

Free Zones World Economic Barometer

F-WEB NOTE 2020-Q1

The results of the 2020Q1 round, conducted in February, suggest that economic conditions in free zones around the globe have improved compared with the previous three months. The share of free zones reporting good economic conditions increased from 46 percent in 2019Q4 to 56 percent. 37 percent of free zones evaluate their current situation as normal, while the share of free zones experiencing poor conditions increased slightly from 5 to 7 percent. This translates into an F-WEB Economic Conditions Index of 48, up from 41 in 2019Q4 and 26 in 2019Q3, and similar to the level seen one year ago. Expectations for the next three months have also become more optimistic. While the indicator for future economic conditions was on a downward trend since summer 2018, it had increased from 33 in 2019Q3 to 50 in 2019Q4 – and now rose further to a value of 63, a level last seen in 2018. While free zones may benefit from some improvements in the global trade environment, the outbreak of the Coronavirus poses a downward risk to economic activity in free zones, as our special questions reveal.

The World Free Zones Organization, in cooperation with the Kiel Institute for the World Economy, launched the Free Zones World Economic Barometer (F-WEB) in 2018. The F WEB is a quarterly, survey-based sentiment indicator designed to gauge current momentum and future trends of economic activity in free zones and (special) economic zones around the globe. The F-WEB survey consists of a set of questions related to the economic performance in free zones that are asked every quarter in order to establish a history of results that can be used to extract information. In addition, a small number of special questions is included in every round that will be asked at a lower frequency or irregularly as a reaction to specific developments.

The questions are qualitative in nature and can be answered by choosing positive answers (increasing, improving, good), negative answers (decreasing, deteriorating, poor) or neutral answers (unchanged, more or less the same, normal) from dropdown menus.

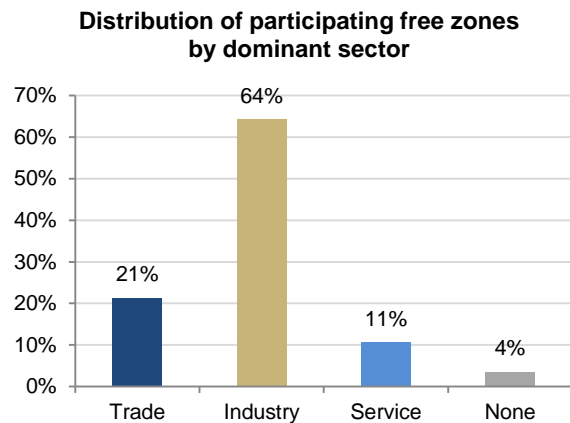
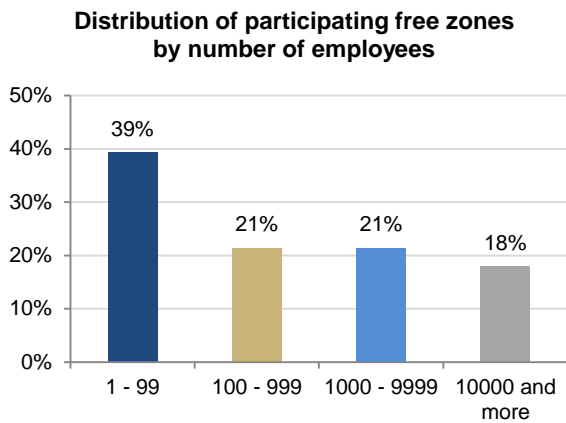
The aim of the F-WEB is to condense the available information into easily interpretable indicators. To this end, positive answers get the value of 100 and negative answers the value of -100. Neutral answers get the value of 0. Our indicator value is then calculated as the aggregate value of received answers divided by the number of respondents to each answer. The index value is 100 when all participants give positive answers and -100 when there are uniformly negative answers. An index value of 0 results in the case of 100 percent neutral answers or in the case that the same number of positive and negative answers is given.

In this note, we present a summary of the results from 2020Q1, the ninth round of F-WEB. An extensive description of the questionnaire can be found in the [World Free Zones Economic Outlook 2018](#) produced by the World Free Zones Organization in cooperation with the Kiel Institute for the World Economy. The [F-WEB Summary 2018](#) provides an overview of the results of the F-WEB's first year.

F-WEB 2020-Q1 RESULTS

GENERAL INFORMATION

The 2020Q1 survey is the ninth round of the F-WEB. It was conducted between February 3 and February 17, 2020. Representatives of 34 free zones in 24 countries worldwide participated in the survey. Similar to previous F-WEB rounds, most of the participating free zones have less than 1,000 employees. The share of participating free zones with 1,000 to 9,999 employees and over 10,000 employees is similar with 21 percent and 18 percent, respectively.

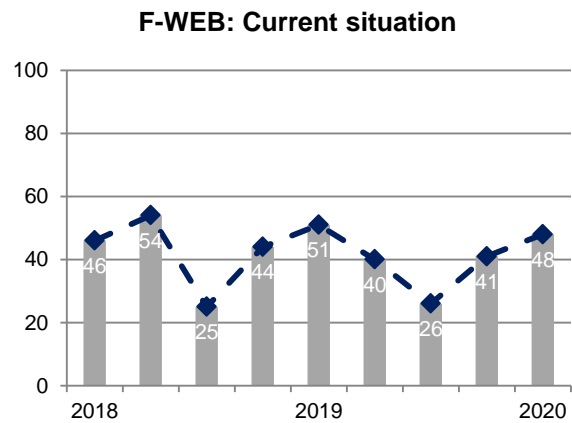
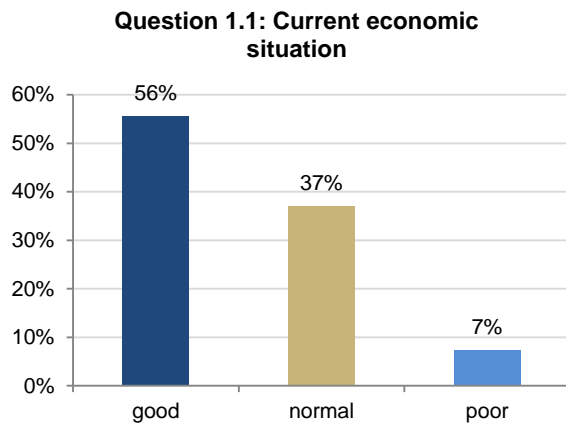


Industry is the sector, which most (64 percent) of the participating free zones specialize in, while 21 percent focus on trade and 11 percent on services. Only a small percentage of reporting free zones have no dominant. Overall, the sectoral distribution of participants is comparable to previous rounds of the F-WEB.

CURRENT ECONOMIC SITUATION

General situation

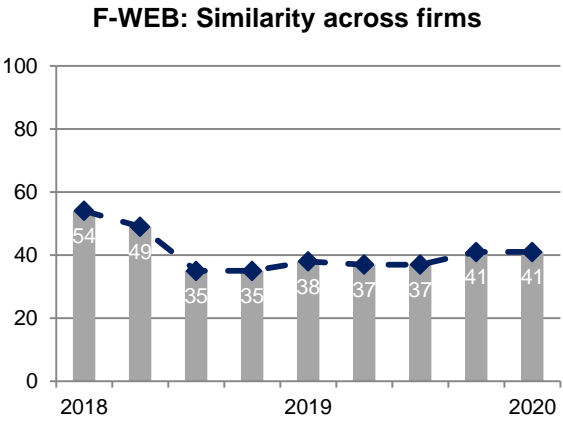
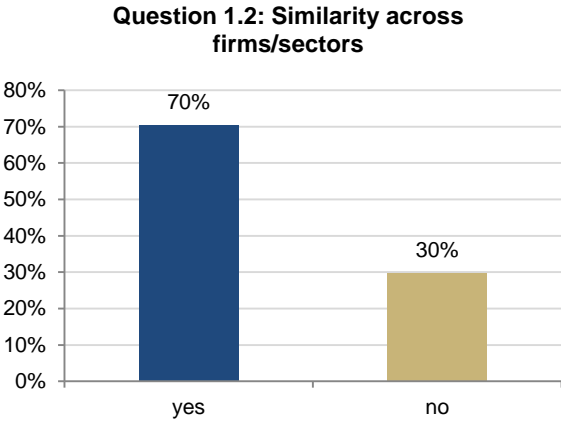
Question 1.1: “Overall, how do you assess the current economic situation in your Free Zone, taking into account the usual seasonal pattern?”



In this quarter's survey, the percentage of free zones evaluating their current economic situation as good increased significantly to 56 percent (up from 46 percent), leaving the amount of free zones estimating their situation as normal smaller (at 37 percent, down from 49 percent in the previous round). The share of free zones rating their economic situation as poor remains low at 7 percent (2019Q4: 5 percent). The responding F-WEB indicator therefore increased somewhat from 41 to 48, implicating a better overall situation.

Structural Pattern

Question 1.2: “Is the current economic situation similar in all sectors/most companies hosted by your Free Zone (answer yes) or are there pronounced differences across sectors/companies (answer no)?”



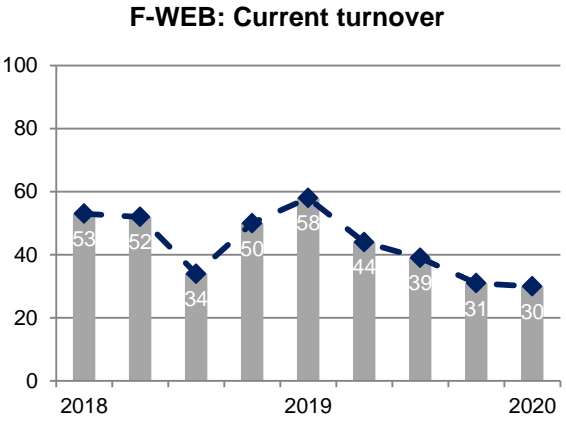
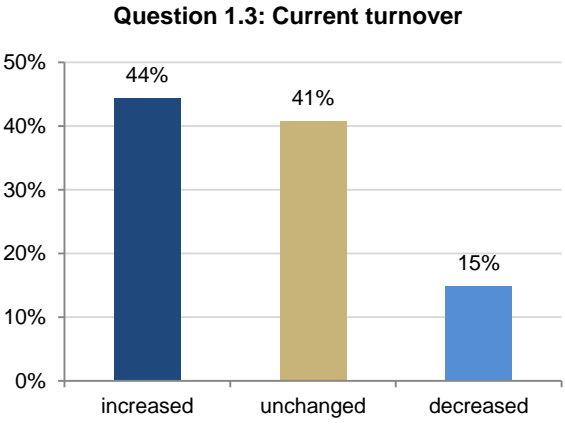
The same share of representatives of free zones as in the previous survey reported that the current economic situation is similar for all sectors and companies in their free zone. Hence, the F-WEB indicator for similarity of economic conditions across firms and sectors did not change compared with the previous quarter and stayed at 41. In fact, there has been little variation in the indicator over time since the start of the F-WEB.

Detailed dimensions

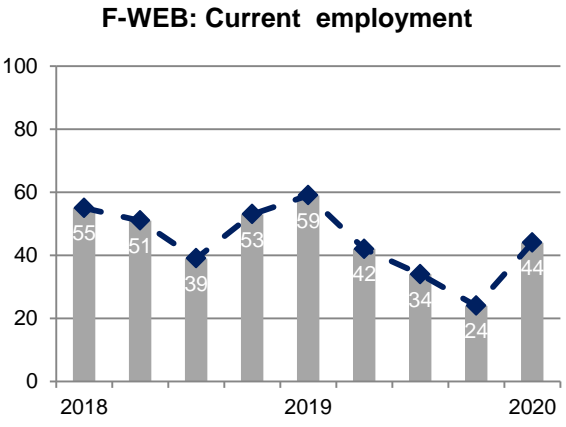
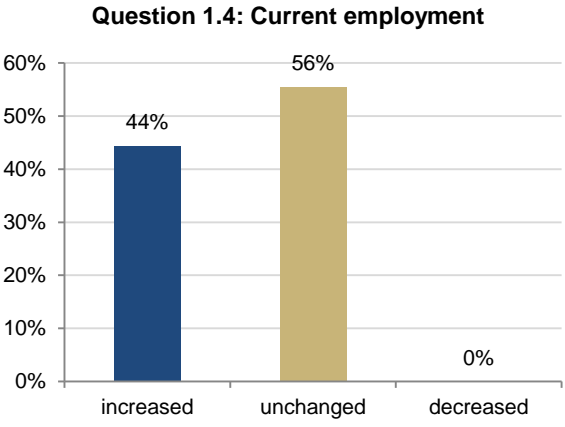
Questions 1.3-1.6 relate to recent developments in more detailed economic dimensions: “Compared to the previous three months and taking into account the usual seasonal pattern...” how has turnover/employment/investment/profitability developed?

While economic sentiment, on average, moderated significantly since the start of 2019, it now improved for most dimensions of economic activity compared with the previous round of the F-WEB. An exception is current turnover for which the current situation is largely unchanged and remains modest. The F-WEB indicators for current employment, investment and profitability all increased. For current investment, this represented an increase for the second consecutive quarter, while current employment and profitability reversed the downward movement seen through 2019 only now.

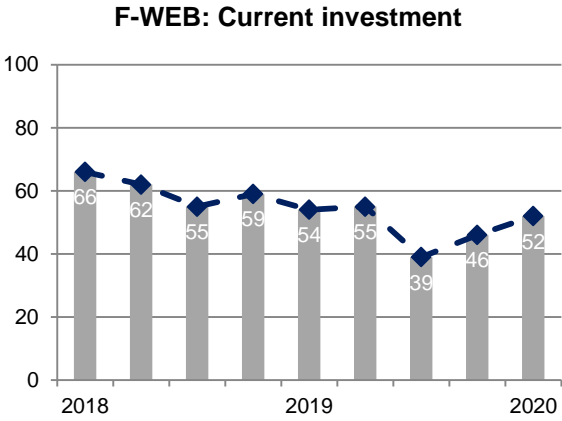
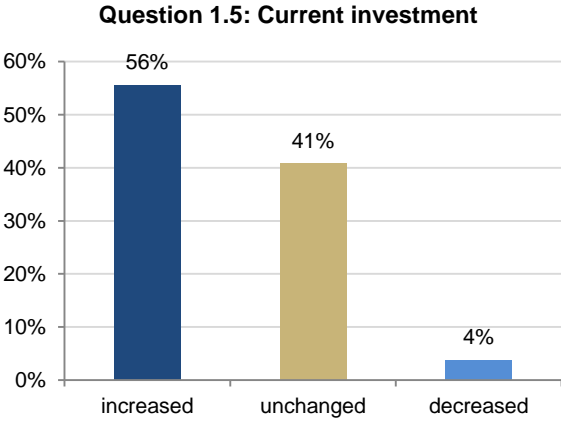
The current situation of **turnover** has hardly changed compared to the previous survey. The share of free zones reporting an increase in turnover stayed almost the same as in 2019Q4 at 44 percent (up from 43 percent). The share of free zones that consider their turnover as unchanged decreased from 46 to 41 percent, whereas the share of free zones reporting lower turnover increased from 11 to 15 percent. Overall, the F-WEB indicator for current turnover remained almost unchanged at an all-time low value of 30, down from 31 in 2019Q4.



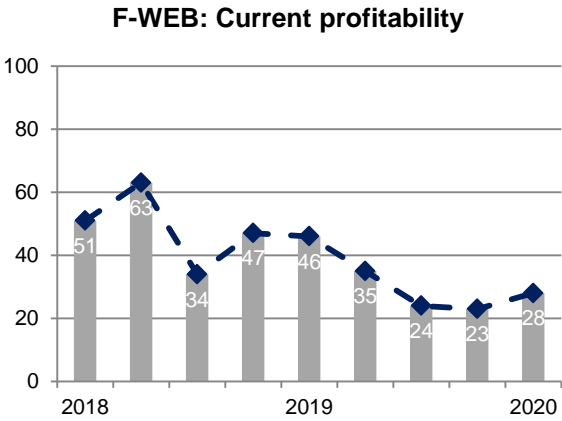
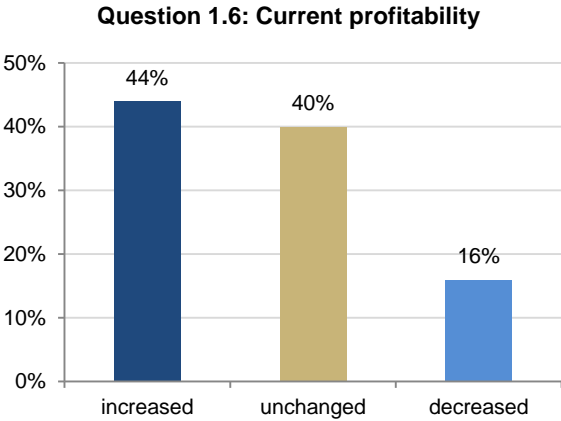
The F-WEB indicator for current **employment** increased strongly from 24 to 44, mostly because the share of free zones reporting a decrease in employment dropped from 15 to 0 percent. At the same time, the share of free zones reporting an increase in employment compared to the previous quarter rose from 38 to 44 percent, while the percentage with unchanged employment increased from 47 to 56 percent. Accordingly, the F-WEB indicator for current employment bounced back to a level last seen at the start of 2019, after falling for three consecutive quarters in the course of last year.



The situation regarding **investment** also improved compared with the previous round of the F-WEB. The share of free zones reporting an increase in investment remained almost stable at 56 percent (2019Q4: 54 percent). 41 percent of participants saw no change in investment (up from 37), whereas the share of free zones registering a decrease nearly halved from 9 to 4 percent. As a result, the F-WEB indicator for current investment increased for the second consecutive quarter from 46 to 52 after its marked drop in 2019Q3. However, it still remains below the levels seen in the first half of 2019.

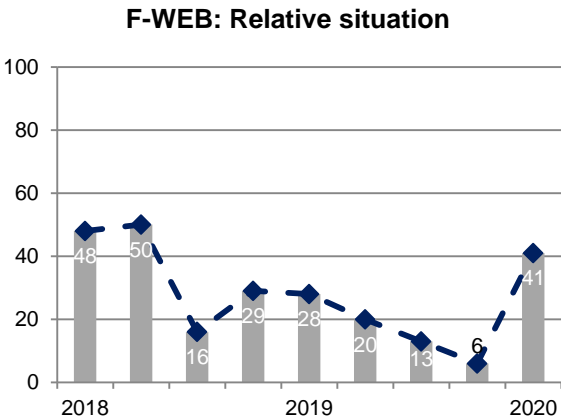
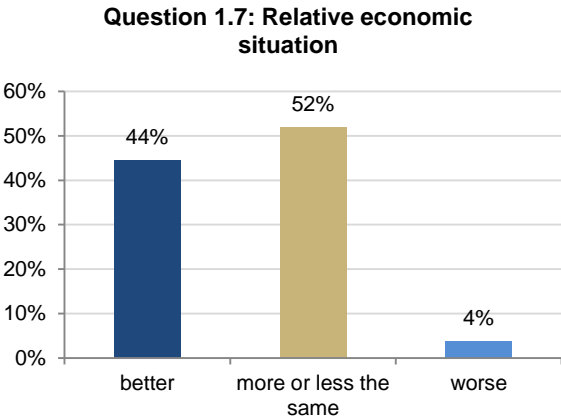


Profitability was reported to have increased in 44 percent of the participating free zones (up from 37 percent in 2019Q4), while the share of free zones with unchanged profitability decreased from 49 to 40 percent. 16 percent of free zones – a similar proportion as in the last round of the F-WEB – declared a decrease in profitability. As a result, the associated F-WEB indicator increased somewhat from 23 to 28. It still remains well below the values seen one year ago.



Relative assessment

Questions 1.7: “Compared to the economic situation in your host country how do you assess the overall economic situation?”

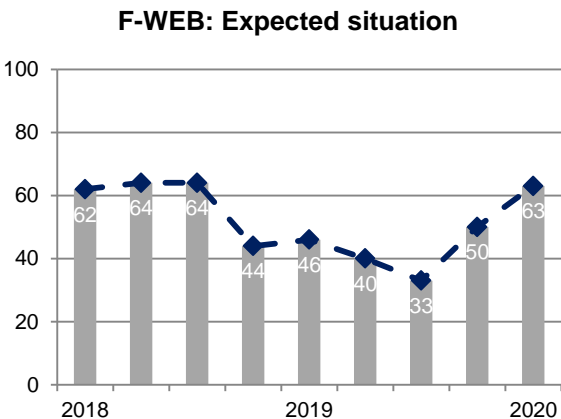
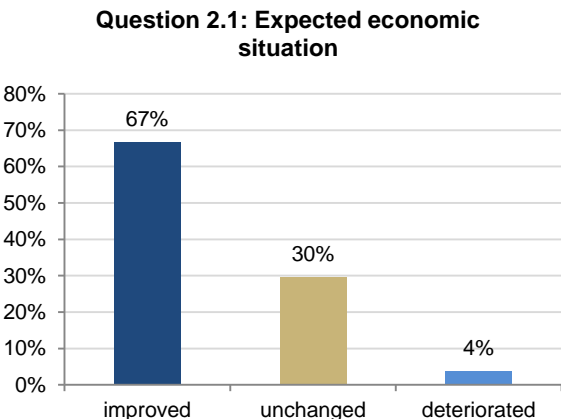


As in the previous round of the F-WEB survey, most of the participating free zones encountered a similar economic situation in their free zone as their host country in general (52 percent; 2019Q4: 60 percent). At the same time, 44 percent (up from 23 percent) claimed the economic situation in their free zone to be better than in their host country, whilst only few free zones reported a significantly worse economic situation. Compared with the previous round of the F-WEB, where only 23 percent reported a relatively better economic situation and 17 percent experienced worse conditions, this reflects a substantial improvement. The F-WEB indicator this quarter jumped to 41, up from a value of only 6 in 2019Q4, reaching a level not seen since then second half of 2018.

EXPECTATIONS

General situation

Question 2.1: “Overall, compared to the current situation, how do you expect economic conditions to develop in your Free Zone over the next 3 months?”



Expectations on future business conditions and performance have again become more optimistic, on average. While in the last quarter of 2019, only every second free zone reported an improved ex-

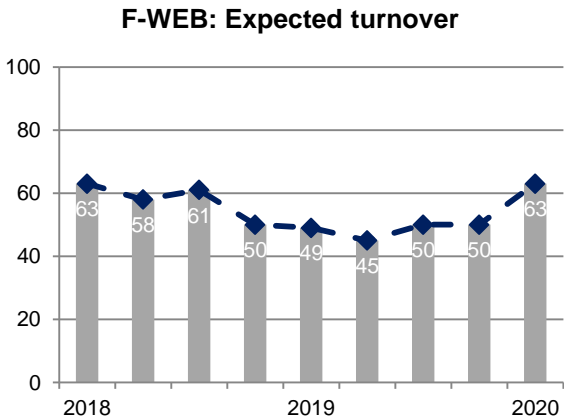
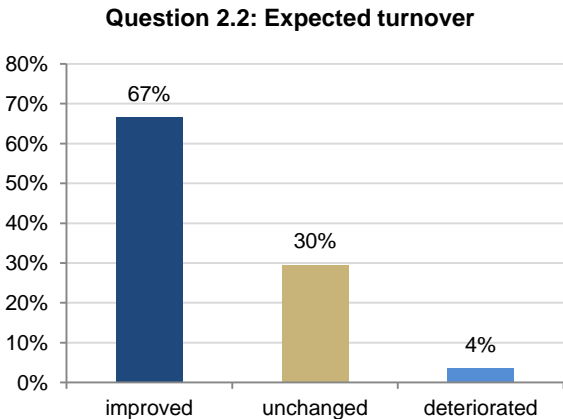
pected economic situation, this time two out of three free zones are optimistic about the next three months. The share of free zones with unchanged expectations dropped significantly from 50 percent the previous round to 30 percent now. The percentage of free zones reporting a deteriorated outlook continues to be negligible. As a result, the corresponding F-WEB indicator rose markedly from 50 to 63, reaching a value very close to its all-time high of 64 observed in 2018.

Detailed dimensions

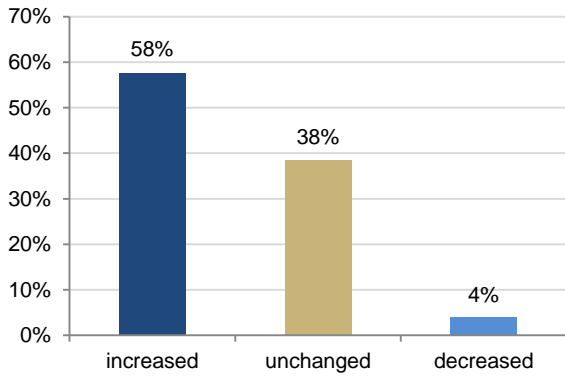
Questions 2.2–2.5 relate to the expectations for developments in specific economic dimensions in the near future: “Overall, compared to the current situation, how do you expect developments in your Free Zone over the next 3 months” ... regarding turnover, employment, investment and profitability, respectively?

The outlook of respondents with respect to turnover, employment, investment and profitability over the next three months has again become more optimistic, on average. The share of free zones with a positive outlook increased substantially across all dimensions. For employment, investment and profitability this is the second consecutive improvement in the outlook. The share of negative answers has remained low in the single digits for all dimensions, as in the previous quarters.

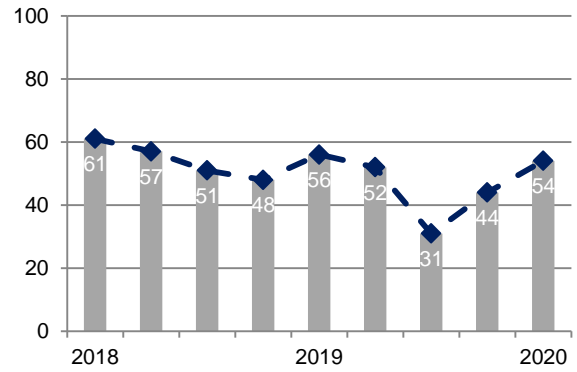
The F-WEB indicator values reflect these developments: The indicator values for all dimensions increased compared with the 2019Q4 round of the F-WEB. The increase was most pronounced for expected turnover, which had remained stable in the previous quarter despite improvements across all other dimensions of economic activity. It now increased markedly to a value of 63, up from 50 recorded in the second half of 2019. The indicator for expected employment continued to recover from its sharp drop in 2019Q3 and – with a value of 54 – reached a level similar to the one seen before its decline (2019Q3: 31; 2019Q4: 44). Similarly, the F-WEB indicators for expected investment and profitability increased for the second consecutive quarter. The indicator for expected investment is now 54 (2019Q3: 42; 2019Q4: 50) and thus, comparable to the first half of 2019. The F-WEB indicator for expected profitability increased to 52 (2019Q3: 36; 2019Q4: 44) – a level last seen in 2018.



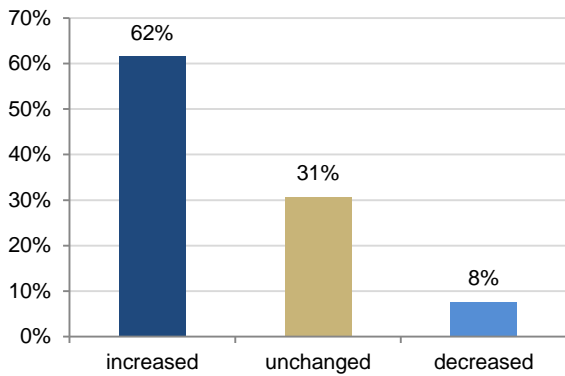
Question 2.3: Expected employment



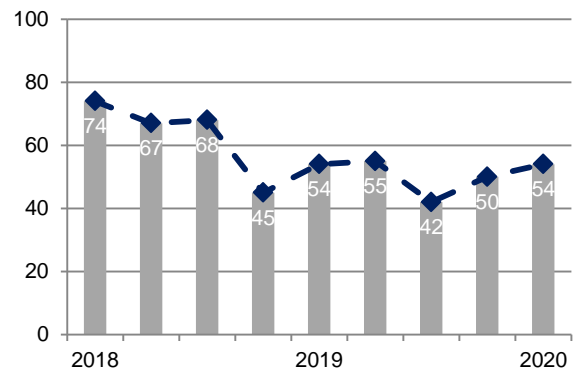
F-WEB: Expected employment



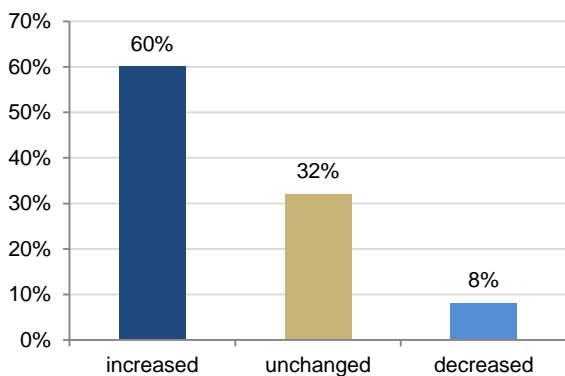
Question 2.4: Expected investment



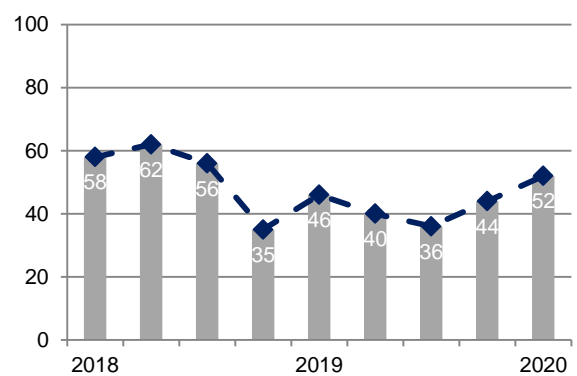
F-WEB: Expected investment



Question 2.5: Expected profitability



F-WEB: Expected profitability



SPECIAL FOCUS QUESTIONS

In the 2020Q1 F-WEB survey, we asked one annually recurring special question aimed at capturing changes in sentiment on a year-on-year basis (Special Question 1), and one special question on current economic developments (Special Question 2).

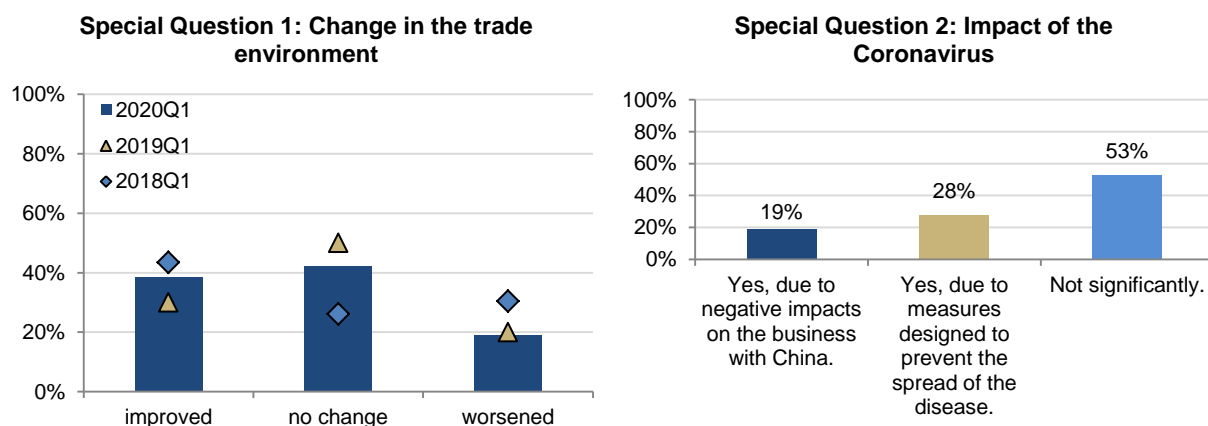
Special Question 1: In your view, over the last few months the global trade environment has improved, stayed the same, or worsened?

This special question is asked annually against the backdrop of continuing trade policy uncertainty, mainly originating from the US government. Recently, trade tensions have lifted somewhat due to the “Phase 1” trade deal the US and China negotiated. This may have contributed to the assessment of the participants. Compared with 2019Q1, the share of free zones evaluating the recent developments in the global trade environment as improvements has increased from 30 to 38 percent. At the same time, one fifth of F-WEB participants think the global trade environment has deteriorated over the last few months which is comparable the assessment one year ago. 42 percent evaluate the trade environment as unchanged; one year ago 50 percent of free zones had this stance.

Special Question 2: Do you expect business in your free zone to be affected by the outbreak of the Coronavirus in China?

On January 30, 2020, the World Health Organization declared the outbreak of the Coronavirus SARS-CoV-2 a “public health emergency of international concern”. Infections are so far mostly concentrated in China but also other countries, most notably in Asia, are affected. The International Monetary Fund recently stated that the coronavirus outbreak is the “most pressing uncertainty” for the global economy.¹ Extensive measures have been taken to contain the spread of the disease, causing economic activity in China to slow markedly. Via supply chain disruptions and travel restrictions, negative economic effects can spill over to other countries.

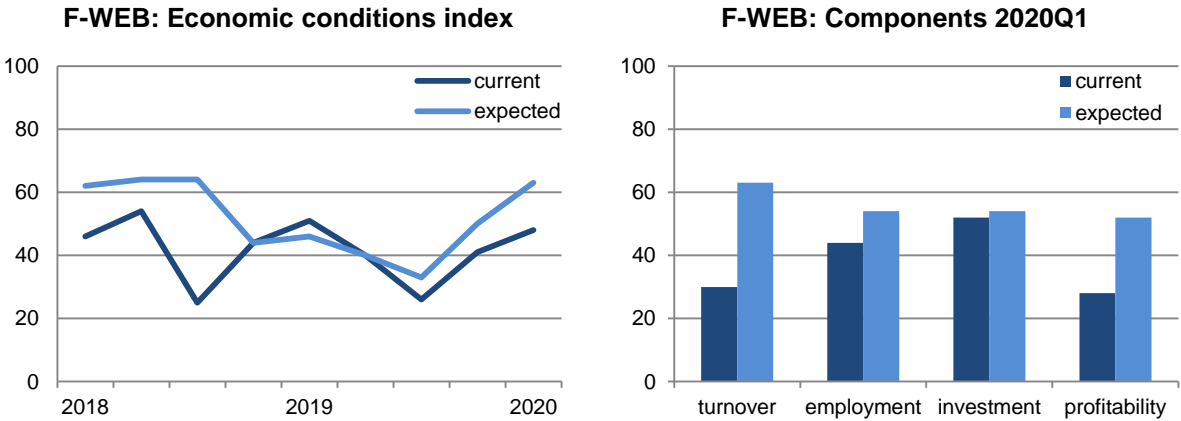
Against this background, Special Question 2 asked if free zones expect negative consequences of the Coronavirus on economic activity in their free zone. The answers show that roughly half of the participants expect negative consequences. More free zones fear negative impacts due to measures designed to prevent the spread of the disease (28 percent) than due negative impacts on the business with China. 53 percent of participants do not expect a significant impact of the Coronavirus on activity in their free zone



¹ See <https://blogs.imf.org/2020/02/19/finding-solid-footing-for-the-global-economy/>.

SUMMARY

In 2020Q1, the F-WEB survey suggests that the economic situation in free zones around the globe, on average, has improved for the second consecutive quarter. The share of free zones assessing their situation as good increased to 56 percent, up from 46 percent in 2019Q4 and 34 percent in 2019Q3. A smaller share of free zones (37 percent) now report normal conditions, down from 49 percent, while the share of free zones experiencing poor conditions remains low at 7 percent (2019Q4: 5 percent). The improvement in sentiment is reflected in the corresponding F-WEB indicator value for current economic situation which increased from 41 to 48, i.e. to a similar level as recorded one year ago. Thus, after the drop in economic sentiment seen in 2019Q3, it seems that economic activity in free zones was able to continue its recovery. The outlook for the next three months has also become more positive. After having jumped from 33 to 50 in the previous quarter, the F-WEB Expected Economic Conditions Index improved further to a value of 63 – a similar level was last recorded in 2018.



A closer look at the various elements of business activity – i.e. turnover, employment, investment, and profitability – reveals that economic performance improved on a broad basis this quarter. An exception is current turnover for which the current situation is largely unchanged compared with the previous round of the F-WEB and remains modest. The F-WEB indicators for current employment, investment and profitability all increased. For current investment, this represented an increase for the second consecutive quarter, while current employment and profitability reversed the downward movement seen through 2019 only now. The outlook of respondents with respect to turnover, employment, investment and profitability also became more optimistic. The indicator values for all dimensions increased compared with the 2019Q4 round of the F-WEB.