program to analyze its potential benefits. The governing decision for most companies when contemplating zone use is, "What will the impact be on our corporate bottom line in terms of the annual net savings?" Any reduction in up-front costs and loss of cash flow due to the time it takes to approve the FTZ are critical in the cost-benefit analysis. Today, many companies will find that the FTZ program makes much more sense operationally and economically than it ever did before.

The National Association of Foreign-Trade Zones and its members are expecting to continue seeing an increase in FTZ interest. A greater number of companies are seeking information from local communities and zone administrators regarding the newer and faster approval process available from the FTZ Board. The local administrators for the zones, the grantees, are restructuring their zone programs to the faster ASF model at a record pace. Today, many of the grantees are implementing educational and marketing efforts to inform the business community about the ASF and other changes within the zone program.

These informative efforts are assisting companies in identifying the potential that is available through the FTZ. The current administration has championed the trend of on-shoring. Companies seeking to move operations back to the United States are finding that establishing a production authority within an FTZ is easier and more profitable than ever before. The administration's goal of expanding exports has also spurred involvement in the FTZ program by companies seeking to advance their market potential. Companies involved in importing for distribution or production can eliminate the import tariff they would pay on those items when they are exported.

The work done by the FTZ Board and the FTZ industry, specifically the NAFTZ, on these new regulations and guidelines should be a model for future governmental partnership with industry sectors. Protection of the rule of law and the reduction of red tape are two goals that can work hand in hand. ■

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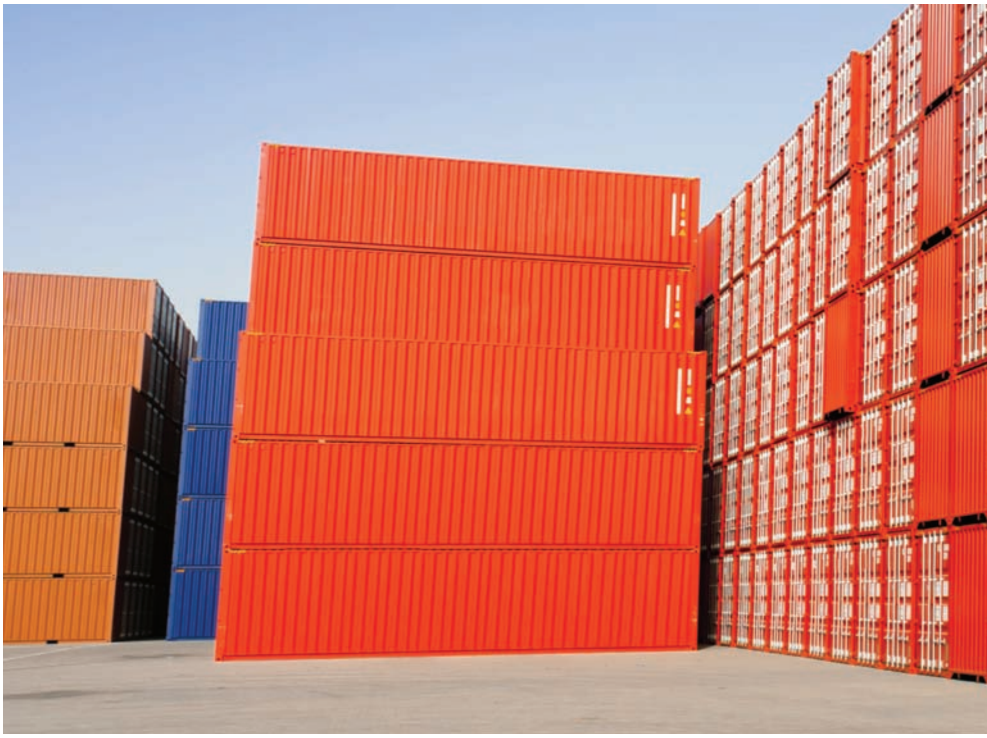
The Important Role of Foreign-Trade Zones in US Trade Expansion

By Lewis E. Leibowitz

Foreign trade zones were established in the United States to "expedite and encourage foreign commerce." Everyone familiar with the FTZ program knows these words and repeats them with gusto. We know that when trade expands, through both importing and exporting, national wealth and economic activity increase. When trade shrinks, wealth and economic activity in the United States decline along with it. Our experience during the 1990s, when trade expanded dramatically, and during the Great Recession, when it declined, bear out the relationship between prosperity and trade.

This basic relationship suggests that zones and other methods of encouragement of trade should be used more and in new ways. At the upcoming annual meeting of the National Association of Foreign-Trade Zones in San Diego on Sept. 9-12, we are looking at the experience of other countries in using their zones program to facilitate trade and investment. By seeing what others do, we may understand better how the U.S. zones program can be used more effectively to promote trade and investment in this country. Whenever we find regulatory obstacles to increased trade, we should examine whether they can be reduced or even eliminated through the use of foreign-trade zone procedures.

We have identified examples of such obstacles. Permitting, labeling and marking of goods can be conformed to U.S. requirements in a foreign-trade zone, allowing companies to enter goods in U.S. commerce in full compliance with these rules. In addition, certification and testing of regulated products can take place in an FTZ. Finally, imported goods that do not meet requirements of regulatory agencies could be changed in an FTZ prior to entry. Not all such examples are currently permitted. We would like to see if they can



be, without compromising public health or safety. In general, any regulatory requirement that denies entry to goods should permit any problems to be addressed in a zone without requiring re-exportation, if corrections can be made without compromising public safety.

We have looked for a number of years at anomalies that have crept into our tariff schedules through piecemeal negotiation of tariff reductions. Since the end of World War II, the world trading community has negotiated eight rounds of tariff reductions. Each time, however, tariff relationships can be changed in ways that do not help American business. If tariffs are reduced on finished products but not on the raw materials and components used to make them, we inadvertently encourage investment and manufacturing outside the United States. By the same token, free trade agreements eliminate tariffs on imports from our trading partners and on our exports to them. But we do not allow our manufacturers to compete in the U.S. market on the same basis as manufacturers in free trade agreement countries.

With respect to piecemeal tariff reductions, the FTZ program acts as the best (and sometimes the only) way to smooth out the anomalies. In a zone, manufacturers can take advantage of a low finished-product duty rate by importing raw materials and components, but not paying duty until the finished product enters U.S. commerce.

Concerns about the effect of free trade agreements still remain to be addressed. We made a proposal to deal with that problem a few years ago (called Trade Agreement Parity or TAP) that was not pursued for political reasons. Perhaps the solution we proposed was not comprehensive enough.

With the economy making inadequate progress and unemployment unacceptably high, we must continue to look for more ways to use FTZs to help our competitiveness. We have worked with the administration and other leaders in our economy to promote the use of FTZs to improve export performance. For three years, we have given export achievement awards for zone users that have the most exports, the highest year-over-year growth, and the most innovative strategies. Interestingly, most of the award winners are investors in the United States from foreign shores. Well-known multinational companies such as BMW, Mercedes, Yamaha, Robert Bosch, Nissan, Toyota, Hawker Beechcraft Corp., General Electric and Stihl use FTZs to export products around the world, setting new standards for competitiveness.

Firms are only competitive if they have access to globally priced inputs. The FTZ program is one of the best ways to make sure that import restrictions in the United States do not unduly disadvantage our manufacturers and exporters. We have to consider the needs of American manufacturers if we want to meet the president's goal of doubling exports by 2014.

As we explore zones around the world, we at the NAFTZ see both challenges and opportunities. Worldwide, special economic zones employ tens of millions of workers and relieve businesses of taxes and regulatory headaches. Not all of these innovations are necessarily right for the United States. But some of them may be; and we intend to encourage policymakers to take the best ideas from abroad and apply them to improve U.S. competitiveness.

I hope you will enjoy our annual conference and apply these new ideas to improve the U.S. economy's performance. ■

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FTZs Promote Local Economic Development Across the United States

By National Association of Foreign-Trade Zones Staff

Earlier this year, the National Association of Foreign-trade Zones released the 2012 edition of its annual state-by-state study, *The Impact of Foreign-Trade Zones on the 50 States and Puerto Rico*. Fully updated with the most recent data, this new study reported the companies and the industries that have benefited from the FTZ program in communities across the United States. The results of this year's study have been encouraging and continue to demonstrate the success of the Foreign-Trade Zone program as an economic development tool.

One of the key themes to emerge in this year's report was the significant contribution of FTZs to our nation's economic recovery. Among the most positive signs contained in the study were the FTZ export figures for fiscal year 2010, which showed significant growth over the previous year. Total FTZ exports from general-purpose zones and subzones reached $34.8 billion, an impressive 23 percent increase from fiscal year 2009. By comparison, total goods exports from the United States increased 16 percent over the same time period. This performance indicates that foreign-trade zones have contributed more than their fair share toward President Obama's National Export Initiative to double U.S. exports between 2009 and 2014.

The study also shows that firms have made increasing use of foreign-trade zones to efficiently source merchandise from around the world. By taking advantage of important zone benefits such as deferral of duties, duty reduction and duty elimination, companies that utilize FTZs are able to realize significant cost and cash flow savings. In FY 2010, the combined value of merchandise received by FTZs in the United States totaled $534 billion, a healthy 24 percent increase from the previous year. Of the merchandise received, 58 percent was sourced from the domestic economy and 42 percent was admitted from abroad. The most frequently mentioned country of import origin was China, followed by Japan, Germany and Mexico.

The automotive industry is a prime example of a sector that has utilized the program to access parts and raw materials from around the world at more competitive prices. Like many other U.S. industries, automakers utilize the FTZ program to gain relief from "inverted tariffs." While finished automobiles can be imported to the United States at the relatively low tariff of 2.5 percent, a number of major component parts that go into an automobile face significantly higher tariffs. The FTZ program allows domestic auto manufacturers to source these components duty-free, with tariffs being paid only on the finished automobiles that enter U.S commerce. Among the well-known international automakers that took advantage of the FTZ program in 2010 were BMW, Honda, Hyundai, Mercedes-Benz, Nissan, Subaru and Toyota. These and other FTZ-based automakers received a total of $45 billion in merchandise in fiscal 2010, while exporting $11 billion to other countries.

The automotive industry is just one of many that have taken advantage of the FTZ program in recent years. This year's study shows that in fiscal 2010, zone users produced and distributed goods reaching every corner of American life, from familiar household products to cutting-edge technologies. In the energy industry, firms reported using zones to manufacture wind-powered generators and refine and distribute petroleum products. In the consumer products sector, zone users produced and distributed everything from sportswear and cosmetics to appliances and home furnishings. Business-to-business products such as forklift trucks, tractor engines and industrial robots were also produced and distributed through FTZs.

In light of these findings, there are many reasons to be optimistic about the future of the FTZ program. The new regulations put into place in 2012 were designed to further expand the program's reach by making it more user friendly for small and medium-sized businesses. The recent passage of several key trade agreements has facilitated access to new markets for FTZ users, providing opportunities to grow supply chains and exports. Finally, at a time when the overall labor market has struggled, the study shows that FTZs have remained a reliable source of employment for more than 320,000 Americans. Given these developments, we are confident that the FTZ program will continue to benefit U.S. businesses for years to come. ■

The Impact of Foreign-Trade Zones on the 50 States and Puerto Rico is available online at www.naftz.org.