

## The FTZ as Device

**FOREIGN TRADE ZONE:** Specially licensed commercial and industrial areas in or near ports of entry where foreign and domestic goods, including raw materials, components, and finished goods, may be brought in without being subject to payment of customs duties. Goods brought into these zones may be stored, sold, exhibited, repacked, assembled, sorted, graded, cleaned, manufactured, or otherwise manipulated prior to re-export or entry into the country's customs territory.

US Dept of Commerce, [Trade Definitions](#)

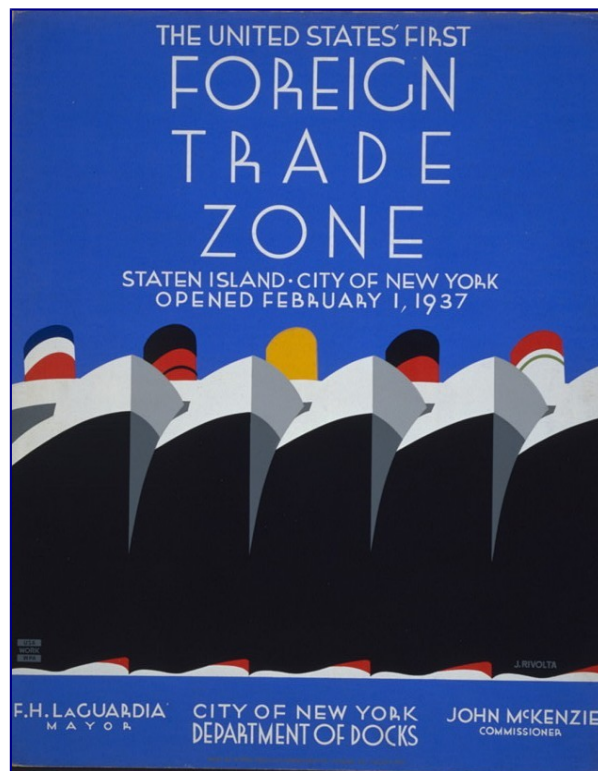
“WARNING!” reads the sign. “This is a US Foreign-Trade Zone. Whoever maliciously enters with intent to remove therefrom any merchandise, or unlawfully removes merchandise from U.S. Customs and Border Protection control, shall be guilty of a federal crime.”

These kinds of signs are usually affixed to an eight-foot high chain-link fence, complete with plenty of official-looking barbed wire. They can be found scattered across Chicago's industrial perimeter. Typically what's being guarded is a warehouse, an outdated factory or a brand-new logistics zone. To your eyes it probably looks like a dead space, with nothing happening and no one around. You're out wandering around in the Midwest, in the “heartland region,” and suddenly they say you're leaving US territory. It's kind of exotic. It's kind of ridiculous. And it's probably the closest you'll ever get to globalization in your own backyard.



So, exactly what is a Foreign Trade Zone? Or rather, what have these zones *become* over the last eighty years? How have they served to articulate the different scales of economic activity (regional, national, continental, global) and how has that articulation changed over time? When process not essence is the question, then it makes sense to bring up a special concept, which is the device.

A device is not a simple thing (much less a gadget), but instead, it's a mix of laws, technologies, administrative procedures and infrastructural affordances that together shape the course and outcome of a particular activity in society. A device is operational: it overcomes constraints and fulfills some perceived objective, or it tries to anyway. But it is not set in stone, it does not have the traditional solidity that we associate with institutions. Nor is it merely a cultural myth or an ideology ("frictionless production"). As Foucault observes, a device is a heterogeneous assemblage that comes together in response to an urgent need.



Let's look back to the era when Foreign Trade Zones began. At the outset of the Great Depression in in the early 1930s, the Smoot-Hawley Tariff in the US imposed a 60% tax on a broad range of imports. It provoked retaliatory tariffs from other countries and threatened to choke off world trade. But the transformation of the trade regime went beyond a single tariff. Many Roosevelt administration measures, such as the exit from the Gold Standard or the creation of the Securities and Exchange Commission, were also attempts to limit the scope of free trade and the power of commercial capitalism. Forged under the pressure of popular struggles, these measures sought to curb finance, to protect labor, to put the nation's population back to work. For the owners of capital they created a new and enduring problem: the regulatory state. The Foreign-Trade Zones Act of 1934 was an attempt to answer the threats to mobile capital. The urgent need to which it responded was that of restoring free-trade liberalism in a world where massive unemployment had turned the uninhibited movements of capital into a major problem for economic governance.

The Act was inspired by the free ports that had flourished under the British Empire. It set up a new kind of warehouse district "in or adjacent to" U.S. Ports of Entry, under the supervision of the U.S. Customs Service. What took form in a limited number of US ports were dockside warehouses surrounded by barbed wire fences, with customs officials at the gates and specific accounting procedures for everything that moved in and out of them. Foreign goods were not considered to have entered US customs territory for as long as they were within the FTZ, so they avoided inventory taxes; and they would remain entirely free of duties if they shipped out again. In addition, they could be assimilated and naturalized through some partial transformation that would make them more like locally produced goods, and therefore susceptible of a lower tariff. Manufacturing, however, was expressly prohibited. Using the FTZ-device, commercial capital carved out a small but valuable space for the pursuit of free trade. The New Deal State could therefore have two distinct economic regimes: one for labor and manufacturing, the other for trade and circulation.

The major port cities of New York, New Orleans and San Francisco – FTZs 1, 2 and 3 – were obvious sites for this kind of activity. Like the British free ports they could serve an entrepôt function, warehousing goods from around the world that would ultimately be sold at a profit to foreign buyers. And they could also let a certain quantity of those goods leak past the tariff barriers and filter into the national economy. The FTZ was therefore a space of negotiation between the national and global scales. Yet despite a certain amount of fanfare (such as the famous WPA posters) the initial development of the FTZ-device was quite limited. Midwestern sites like Kansas City and Chicago, for example, were clearly not in the right geographical position to make any use of it. Foreign Trade Zones were only established in those cities in 1973 and 1975, respectively. What gave this new impetus to the FTZs, some forty years after their creation?

The 1970s were marked by another cyclical downturn, comparable to the Great Depression in certain respects, during which major aspects of the US economy were reorganized. A crucial aspect of this reorganization involved the development of what was called the “new international division of labor,” associating developed and developing economies in just-in-time production circuits that moved partially outside the scope of national regulation. During this period a great many factories moved south: first to the US Sunbelt, and then to the Mexican maquila belt (which itself had been made possible by the Mexican government's Border Industrialization Program, launched in 1965). Basic manufacturing work was increasingly done offshore, in “export processing zones” which rapidly spread to East Asia. Those were also the years when the American auto industry began its long collapse, and the Midwestern rust belt emerged. Under the pressure of high unemployment and the flight of manufacturing industries offshore, the FTZ-device began to be reworked according to a new and more complex negotiation between the state and capital.

Already in 1950, the Foreign Trade Zones Act had been modified to permit manufacturing in the zones. However, this modification had yielded very little in practice. The pressures of the 1970s recession and the free-trade orientation of what would soon be called neoliberalism came together to change all that. From the early 1980s onward, shifts in the administrative interpretation of the Act made possible independent “subzones” that could be located increasingly far from traditional ocean and river ports. These subzones were generally occupied by a single corporate entity, unlike the former general-purpose sites. And they were used principally for manufacturing, which typically meant the assembly of foreign-made inputs or components into a final product. The FTZ-device now became an incentivizing structure to encourage the development of these just-in-time assembly plants, in order to “protect American manufacturing.”



How did the incentives operate? Because the components never arrived on US territory for tax purposes, and because they were put together into something qualitatively different (say, a television or an automobile), taxes only had to be paid on the finished products that left the zone for national consumption. This was the so-called “inverted tariff” structure, whereby a higher tariff is replaced by a lower one. In addition, any defective parts that had to be returned to the country of origin or, more likely, destroyed outright, would be exempt from import duties altogether. Here again, quite large savings could be realized. Finally, the added value of labor in the FTZs was exempted from customs taxes, which would have to be paid if that labor were performed abroad. As manufacturers argued, these tax reductions allowed for competitive production that could continue to generate employment in the US, rather than letting everything be done in Mexico or East Asia. FTZs would therefore save US jobs from overseas competition – but ironically, they would do so by shipping the results of that competition (the foreign-made parts) onto estranged, deregulated parcels of not-quite-American territory.

The 1980s were the golden age of FTZ manufacturing, and the years 1980-1985 saw the fastest growth in registration of new subzones. Continental production chains now took form between the subzones and the maquilas,, especially in the auto industry. The most sophisticated components were made in the US (or perhaps Germany or Japan); simpler and cheaper parts were fabricated by Mexican maquilas (or perhaps in Brazil or one of the Asian Tigers); and final assembly took place in an FTZ subzone in a convenient location such as Kansas City, so that taxes could be paid on an “American” car rather than a “foreign” import. The Ford Motor Co. subzone of FTZ 22 in Chicago was established in 1986 for exactly this kind of final-assembly manufacturing. Given the importance of Mexico in the continental production chain, truck and rail now began to rival with maritime shipping as the key transportation infrastructures. Thus the FTZ-device was reworked to meet the urgent needs of industrial rather than commercial capital, while still negotiating with the constraints of the regulatory state.

The manufacturing potential of industrial FTZs extended to oil refining and petrochemicals, which from the 1990s onward generated the largest dollar volumes of FTZ production. An inverted tariff

applies in this case: the duties for many refined products are lower than those for crude oil. Refining activities are still very strong in FTZs today, with Louisiana and Texas accounting for fully half the value of total imports into the zones. Yet in 1995, with the passage of NAFTA and the consequent elimination of a large number of tariff barriers between the US, Canada and Mexico, followed by further reductions in the framework of the WTO and various bilateral agreements, the utility of a large number of FTZs simply disappeared. Under the new neoliberal order, free trade had been largely restored; there were no longer very many tariffs to escape. The FTZ seemed fated to disappear. In Kansas City, for example, even the KCSmartPort office – which is a tremendous booster of FTZs – admitted in the course of the 2000s that some 95% of designated FTZ sites were without activity.

In Chicago, the Ford subzone has been terminated along with many others. General-purpose sites (now called “magnet sites”) are also on the decline. Developers of business parks and industrial warehouse zones such as CenterPoint still make a rhetorical case for the advantages offered by FTZ designation – but on inspection of the official documents, one finds that their FTZ status is often lapsed, inactive or terminated. In Chicago, the map of active FTZ sites reveals two particularly important groups of users. On one hand, the pharmaceutical companies, which are dependent on a large number of foreign chemical inputs that are still subject to tariffs. On the other, and more importantly, there is a new breed of transportation specialists, the so-called “third-party logistics firms” (3PLs). These are companies that provide specialized transportation services for other firms. In fact, the recently built Union Pacific railyard at CenterPoint Intermodal Center in Joliet no longer even bothered to have itself designated as a Foreign Trade Zone. Instead it simply refers its customers to the services of a 3PL, the Japanese firm Meiko America.

So what is the FTZ-device becoming today? And how do the 3PLs fit in? The answer has to do with yet further transformations of the global capital circuit, sparked by technological and organizational changes in the 1990s, and by the reorganization of the US security apparatus after 9/11.

In large measure, the rise of the logistics firms has to do with the opportunities that computerized communications brought to global trade after 1989, when vast regions were opened to foreign sales and capital investment, while the global labor force of capitalist production effectively doubled through the entry of formerly communist and formerly peasant workers. As production expanded in the former East and the Global South, and as tariffs decreased almost everywhere, US and European markets were flooded with foreign goods brought by the new global supply chains, such as the ones operated by Target, Amazon or WalMart. Such giant retail firms took the logic of just-in-time delivery, developed in manufacturing, and extended it to a global distribution system for consumer goods sourced from a multitude of suppliers across the world. For smaller companies unable to run their own supply chains and warehouses, the third-party logistics firms stepped in, offering specialized services such as repackaging, labelling and pricing, cold-chain delivery, direct-to-customer delivery, expedited air freight, etc. Obviously, customs issues arise for a logistics firm receiving imports from around the world, whether to be reshipped abroad or handed over to their actual owners within the US. In this context the advantages of the FTZ are quickly apparent. Not only is it easier to defer payment of any remaining tariffs to the moment when the actual recipient has the goods in hand, but above all, the avoidance of customs paperwork on arrival in the US greatly accelerates the whole shipping process, thus delivering the accelerated transport times that 3PLs are in the business of providing.

Yet there's something more to this story. Once again, the FTZ-device is being reworked according to a larger and more complex strategy, including negotiation with the regulatory state. The multiplication of inactive Foreign Trade Zones – which remained on the books for the rhetorical selling point they could offer to commercial real-estate developers – had begun to preoccupy Customs and Border Protection officials, now regrouped under the umbrella of Homeland Security. This concern, plus the declining usefulness of the manufacturing subzones, prompted a major overhaul of the FTZ-device in 2008,

under the rubric of the “Alternative Site Framework” (ASF). Chicago's FTZ 22 signed on to the ASF in 2011. Zones and subzones were now reclassified into general purpose “magnet” sites and client-specific “user driven” sites, which could be located practically anywhere. Further, they were all given expiration or “sunset” dates and closely monitored for their levels of activity, resulting in the termination of a large number of unused zones. Most importantly, both customs officials and FTZ operators (the “grantee” authorities and their associated professional organizations) began actively promoting new kinds of compliance-ensuring software packages for inventory control. These are what is driving the current phase of reorganization in the Foreign Trade Zones.



The software packages, which are sold and maintained by specialists, allow customs declarations to be filed electronically, often on a weekly basis, rather than per shipment. The result is dramatically lowered processing fees. The same software can be applied to bonded transportation services that extend the FTZ outward into domestic transportation networks, whether for journeys between zones or for deliveries to clients. In this way, the users of the packages – notably the 3PLs – are effectively paid with tariff reductions for adopting an integrated software system that now appears poised to set new global norms for inventory-control and customs-clearance operations. The key point is that these same software packages can be used, not just for customs clearance at FTZs, but for transportation operations worldwide, across a multitude of borders. The security ramifications are obvious: highly sophisticated commodity flows can be tracked across the planet in real time by the shippers themselves, according to parameters set by Customs and Border Protection, which will have access to all the information. What could be more ideal for Homeland Security, which seeks to monitor all global exchanges in the name of terrorism prevention? To encourage the development of this electronically recorded activity, the authorities have reduced the expense, time and location requirements for setting up new FTZs. The stage is now set for a fresh wave of growth in Foreign Trade Zones.

The FTZ-device has come a long way since the barbed-wire fences and languishing warehouses of the 1930s. What we have seen, under the same name, are really three successive responses by mobile capital to the threats and opportunities posed by the development of both the global economy and the regulatory state. Each reorganization of the device is inflected by its past usages, which are partially transformed and partially preserved, according to the logic of path dependency. But each reorganization also adds radically new features, in order to deal with changing conditions. What's emerging in the present phase is impressive: the configuration of a vast surveillance and policing system designed, not to hinder, but instead to accelerate the development of global trade. At the center of this process, the 3PLs appear to be transforming the Foreign Trade Zone from a fixed space to an agile, mobile network of free trade.

Does the evolution of the FTZ-device now to point to the horizon of our own futures? For most of us, a totally neoliberal free-trade order appears as an existential threat. We have no way to control, nor even to fully conceive, the order of production, distribution and consumption in which we are living our lives. How could global zone-dwellers respond to this threat? Isn't there an urgent need to inquire, not only into FTZs, but above all, into the world that they prefigure?