

Free Zones World Economic Barometer

F-WEB NOTE 2019-Q3

The World Free Zones Organization, in cooperation with the Kiel Institute for the World Economy, has 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 around the globe. The results of the 2019Q3 round, conducted in mid-August, suggest that economic conditions in free zones around the globe have again deteriorated compared to the previous three months. The share of free zones reporting good economic conditions fell from 47 percent in 2019Q2 to 34 percent. 58 percent of free zones evaluate their current situation as normal, while the share of free zones experiencing poor conditions has increased slightly from 7 to 8 percent. This translates into an F-WEB Economic Conditions Index of 26, down from 40 in 2019Q2 and 51 in 2019Q1. Thus, the F-WEB indicator has dropped close to its lowest level since its launch. Expectations for the next three months have also become less optimistic. In 2019Q3 the indicator for expectations regarding future economic conditions continued the downward trend that is in place since summer 2018 and recorded a new low since the start of the F-WEB.

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.

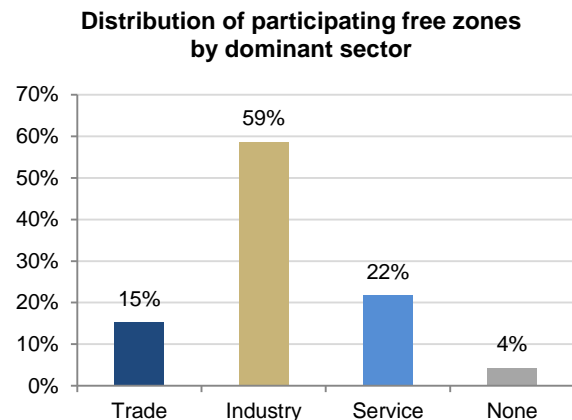
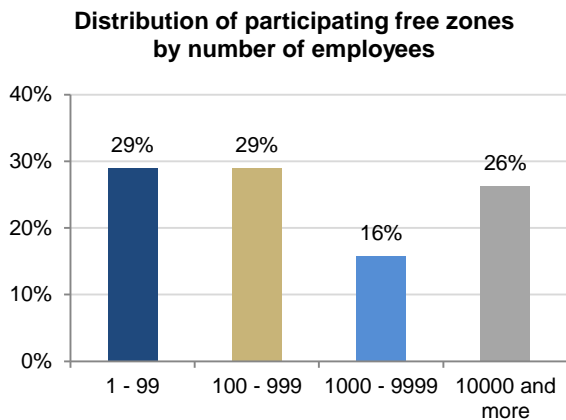
The aim of the F-WEB is to condense the available information into easily interpretable indicators. To this end, positive answers get the value of 100 and negative answers the value of -100. Neutral answers get the value of 0. Our indicator value is then calculated as the aggregate value of received 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 2019Q3, the seventh 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.

F-WEB 2019-Q3 RESULTS

GENERAL INFORMATION

The 2019Q3 survey is the seventh round of the newly established F-WEB. It was conducted between August 5 and August 26, 2019. Representatives of 55 free zones in 27 countries worldwide participated in the survey. In line with previous rounds of the F-WEB, the majority of responses (58 percent) came from free zones with less than 1,000 employees. 16 percent of participating free zones have between 1,000 and 9,999 employees and 26 percent report more than 10,000 people working within their zone.

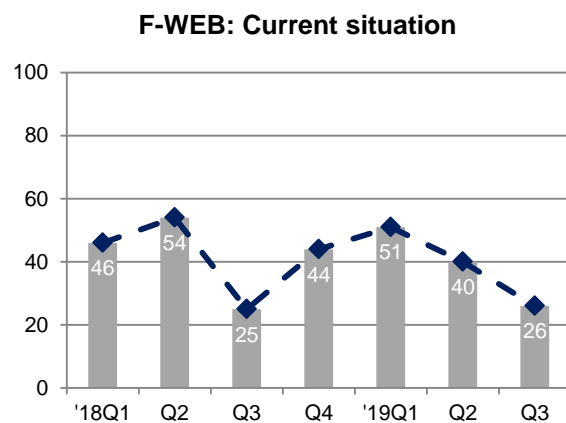
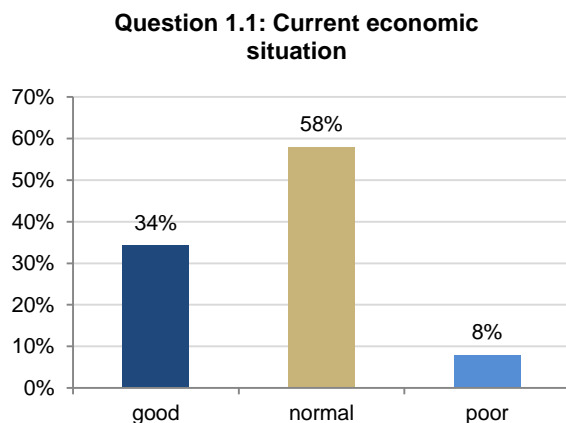


Most free zones in our sample focus on industrial activities (59 percent). 15 percent of responding free zones report trade as their dominating sector; 22 percent focus on services. Only a very small number of free zones have no clear focus on a specific sector. Overall, the sectoral distribution of participants remains similar to previous rounds of the F-WEB, enhancing comparability of the results over time.

CURRENT ECONOMIC SITUATION

General situation

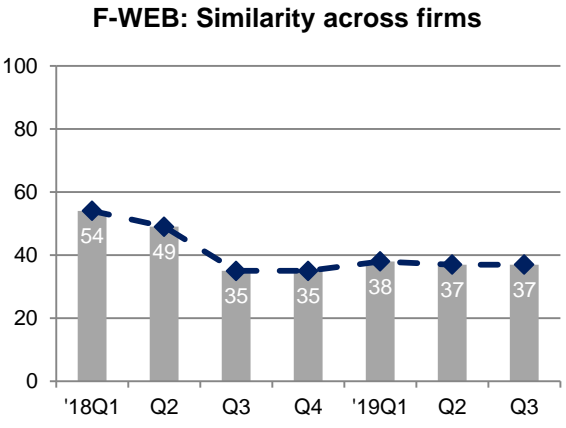
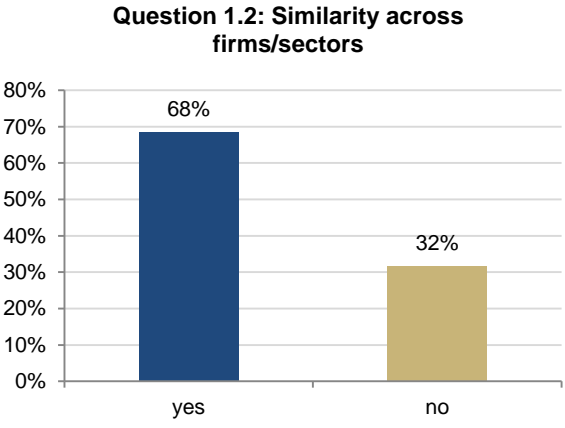
Question 1.1: “Overall, how do you assess the current economic situation in your Free Zone, taking into account the usual seasonal pattern?”



In the 2019Q3 round of the F-WEB the number of free zones regarding their situation as good declined to 34 percent, down from 47 percent in the previous quarter. The majority of free zones (58 percent) now report normal conditions, up from 47 percent in Q2. The share of participating free zones experiencing poor conditions remained low, but increased from 7 to 8 percent. The corresponding F-WEB indicator value for current economic situation fell from 40 to 26, close to the lowest level in the short history of the indicator of 25 recorded one year ago.

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)?”



With respect to dispersion of levels of economic activity within the participating free zones the picture has not changed much over the recent quarters. In line with previous results, around two thirds of free zones report that all firms or sectors, respectively, in their free zone experience similar economic situations (68 percent), while 32 percent of free zones describe the situation of sectors/firms in the free zone as substantially diverse. In 2019Q3 the F-WEB indicator for similarity of economic conditions across firms/sectors remained constant at 37.

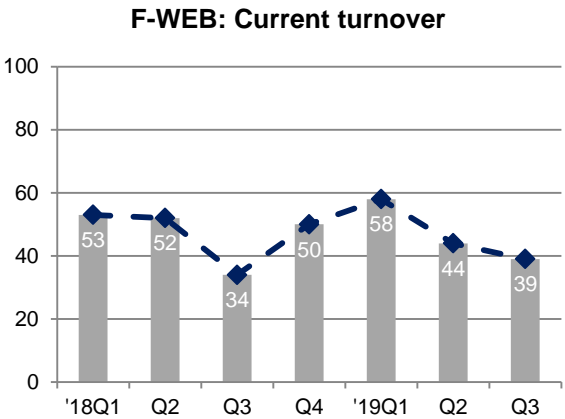
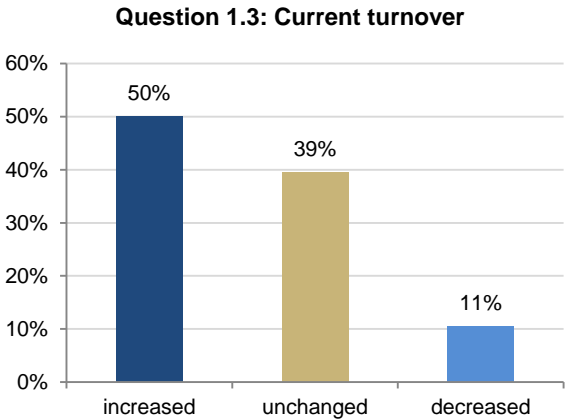
Detailed dimensions

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?

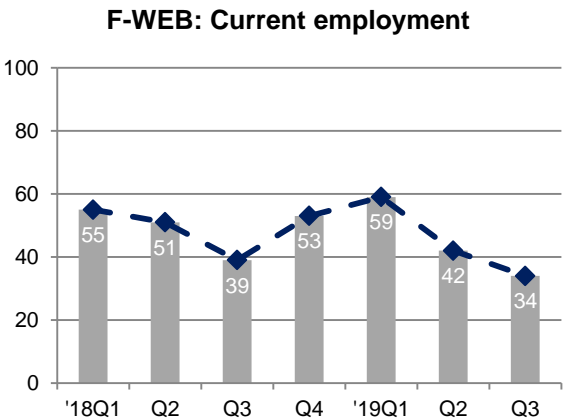
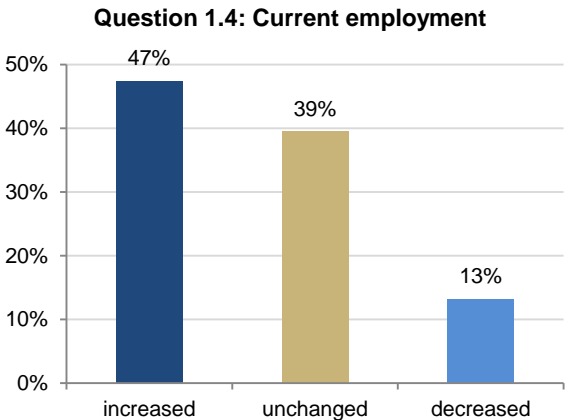
In general, despite some moderation in positive results, a large majority of free zones continues to report positive or neutral economic developments regarding turnover, employment, investment and profitability over the past three months. However, compared with the situation at the beginning of the year, turnover, employment and profitability have all clearly lost momentum with the respective F-WEB indicators in Q3 having declined for the second consecutive quarter. The F-WEB indicator for investment, which in the second quarter had bucked the downward trend in the other dimensions of economic activity, has now also come down significantly, mainly reflecting a drop in the share of free zones planning to increase investment. The number of free zones reporting worse economic performance has picked up compared to the previous three months, although the share remains low at between 9 and 13 percent across all dimensions.

The responses translate into lower values of the corresponding F-WEB indicators in 2019Q3 compared to 2019Q2 for all dimensions. The F-WEB indicators declined from 44 to 39 for current turnover, from 42 to 34 for current employment, from 55 to 39 for current investment, and from 35 to 24 for current profitability. In the following, the developments of the different dimensions of economic activity are described in greater detail.

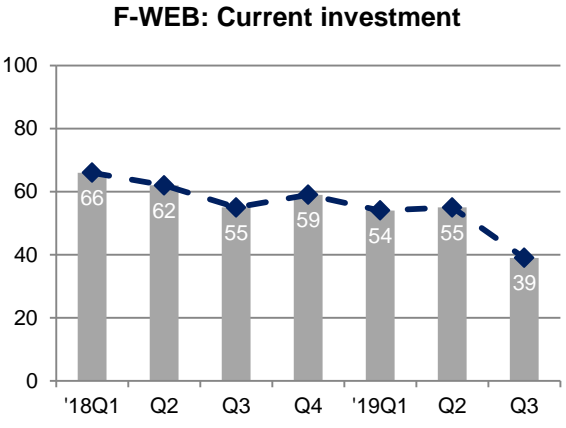
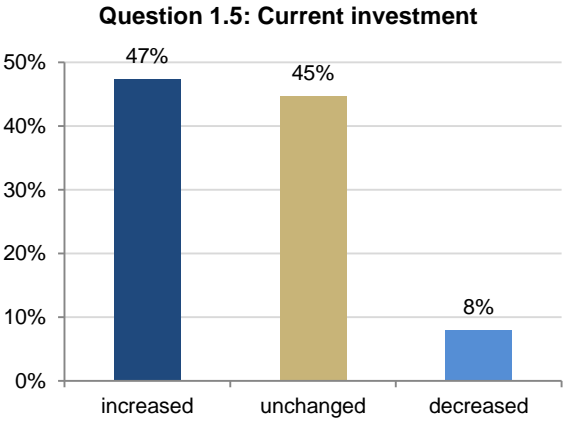
The F-WEB indicator for **turnover** declined to 39 from 44 in the second quarter despite a rise of the share of respondents who saw an increase with respect to the previous three months to 50 percent (2019Q2: 46 percent). The reason is that at the same time the share of free zones reporting a decline in turnover jumped from 2 to 11 percent. Meanwhile, the share of free zones with unchanged turnover declined from 53 to 39 percent.



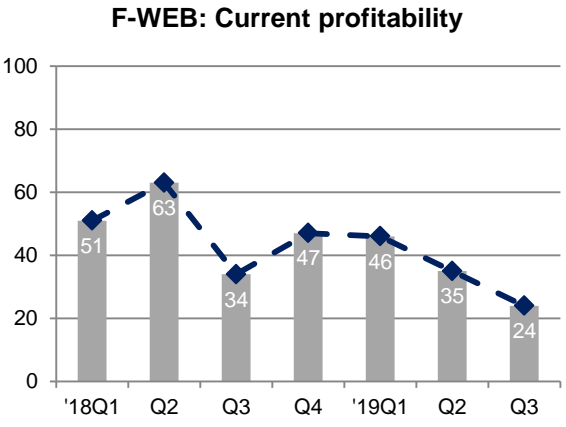
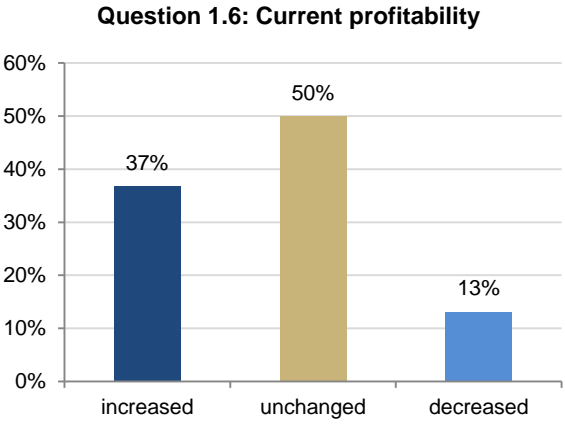
Employment was reported to have increased over the past three months by an unchanged share of free zones of 47 percent. However, with the share of free zones having cut down on employment having increased from 5 to 13 percent and the share of free zones with stable employment down from 47 percent to 39 percent, the corresponding F-WEB indicator value for current employment fell to 34 from 42, its lowest level on record.



The general deterioration of economic momentum now also seems to be reflected in **investment**. The share of free zones reporting increasing investment fell substantially to 47 percent from 64 percent in 2019Q2. 45 percent of the free zones reported unchanged investment now compared with 27 percent in the previous quarter. The share of free zones reporting a decline in investment over the past three months remained modest at 8 percent (2019Q2: 9 percent). Overall, the F-WEB indicator for current investment fell markedly to 39 from 55 in 2019Q2.

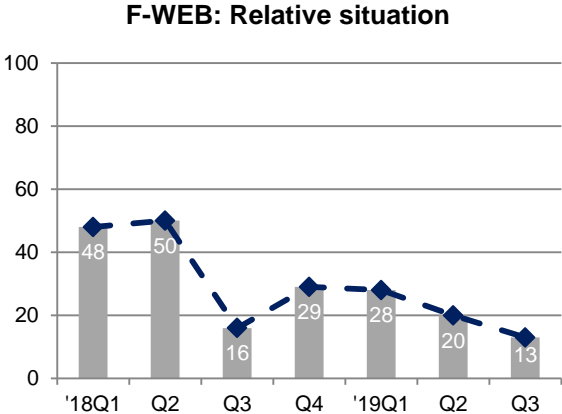
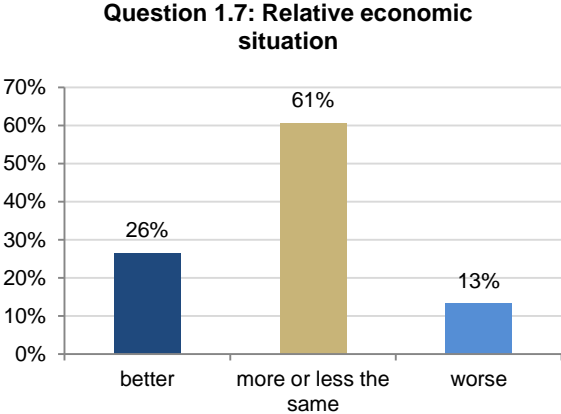


Profitability has increased over the past three months in 37 percent of the free zones participating in the F-WEB, down from 44 percent in 2019Q1. In addition, the share of negative answers increased from 9 to 13 percent. With the share of neutral answers slightly increased to 50 percent (from 47 percent in Q2), the F-WEB indicator for current profitability has decreased to 24 in 2019Q3, down from 35 in the previous quarter. This is only half the level reached at the beginning of this year and marks a new low for the indicator for current profitability.



Relative assessment

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

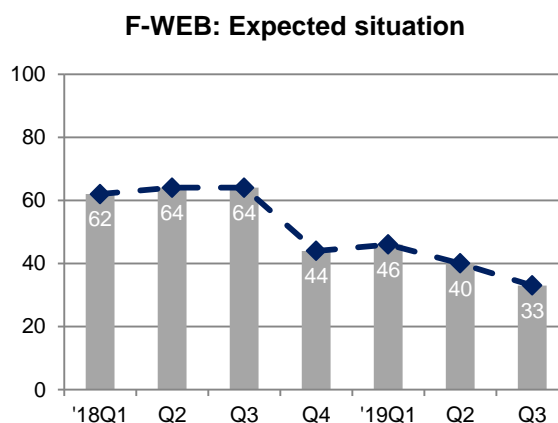
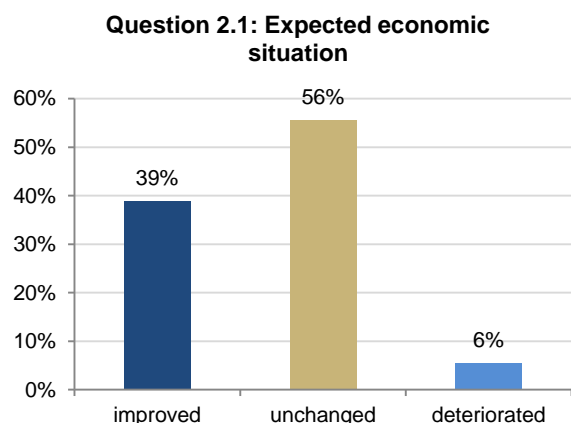


Most participating free zones (61 percent) have faced a similar economic situation in the past three months as their host countries in general, only slightly less a share than reported in the previous two F-WEB rounds (63 percent). At the same time the share of participating free zones that evaluate their situation as considerably better than in the rest of the country fell further to 26 percent from 29 percent in 2019Q2 and 33 percent in 2019Q1. The share of free zones reporting underperformance compared to the host economy has increased from 5 percent at the beginning of the year to 9 percent in the second quarter to 13 percent in the current survey. Consequently, the resulting F-WEB indicator for relative performance of free zones has further decreased and stands now at 13.

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 less optimistic, on average. The share of free zones reporting a positive outlook has declined compared to the previous round of the F-WEB from 49 to 39 percent. On a positive note, the share of free zones reporting a negative outlook has also decreased, from 9 to 6 percent. On aggregate, the F-WEB indicator for business conditions over the next three months dropped from 40 to 33, another record low for the F-WEB indicator for expected economic situation. However, in relative terms the deterioration in sentiment is less pronounced for expectations than for the current economic situation.

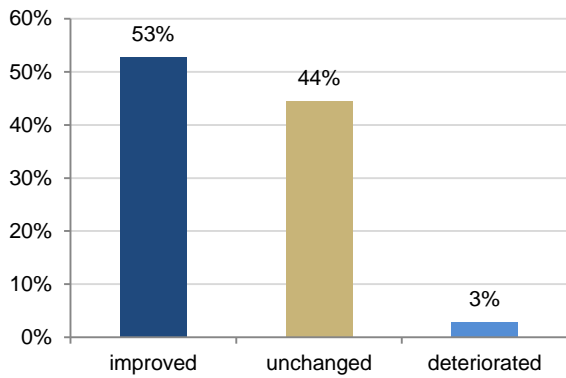
Detailed dimensions

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?

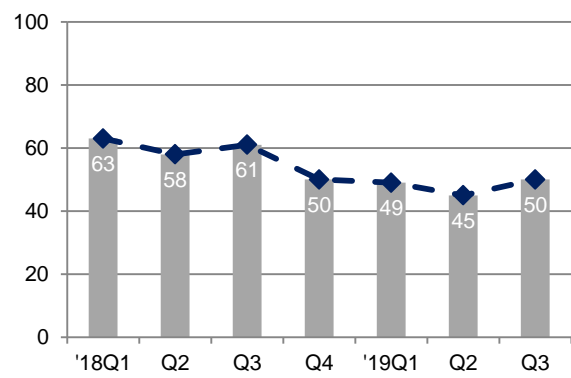
The outlook of respondents with respect to employment, investment and profitability over the next three months has become less optimistic. The share of free zones with a positive outlook has decreased across all these dimensions. An exception to this trend is the expectations for turnover, with the share of free zones expecting a pick-up in activity having increased slightly from the second quarter survey. 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. Thus, the indicator for expected turnover increased slightly from 47 in 2019Q2 to 55 in 2019Q3. At the same time, the indicator values for all other dimensions decreased compared to the previous round of the F-WEB. The fall is most pronounced for expected employment which declined from 52 to 31. The indicator value for expected investment also decreased markedly, from 55 to 42. The decline in the F-WEB indicator for expected profitability was less pronounced, slipping from 40 to 36.

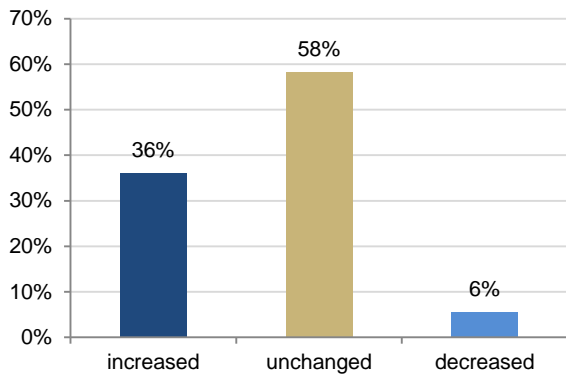
Question 2.2: Expected turnover



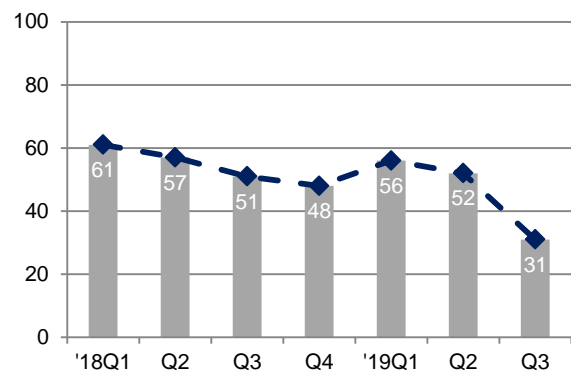
F-WEB: Expected turnover



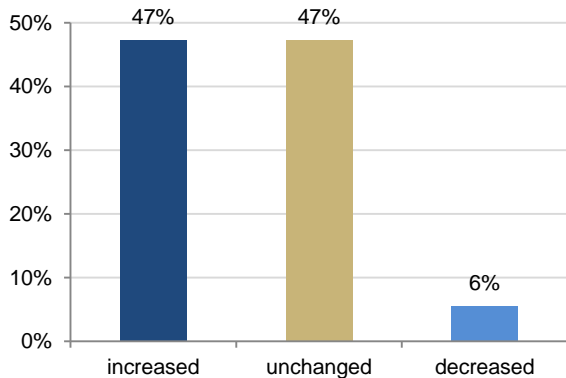
Question 2.3: Expected employment



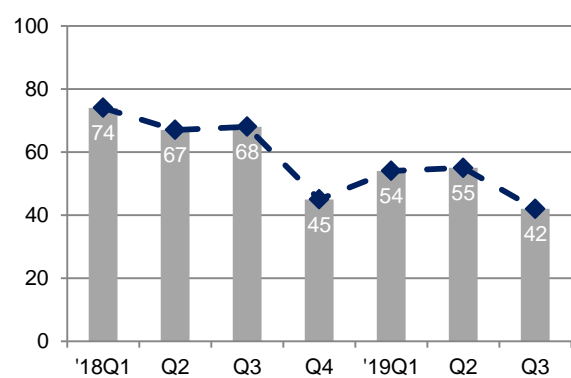
F-WEB: Expected employment

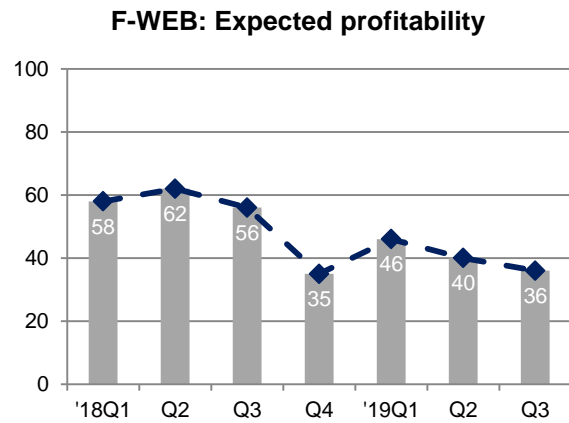
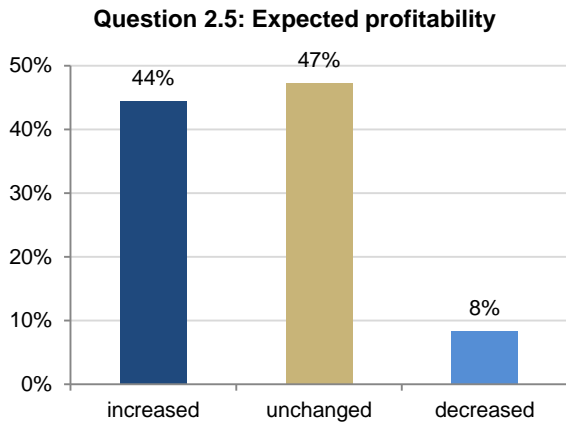


Question 2.4: Expected investment



F-WEB: Expected investment





SPECIAL FOCUS QUESTIONS

In this section of the questionnaire we ask questions regularly, but at a lower than quarterly frequency, or spontaneously in response to specific economic or political developments that may have an impact on free zones. In the 2019Q3 F-WEB survey, the same two special questions were asked as in 2018Q3 in order to capture changes in sentiment on a year-on-year basis.

Special Question 1: How do you expect trade tensions between several countries and the United States to affect business in your free zone?

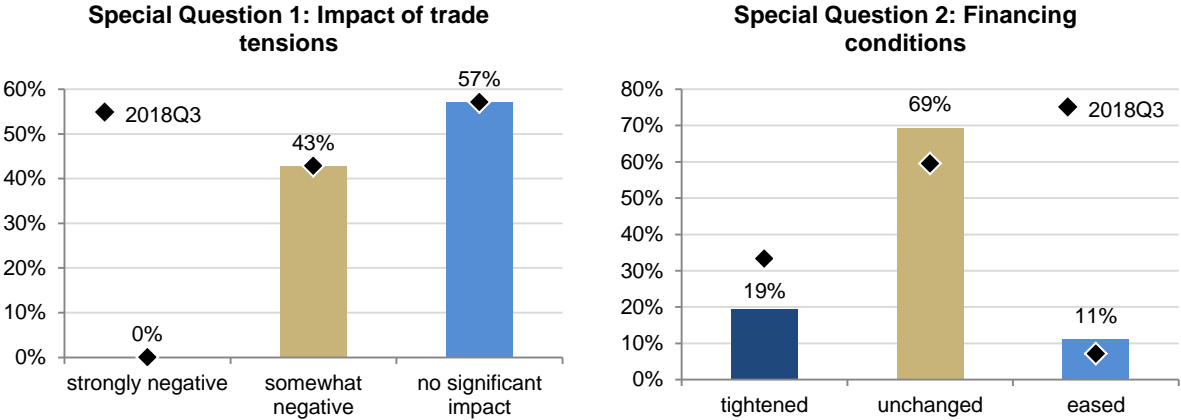
The current US administration has become more protectionist compared to its predecessors. It has increased tariffs on various occasions with varying justifications, withdrawn from ambitious trade policy initiatives such as TPP and TTIP, renegotiated NAFTA and, more generally, introduced additional uncertainty into the international trade system. The focus of the protectionist measures has so far clearly been on China, with which the US runs the largest bilateral trade deficit, and reciprocal action has led to a situation that can reasonably be described as a trade war. While the trade conflict with China is far from being resolved, there is still the issue of a high trade deficit of the US with the European Union, especially in automobiles, raising the spectre of the US increasing tariffs on automotives and car parts at a later stage. An escalation of the current conflict into a global trade dispute still poses a major risk to the world economy and could impact the performance of free zones worldwide.

According to the results of Special Question 1, while a majority of free zones do not expect a significant impact of the trade tensions on their business activity, there is a substantial number of free zones that are negatively affected. 43 percent of respondents expect a somewhat negative effect of the trade tensions between the US and other countries, in particular China. So far, no free zone anticipates strong detrimental consequences of the rise in protectionism. The results are the same as in 2018Q3 when the same special question was asked. The intensification of trade tensions seen over the past year thus has not changed the assessment of F-WEB participants regarding the impact on free zones.

Special Question 2: How have financing conditions for businesses in your free zone developed over the past six months?

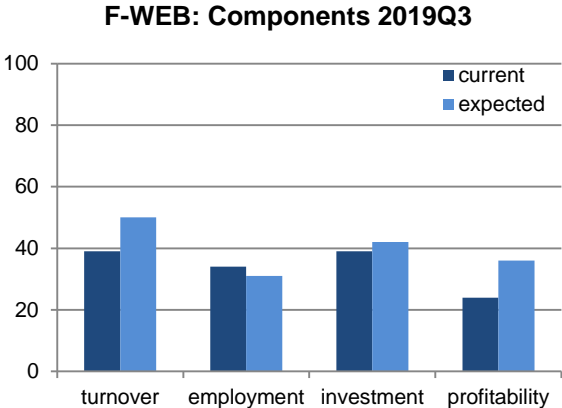
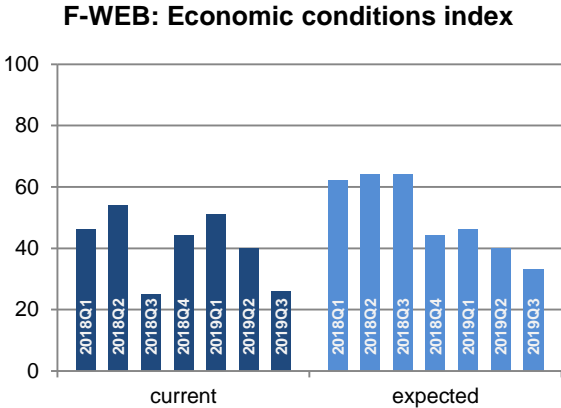
Last year, emerging and developing economies have been facing challenges as financial conditions tightened in the context of rising US interest rates. Against the backdrop of weakening global growth, financial market jitters and signs of slowing inflation, the US central bank changed course this year and has started to lower interest rates again in July, potentially increasing the room to maneuver for central banks especially in emerging economies.

The responses to Special Question 2 show that the transmission of easier US monetary policy to the free zone community has so far been limited. Over the past six months only 11 percent of free zones have experienced easier financing conditions, whereas 19 percent faced a tighter monetary environment. The majority – 69 percent – has not experienced significant change in the monetary conditions. However, compared to the situation one year ago, when we asked the same question, the share of free zones facing tighter conditions has dropped (from 33 percent) and the share of free zones facing easier money has risen (from 7 percent).



SUMMARY

In 2019Q3, the F-WEB survey suggests that the economic situation in free zones around the globe, on average, has continued to deteriorate compared to the previous quarter. The share of free zones reporting good economic conditions fell to 34 percent from 47 percent in 2019Q2 and 56 percent in 2019Q1, while the share of free zones experiencing normal conditions increased to 58 percent, from 47 and 39 percent, respectively. The share of free zones reporting poor conditions, while slowly creeping up, remains low at 8 percent. This translates into an F-WEB Current Economic Conditions Index of 26, down from 40 in the previous quarter and close to its lowest level which was registered in 2018Q3. Thus, it seems that after two consecutive quarters with increasing optimism at the end of 2018 and in early 2019, economic activity in free zones around the globe is slowing. The outlook for the next three months has also become more clouded. Even though the deterioration is less pronounced than in the case of current economic conditions, the F-WEB Expected Economic Conditions Index fell from 40 to 36 – its lowest level since the start of the survey.



A closer look at the various elements of business activity – i.e. turnover, employment, investment, and profitability – reveals that economic performance has deteriorated across all dimensions. The single bright spot according to this survey is expectations on turnover in the next three months which have slightly improved compared to the second quarter.