Step 1

How Tariffs Work

(Hint: Most often, other countries don't pay for them.)

By June Kim Feb. 12, 2025

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A pillar of President Trump's policies has been tariffs, which are taxes on products imported from other countries.

He has imposed or threatened to impose them as a way to influence global supply chains, raise revenue and extract concessions from other countries. But what can often be lost amid proclamations targeting other countries is who ultimately pays for tariffs. It often isn't the country itself.

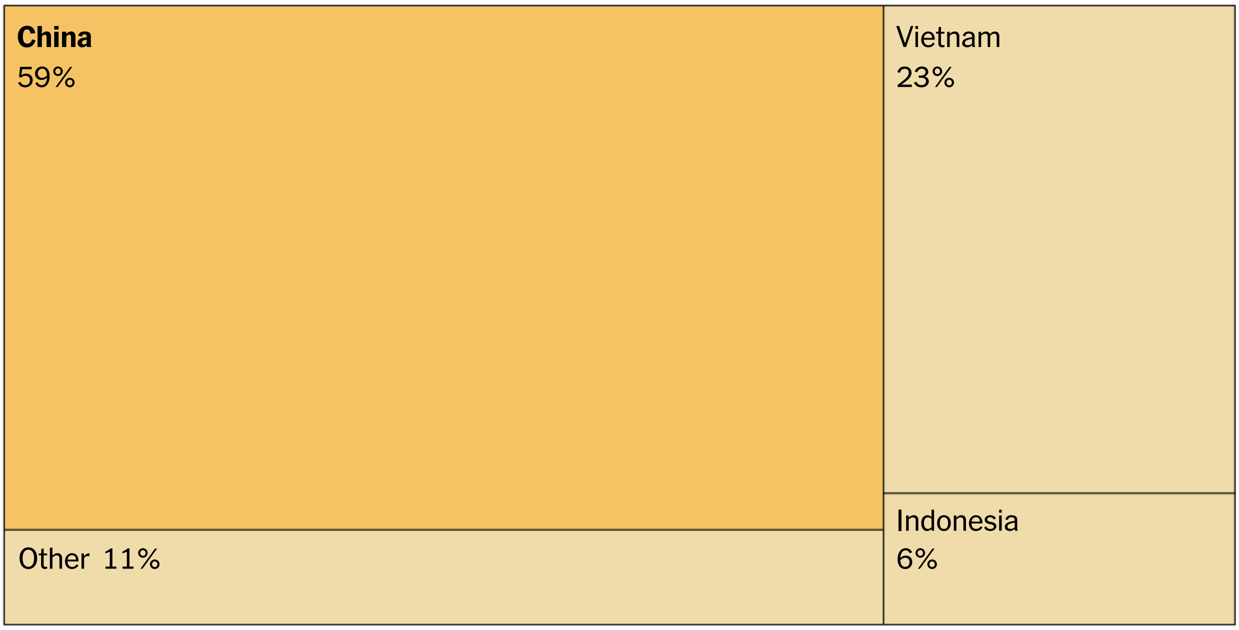
Understanding who will end up paying for the higher costs means understanding how manufacturing, trade and supply chains function — and how costs build along each step of the complex process. Take shoes, for example.

Step 1: Manufacturing Overseas

The majority of shoes bought in the United States are made in China

Nearly all shoes sold in American stores come from other countries, with imports recently making up more than 95 percent of the market. Over the years, shoe manufacturing gradually moved to China, Vietnam and Indonesia, among other countries, where production costs are lower. For the United States, China remains the dominant source, producing more than half of all footwear imports.

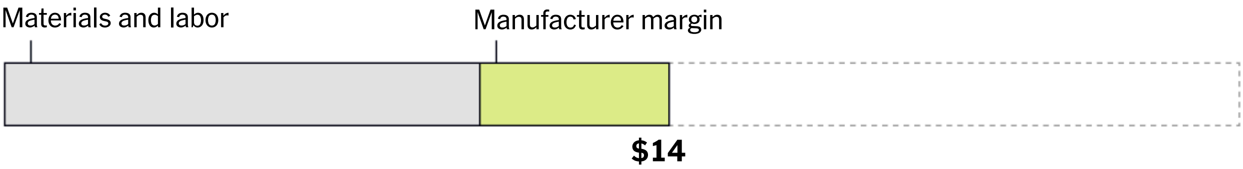
Number of shoes imported in 2023, by country



Sources: The Observatory of Economic Complexity
Note: Because of rounding, figures do not add up to 100 percent.

The production process starts in Chinese factories where workers assemble the sneakers. The final production cost can vary, depending on the materials. It can typically average around $14 per pair, which also covers labor and factory overhead plus manufacturer margin.

Price at this stage



Step 2: Export Preparation

Almost all goods sent to the United States have been subject to some tariffs

Harmonized Tariff Schedule (HTS)

HTS CODE	DESCRIPTION	RATES OF DUTY

To prepare the finished product for export, the shoe producer consults a wonky system run by the U.S. International Trade Commission known as the Harmonized Tariff Schedule, which determines tariff rates for different products and categories.

Even before Mr. Trump imposed new tariffs when he started his second term, most products that entered the country were subject to some amount of tariffs.

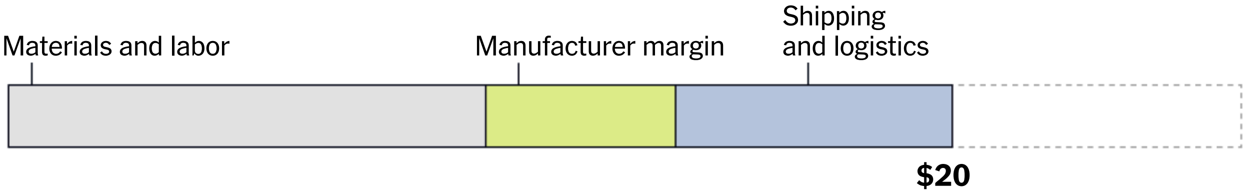
Tariff rates on imported shoes can vary, with over 430 different classifications based on materials and styles. Non-leather sneakers imported from China, for example, typically had a 20 percent tariff, according to Matt Priest, the chief executive of the Footwear Distributors and Retailers of America.

- **Step 3:** Shipping

Shipping and logistics add to import costs

Sneakers are shipped to one of the U.S. ports. This adds around $3 per pair for shipping and another $3 for other logistics costs.

Price at this stage



- **Step 4:** Tariff Point

Before the shoes can enter the country, the importer pays a tariff to U.S. Customs

American importers

U.S. Customs and Border Protection

Once the product reaches the U.S. port, the importing company typically works with a licensed customs broker to handle the tariff payments to U.S. Customs and Border Protection.

Price at this stage

Materials and labor

Manufacturer margin

Shipping and logistics

Tariff

$26

These specialists manage all customs documentation and compliance requirements on behalf of the importer. While the previous 20 percent tariff resulted in a $24 import price, an additional 10 percent tariff Mr. Trump imposed on Chinese goods now adds $2 per pair, bringing the total import price to $26.

What Happens Next

Who pays for the increased price?

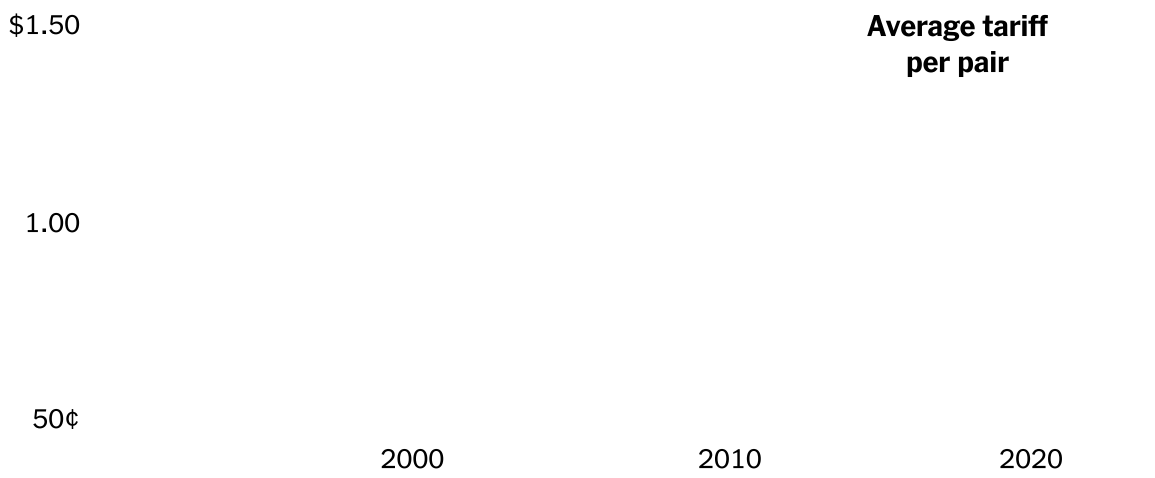
Most trade policy experts agree that the American economy will most likely bear the cost of the additional tariffs, which can occur in several ways.

Scenario 1

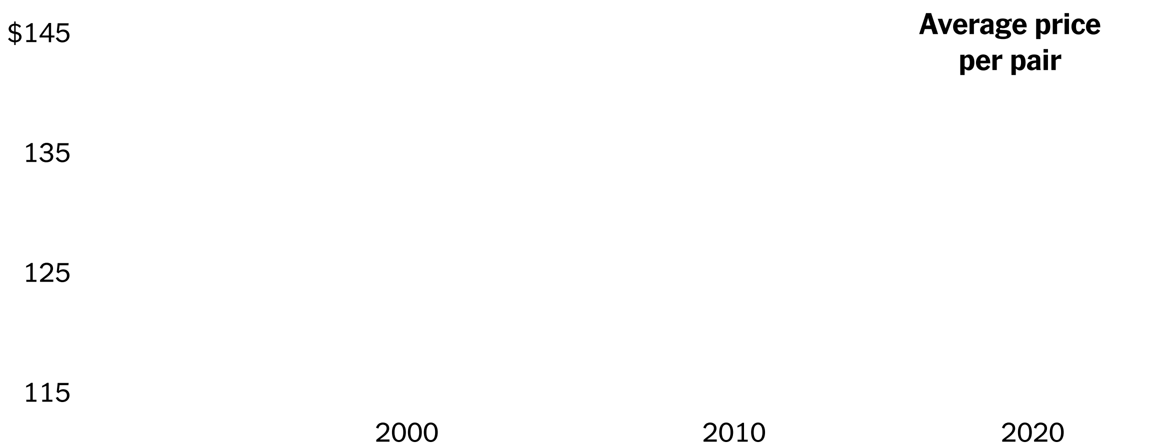
Consumers

To offset higher import costs, retailers often increase prices, passing the burden on to consumers. As a result, consumers effectively pay for the tariff, reducing their purchasing power.

Historical data over the past 30 years shows that tariff increases on footwear ...



... were consistently followed by higher retail prices



Sources: Data from United States International Trade Commission and Bureau of Labor Statistics. 2024 values are forecasts by Footwear Distributors and Retailers of America based on data through November.

"Even though the legal burden of tariffs fall on the importer, what we see is that the full economic burden is more often passed to the U.S. economy. And consumers often end up paying for the higher costs," said Erica York, a tax policy analyst at Tax Foundation.

Scenario 2

American retail and manufacturing companies

American companies and manufacturers that use imported materials face higher costs, whether they continue sourcing from China or switch to more expensive domestic suppliers. While they may absorb these costs to maintain competitive prices, doing so reduces their available capital for other business investments and operations, ultimately affecting the broader U.S. economy.

Scenario 3

- **Foreign government and companies**
  To maintain their competitive position in American markets, foreign manufacturers can sometimes cut their prices and accept lower profits. Alternatively, the targeted government may institute a tax rebate to help offset the tariff burden. This occurred in China, for example, during the trade war with the United States in 2018.

Scenario 4

- **American exporters**
  Imposing tariffs on imports can drive up the value of the U.S. dollar, making American exports more expensive and less competitive. As a result, U.S. exporters may suffer and indirectly pay the cost of the tariffs.

While these are some of the many scenarios, tariffs rarely affect just one group, as their effects ripple through the entire supply chain, with manufacturers, retailers and consumers often sharing the burden in different ways.

As companies try to adapt to minimize these costs, some importers may start shifting their production to countries without high tariffs. Meanwhile, consumers can change their buying habits, switching to different brands or alternative products that haven't been hit by price increases.

Though researchers and policymakers can predict some of these effects, the full scope of market reactions often unfolds in unexpected ways, shaped by factors like local competition and how quickly companies can change their supply chains.

Ana Swanson contributed reporting.