumers, importers and exporters, financial institutions, and thousands of services firms.

American importers in particular are in the gunsights of U.S. policies that increase tariffs. Small and medium size enterprises (SMEs), especially, are desperately searching for measures to cushion the blow of those tariffs.

Unfortunately, importers get short shrift among the media, politicians and the public at large. This is most unfortunate given the importance of imports to the U.S. economy. Today over 21 million jobs depend on imports, with one in every five jobs linked to international trade in general. And it's not just the big multinationals like Walmart, Microsoft and Amazon. Over 96% of importing companies are small and medium-size firms. Modern supply chain integration continues to grow and deepend. Today 60% of U.S. imports are intermediate goods used by American firms in production. For example, John Deere sources tractor parts from Mexico—from both local suppliers and its own production locales.

For American importers seeking to mitigate the impact of higher tariffs on their goods, they have various options such as reducing their margins, switching to cheaper suppliers, and dropping less profitable merchandise from their catalogues. However, these are *tactical* moves, not *strategic* ones. The former may suffice for the short-term, but profitability, survival and sustainability of the business depend on the latter.

Three strategic tariff mitigation options for both multinationals and SMEs are *tariff engineering, foreign trade zones,* and *supply chain diversification.*

In the first instance, tariff engineering, companies need to adjust a product's design, assembly, or classification so that it falls under a lower-tariff Harmonized Tariff Schedule (HTS) code. Take the apparel industry. Many footwear companies alter the percentage of textile vs. rubber in a shoe so it is classified as "slippers" or "athletic footwear" rather than "leather dress shoes." For instance, adding a thin textile outer layer can reduce tariffs from ~20% to under 10%. To illustrate, Steve Madden disclosed in SEC filings that tariff engineering saved it tens of millions annually during the U.S.–China trade war. Depending on scale, large apparel firms report annual tariff savings exceeding $100M+, while smaller firms often save in the $5M–$20M range.

Another tariff engineering example pertains to automotive parts. Some auto suppliers import partially assembled components (knockdown kits) that are classified under lower duty rates, completing final assembly in the U.S. This often cuts tariffs by 5–10 percentage points per unit.

A second tariff mitigation option is *foreign trade zones* (FTZs). These are U.S.-designated zones where companies can defer, reduce, or eliminate customs duties. Firms in the electronics and automotive sectors such as BMW, Nissan, Caterpillar and GE Appliances are prone to utilize FTZs. For example, BMW imports auto parts into an FTZ, assembles SUVs, and pays duties only on finished vehicles exported to the U.S. market. Caterpillar uses FTZs to stage and re-export heavy machinery, deferring tariffs. (Imported parts used in exports enter duty-free.)

In terms of cost savings, BMW saves hundreds of millions annually by avoiding duties on parts used in exported vehicles. FTZ users overall report average duty savings of 5–15% of import value, depending on their product mix.

Yet another tariff mitigation alternative is *supply chain diversification* and nearshoring. This entails shifting sourcing away from high-tariff countries (e.g., China) toward low-tariff or tariff-exempt regions (Mexico, Vietnam, India). In consumer electronics, firms such as Apple, Dell and HP have shifted some assembly of laptops and accessories to Vietnam and India to avoid U.S. Section 301 tariffs on Chinese imports (up to 25%). In apparel, Gap, PVH, and Under Armour have increased production in Central America and Bangladesh to avoid Chinese tariffs. As for the automotive sector, Ford, GM and Tesla have nearshored sourcing to Mexico, leveraging US-Mexico-Canada Agreement's provisions to qualify for tariff-free treatment.

Regarding cost savings, Apple reportedly avoided billions in tariff exposure by diversifying assembly to Vietnam and India. As for clothing, apparel companies save 10–25% per unit by shifting from China to tariff-free regions.

In a recent Harvard Business School Working Paper on tariff impacts, Alberto Cavallo and two colleagues from Universidad San Andrés found that tariff announcements led to rapid price increases on imported and domestic goods. That being the case, the outlook for importers will continue to be dire. Therefore, it behooves companies to be vigilant, creative, tenacious and strategic if they are to survive in an ever- higher tariff environment. Embracing tariff engineering, foreign trade zones, and supply chain diversification are viable tools in the arsenal of cross-border trade to lessen the blow of increasingly high tariffs in our Age of Protectionism.

Jerry Haar is a professor of international business at Florida International University and a faculty fellow of the Baratta Center for Global Business at Georgetown University. He is also a senior fellow of the Council on Competitiveness in Washington, DC.