

If your business deals with foreign import, have you considered Free Trade Zone status?

What is a Free Trade Zone under the new tariff laws?

A free trade zone (often called a foreign/free trade zone or FTZ) is a designated geographic area where goods can be imported, stored, processed, or re-exported without immediately paying normal customs duties and many tariffs; duties typically apply only when goods leave the zone and enter the domestic market. Under the newer tariff frameworks announced in 2025, FTZs are being emphasized as tools for deferring, reducing, or in some cases avoiding the higher baseline and country-specific tariff rates, especially for imports that are re-exported or held in inventory for longer periods.

Core legal concept

- Legally, an FTZ is treated as being “outside” the customs territory for tariff purposes, even though it is physically inside the country, so customs duties and many federal excise taxes do not apply while the goods remain in the zone.
- Within the zone, companies can store, assemble, manufacture, or repair goods with simplified customs procedures, and only pay duties if and when those goods are formally entered into domestic commerce.

“New” meaning under recent tariff laws

- The 2025 U.S. tariff changes set a new baseline duty (for example, a flat minimum rate on most imports plus higher rates for certain countries), which increases the value of using FTZs to defer or avoid these charges where goods are re-exported or destroyed in the zone.
- Some recent executive orders and guidance restrict certain strategies (like changing the tariff classification inside a zone purely to obtain a lower rate), but FTZs still allow deferral of tariffs and complete avoidance of U.S. duties on goods that never enter the domestic market.

Practical implications for importers

- For import-heavy operations, using an FTZ can help manage cash flow by postponing duty payments, consolidating customs entries, and avoiding tariffs on inventory that is re-exported instead of sold domestically.

- Under higher, more complex tariff schedules, “new” free trade zone strategies mainly refer to designing supply chains so that high-tariff inputs are routed through FTZs, with careful attention to updated rules on privileged foreign status, classification changes, and any product-specific tariff surcharges.

If you share which country’s “new tariff laws” you are focused on (e.g., U.S. 2025 orders vs. another jurisdiction), a more precise description of how a new free trade zone would operate under those rules can be provided.

How do FTZ's impact China component import?

Foreign trade zones (FTZs) do not erase U.S. tariffs on China-origin components by default, but they significantly change when and sometimes how much duty is paid, which is critical under the current elevated China tariff regime. Their main impacts are duty deferral, potential duty reduction in some structures, and complete duty avoidance only when China-origin goods never enter U.S. commerce (for example, are re-exported from the zone).

Key effects on China-origin components

- When China-origin components are brought into a U.S. FTZ, Section 301 and other China-specific duties generally do not apply at admission; they are triggered only if and when the goods leave the FTZ for U.S. domestic consumption.
- Because many U.S. China tariffs now stack to very high effective rates (often tens of percent or more), the ability to hold inventory in an FTZ without immediate duty payment gives importers flexibility to delay or avoid those duties if demand collapses or goods are re-exported instead.

When FTZs can and cannot lower China duties

- If China-origin components are used in production inside the FTZ and the finished products are exported (never formally entered into U.S. commerce), U.S. duties on the value of those China components are typically not owed at all.
- If the finished product made in the FTZ is entered into the U.S. market, Section 301 and other China-related tariffs still apply on the foreign-status content; the only way to truly avoid those China-specific duties is to export the goods from the FTZ instead of selling them domestically.

Inverted tariff and classification strategies

- FTZ rules can sometimes allow a manufacturer to elect the duty rate of the finished product instead of that of the China-origin component, which matters when the finished good's normal duty rate is lower (an "inverted tariff" situation); however, U.S. guidance has tightened against using FTZs purely to escape China-specific surcharges.
- Importers still must treat China-origin content correctly under the Harmonized Tariff Schedule and Section 301 lists; simply bringing China components into an FTZ does not change their origin, so any China-specific tariffs apply once the goods (or goods made from them) enter the U.S. market.

Practical implications for your sourcing

- For a U.S. manufacturer using China-origin parts, an FTZ can improve cash flow (by deferring high China duties until sale), allow quality inspection and rework before entry, and support a re-export model where some portion of output avoids U.S. duties entirely.
- For a distributor importing finished components from China into an FTZ, the main levers are timing (delaying duty) and disposition (choosing between domestic entry, which triggers duties, versus re-export, which avoids them), so FTZ use should be planned together with demand forecasts and potential non-U.S. markets.

If you outline your scenario (e.g., U.S. factory using China electronics, or importing machined parts for re-export), a more concrete duty-impact walkthrough can be mapped out step-by-step.

What if the products manufactured in the FTZ comprise both China and American manufactured components and are released for lease in the US, and not for sale?

Leasing the finished products in the U.S. is generally treated the same as selling them for purposes of customs and China-related tariffs: if the goods leave the FTZ and enter U.S. customs territory for domestic use (including lease), duty is owed on the applicable dutiable value, regardless of who "owns" the asset or how it is monetized. The fact that the equipment incorporates both U.S.-made and China-origin components mostly affects (1) how the product is classified and valued, and (2) how much of the value is actually subject to duty, not whether duty applies at all.

1. Lease vs. sale under customs rules

- Customs focuses on entry for “consumption” (i.e., entering U.S. commerce for use) rather than the commercial model; once you remove a finished unit from the FTZ to deploy it in the U.S. under a lease, it is treated as an entry for consumption and duties become payable.
- The duty is normally assessed one time, at the time of that entry, based on the dutiable value and applicable tariff rate(s), not on each periodic lease payment.

2. Mixed U.S. and China components

- U.S.-origin components are “domestic status” and are not subject to customs duty when the finished good leaves the FTZ; the dutiable base is tied to the foreign-status content (for example, China components) and any applicable trade-remedy duties on that content.
- If China-origin parts were admitted in privileged foreign status (as is generally required for Section 301 goods), the China-related duties are locked in on the value and classification of those components, and those extra tariffs apply when the finished product is entered into U.S. commerce, even though the product is a mix of U.S. and foreign content.

3. Classification, origin, and rate

- For “ordinary” MFN duty, you may in some cases elect to pay duty at the rate of the finished product rather than the higher rate of individual components (inverted tariff), but China-specific surcharges like Section 301 typically cannot be avoided this way and still attach to the China-origin share.
- The country of origin for marking and many trade-remedy purposes is determined by substantial transformation rules, so it is possible for the finished product to be of U.S. origin while still triggering China-specific duties on the value of China components because those remedies often apply to the foreign content itself, not just the finished good’s origin label.

4. Practical structuring for a lease model

- From a cash-flow standpoint, the FTZ still helps: you can build inventory in the zone and only pay duties when a unit is actually pulled out and placed into service on a lease, rather than at the time the China components first hit the U.S. port.
- For a fleet-type business (medical devices, industrial equipment, vehicles, etc.), a common pattern is: import China components into the FTZ, integrate with U.S.

components, test and configure, then enter units into U.S. commerce as they are placed with lessees, paying the one-time duties then and recovering them over the life of the lease.

5. Issues to flag with counsel/broker

- How you declare the status of foreign components on admission (privileged vs. non-privileged) will drive whether you can access any inverted-tariff benefits and how China-specific tariffs are calculated.
- Your customs broker and trade counsel should model: (a) value allocation between U.S. and China content, (b) impact of Section 301 or other China remedies on that foreign-status value, and (c) whether any free-trade-agreement or duty-drawback opportunities apply if some leased units are later exported or redeployed abroad.

If you describe your product type (e.g., capital equipment, electronics, medical devices) and whether you anticipate any later exports of leased units, a more tailored duty-and-structure walkthrough can be laid out.

Please consult your customs broker, or private counsel for any other specific questions.

Or.....

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