

Free Zones World Economic Barometer

F-WEB NOTE 2019-Q4

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 2019Q4 round, conducted in November, suggest that economic conditions in free zones around the globe have improved compared with the previous three months. However, the positive signal is not yet very strong given that the assessment for more detailed economic dimensions are somewhat inconclusive. Overall, the share of free zones reporting good economic conditions increased from 34 percent in 2019Q3 to 46 percent. 49 percent of free zones evaluate their current situation as normal, while the share of free zones experiencing poor conditions decreased from 8 to 5 percent. This translates into an F-WEB Economic Conditions Index of 41, up from 26 in 2019Q3 and similar to the level seen in 2019Q2. 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 increased from 33 to 50 this quarter – its highest value since 2018Q3.

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.

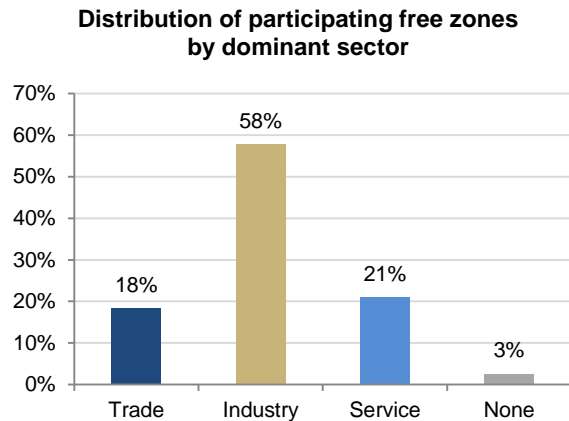
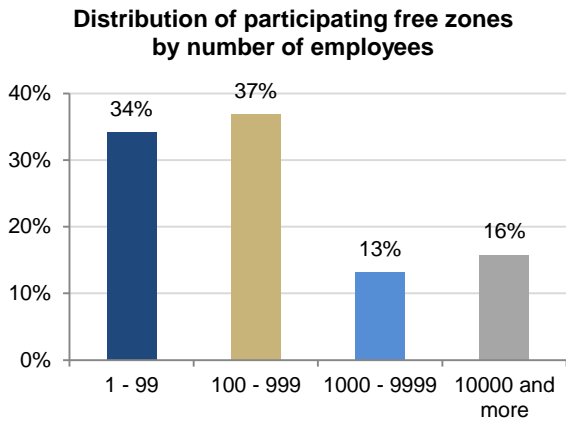
The aim of the F-WEB is to condense the available information into easily interpretable indicators. To this end, positive answers get the value of 100 and negative answers the value of -100. Neutral answers get the value of 0. Our indicator value is then calculated as the aggregate value of received 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 2019Q4, 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. The [F-WEB Summary 2018](#) provides an overview of the results of the F-WEB's first year.

F-WEB 2019-Q4 RESULTS

GENERAL INFORMATION

The 2019Q4 survey is the eighth round of the F-WEB. It was conducted between November 11 and November 27, 2019. Representatives of 48 free zones in 33 countries worldwide participated in the survey. In line with previous rounds of the F-WEB, the majority of responses (71 percent) came from free zones with less than 1,000 employees. 13 percent of participating free zones have between 1,000 and 9,999 employees and 16 percent report more than 10,000 people working within their free zone.

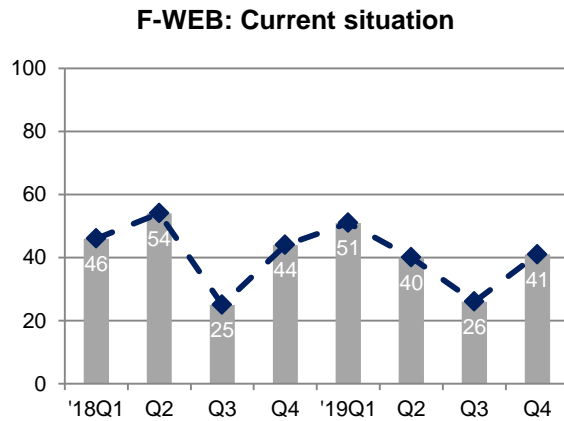
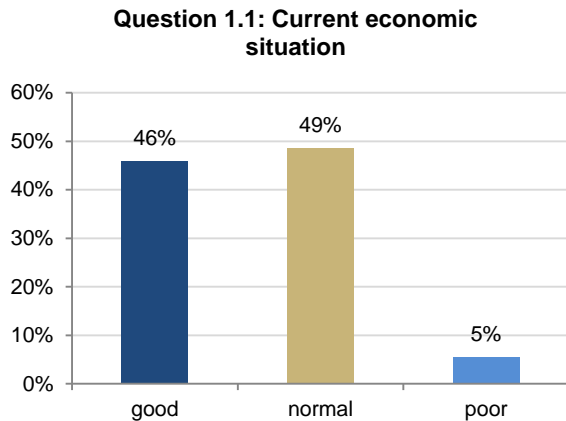


Most free zones in our sample focus on industrial activities (58 percent). 18 percent of responding free zones report trade as their dominating sector; 21 percent focus on services. Only a very small number of free zones have no clear focus on a specific sector. Overall, the sectoral distribution of participants remains similar to previous rounds of the F-WEB, enhancing comparability of the results over time.

CURRENT ECONOMIC SITUATION

General situation

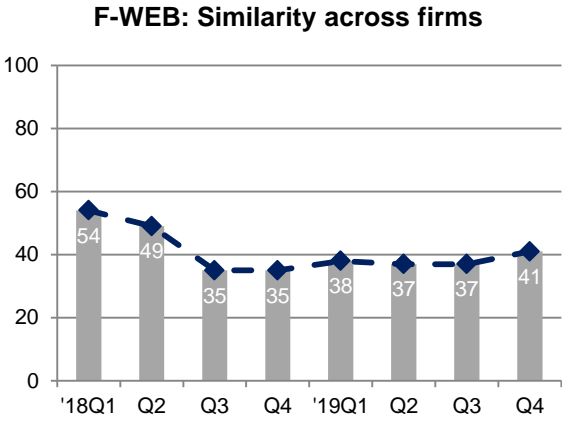
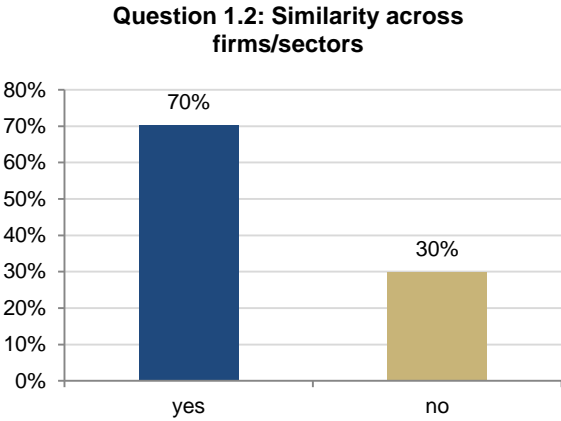
Question 1.1: “Overall, how do you assess the current economic situation in your Free Zone, taking into account the usual seasonal pattern?”



In the 2019Q4 round of the F-WEB the number of free zones regarding their situation as good increased to 46 percent, up from 34 percent in the previous quarter and similar to the second quarter of the year where 47 percent of participants reported good conditions. A somewhat larger share of free zones (49 percent) now report normal conditions, down from 58 percent in 2019Q3. The share of participating free zones experiencing poor conditions remained low; it declined from 8 to 5 percent. The improvement in sentiment is reflected in the corresponding F-WEB indicator value for current economic situation which increased from 26 to 41, a similar level as in 2019Q2.

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. 70 percent of free zones – i.e. a somewhat larger share than in the previous five rounds – report that all firms or sectors, respectively, in their free zone experience similar economic situations, while 30 percent describe the situation of sectors/firms in the free zone as substantially diverse. Accordingly, the F-WEB indicator for similarity of economic conditions across firms/sectors increased from 37 in 2019Q3 to 41.

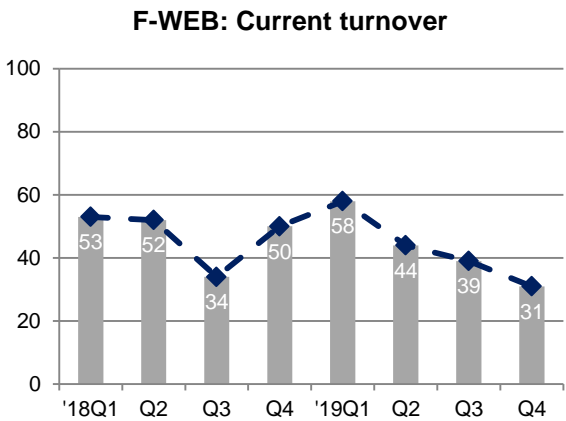
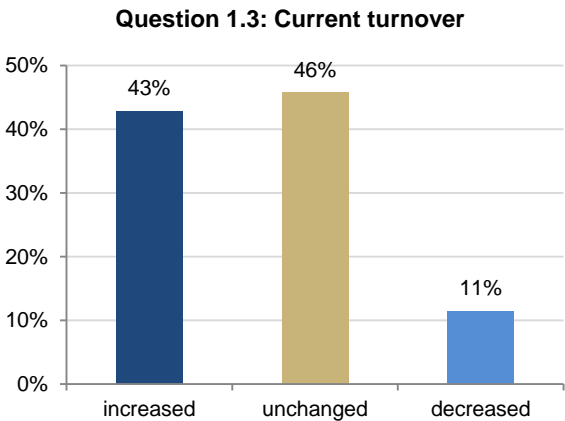
Detailed dimensions

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?

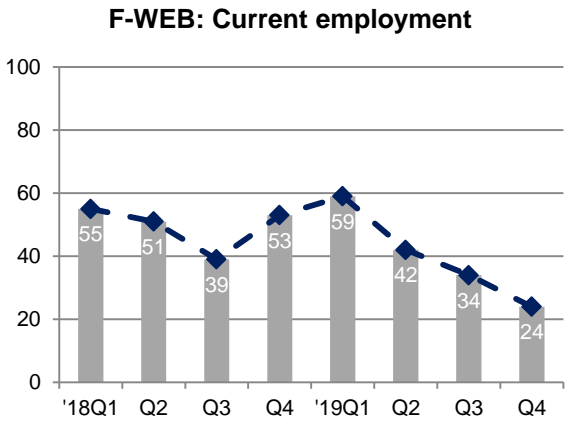
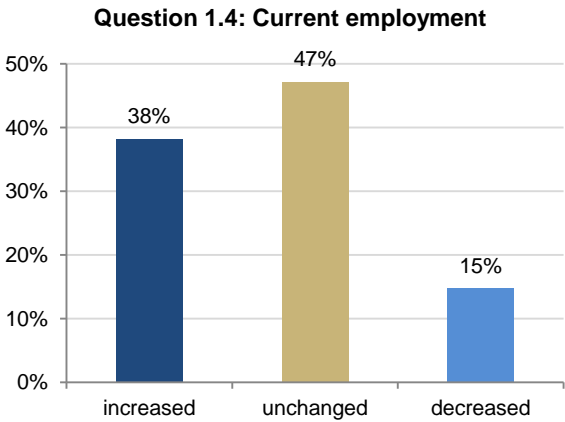
While a large majority of free zones continues to report positive or neutral economic developments regarding turnover, employment, investment and profitability over the past three months, sentiment has moderated significantly. Compared with the situation at the beginning of the year, turnover, employment and profitability have all clearly lost momentum. Across all three dimensions, the respective F-WEB indicators declined for the third consecutive quarter, reaching their lowest levels since the start of the F-WEB. At the same time, the F-WEB indicator for investment, which had also come down significantly in 2019Q3, increased again. The number of free zones reporting deteriorating economic performance has picked up compared with the previous three months, although the shares remain low at between 9 and 15 percent across all dimensions.

The responses translate into lower values of the corresponding F-WEB indicators in 2019Q4 compared to 2019Q3 for all dimensions but investment. The F-WEB indicators declined from 39 to 31 for current turnover, from 34 to 24 for current employment, and from 24 to 23 for current profitability. Only the F-WEB indicator for current investment picked up this quarter, from 39 in 2019Q3 to 46. In the following, the developments of the different dimensions of economic activity are described in greater detail.

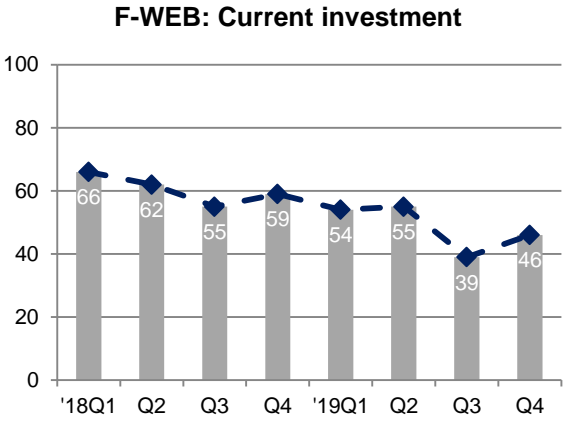
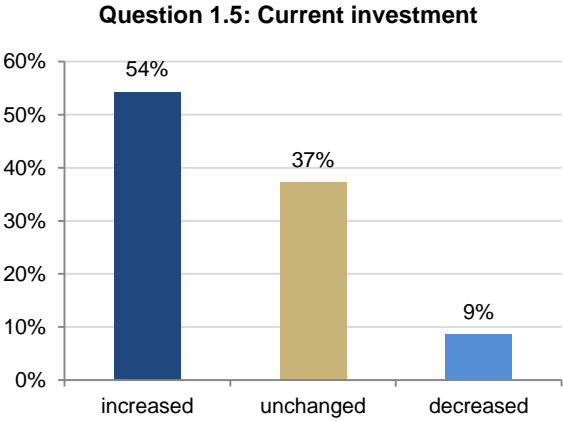
The F-WEB indicator for **turnover** declined to 31 from 39 in the third quarter. While the share of respondents who saw an increase with respect to the previous three months dropped from 50 percent in 2019Q2 to 43 percent, the share of free zones reporting a decline in turnover stayed stable at 11 percent. Meanwhile, the share of free zones with unchanged turnover increased from 39 to 46 percent.



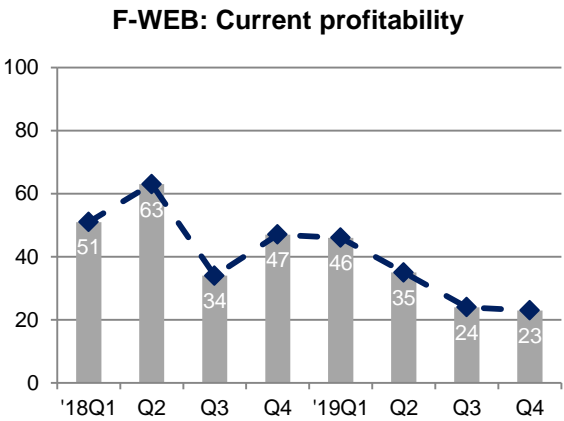
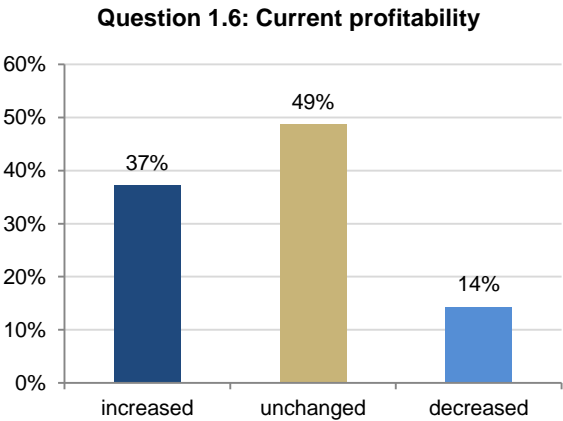
Employment was reported to have increased over the past three months by 38 percent of participating free zones – a significantly lower share than in the previous quarter (47 percent). At the same time, the share of free zones with a worse employment situation has increased further to 15 percent, up from 5 and 13 percent in 2019Q2 and 2019Q3, respectively. The share of free zones with stable employment increased from 39 percent to 47 percent. This results in an F-WEB indicator value for current employment of 24, down from 34 in the previous quarter and its lowest level on record.



Investment currently appears most resilient against the general deterioration of economic momentum. While the F-WEB indicator for current investment saw a marked deterioration in the previous quarter, it picked up again from 39 to 46 this quarter despite not reaching its 2019Q2 level of 55. The share of free zones reporting a better investment situation increased to 54 percent, up from 47 percent 2019Q3. 37 percent of the free zones reported unchanged investment now compared with 45 percent in the previous quarter. The share of free zones facing a decline in investment over the past three months remained modest at 9 percent (2019Q3: 8 percent).

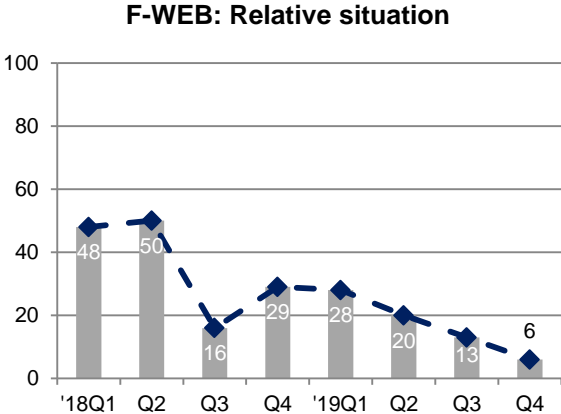
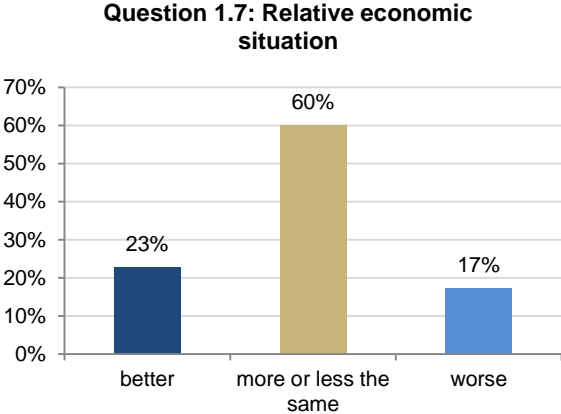


The current situation regarding **profitability** has hardly changed compared with the previous quarter. As in 2019Q3, profitability has increased over the past three months in 37 percent of the free zones participating in the F-WEB. The share of negative answers increased slightly from 13 to 14 percent, while the share of neutral answers decreased slightly 49 percent (from 50 percent in Q3). The corresponding F-WEB indicator for current profitability has therefore only decreased marginally to 23, down from 24 in the previous quarter. Compared with the beginning of the year, the level of the indicator has halved.



Relative assessment

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

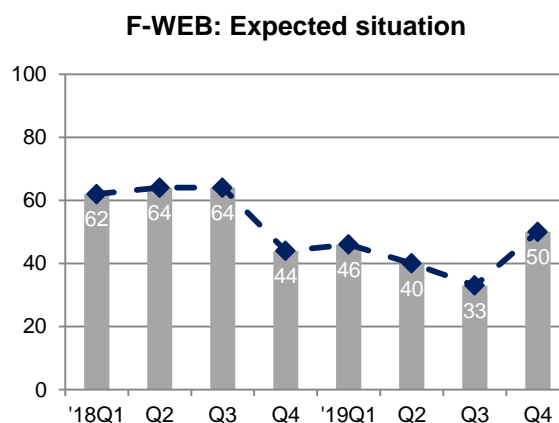
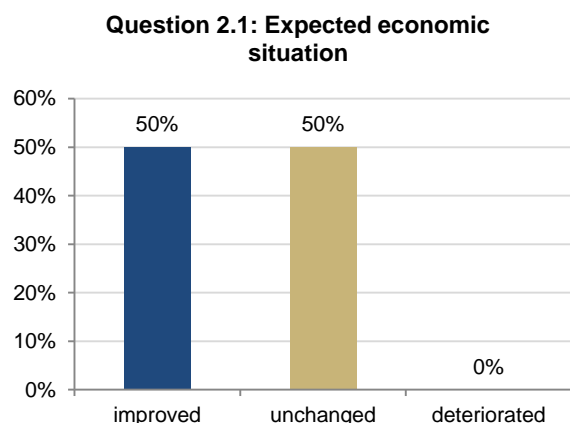


According to the F-WEB participants, the economic situation in their free zone is becoming more similar to the general economic situation in their respective host country. As in the previous quarter, most participating free zones (60 percent) faced a similar economic situation in the past three months as their host countries in general, only slightly less a share than reported in the previous three F-WEB rounds (63 and 61 percent, respectively). 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 23 percent, down from 26 percent in 2019Q3 and 29 percent in 2019Q2. The share of free zones reporting under-performance compared to the host economy has increased sequentially, from 5 percent at the beginning of the year to 17 percent now. Consequently, the resulting F-WEB indicator for relative performance of free zones continued its downward trend and stands now at 6, compared with 13 in the previous quarter and 28 at the beginning of the year.

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 become substantially more optimistic, on average. The share of free zones reporting a positive outlook has increased compared to the previous round of the F-WEB from 39 to 50 percent. Additionally, no participating free zone has a negative outlook for the near future, down from 6 percent in 2019Q3. On aggregate, the F-WEB indicator for business conditions over the next three months jumped from 33 to 50, its highest level since the end of 2018.

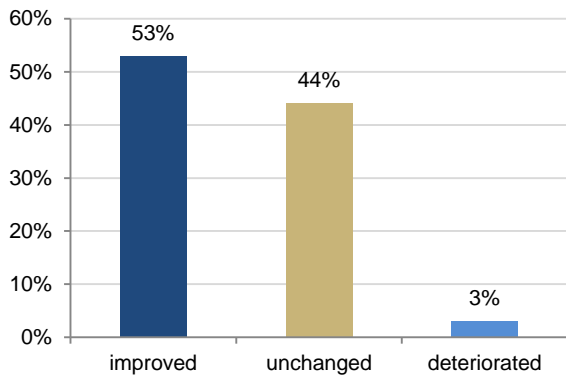
Detailed dimensions

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?

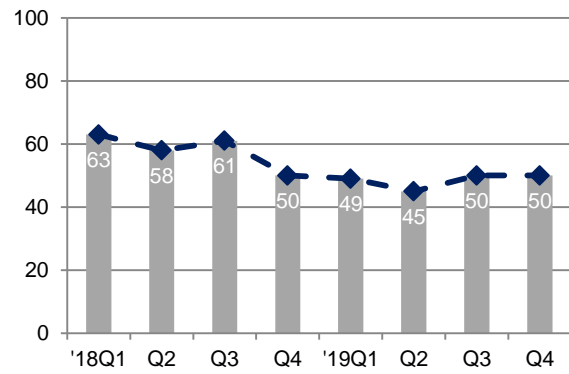
The outlook of respondents with respect to employment, investment and profitability over the next three months has become more optimistic, on average. The share of free zones with a positive outlook increased across all these dimensions. Only the outlook for turnover is an exception; expectations have remained unchanged compared with the previous three months. 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 for expected turnover remained stable at 50. At the same time, the indicator values for all other dimensions increased compared with the 2019Q3 round of the F-WEB. The increase is most pronounced for expected employment, which had experienced a sharp drop in the previous quarter from 52 to 31 and now recovered somewhat to 44. The indicator value for expected investment also recovered markedly to 50, after having dropped from 55 to 42 from 2019Q2 to 2019Q3. The F-WEB indicator for expected profitability increased from 36 to 44 and is thus at a higher level than in 2019Q2 (40).

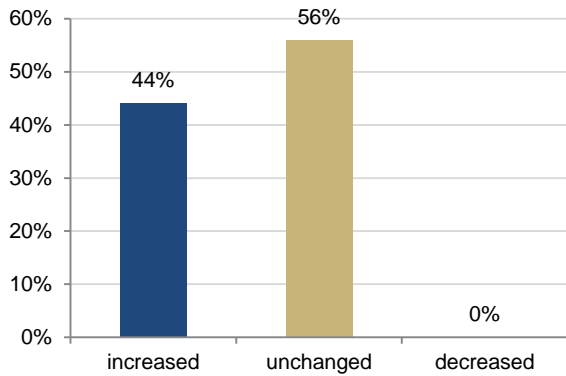
Question 2.2: Expected turnover



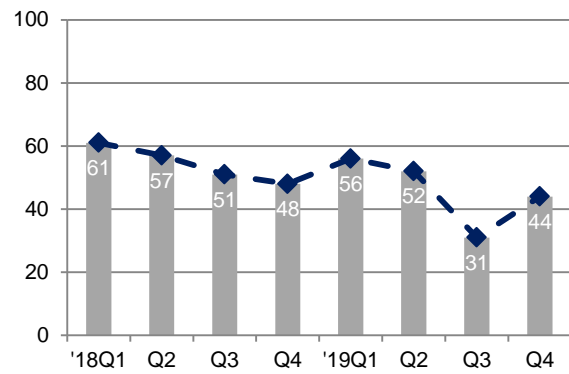
F-WEB: Expected turnover



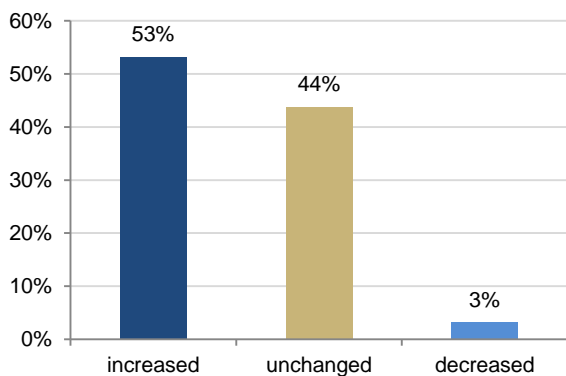
Question 2.3: Expected employment



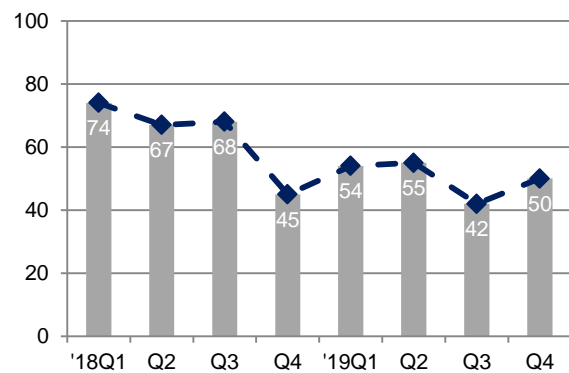
F-WEB: Expected employment

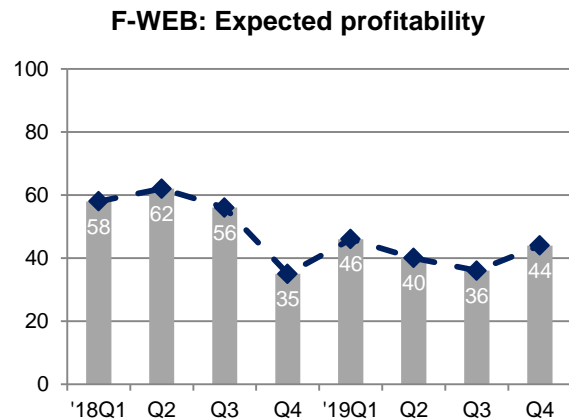
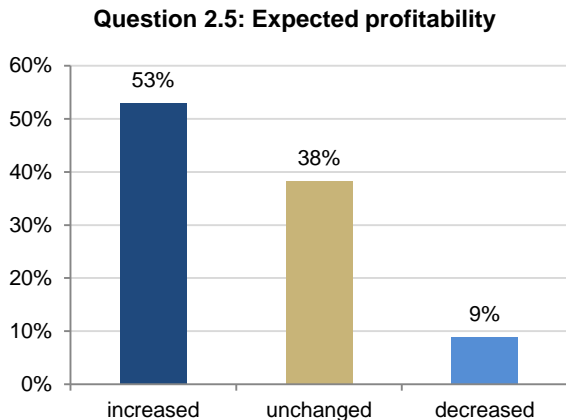


Question 2.4: Expected investment



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 was business activity in your Free Zone in the last year affected by the rising number of Free Zones worldwide?

The free zone approach continues to gain importance and thus, the number of free zones worldwide has increased substantially over the past decades. According to a rigorous study by the World Free Zones Organization, there were 2198 free zones active in 2017. Based on varying definitions of free zones, also called (special) economic zones, estimations by some international organizations come to even higher numbers. For example, UNCTAD recently reported over 5,000 free zones around the globe. In particular, free zones are increasingly promoted in developing and emerging countries by multilateral agencies and national policymakers alike.

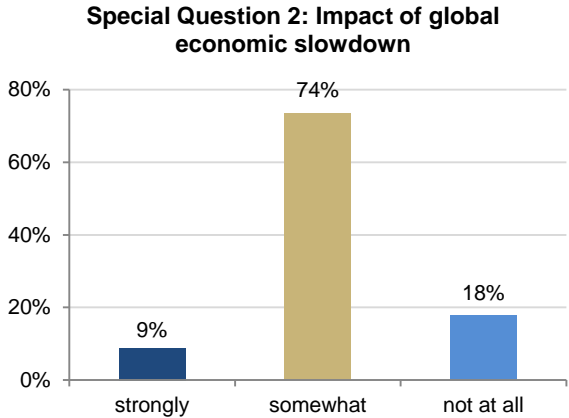
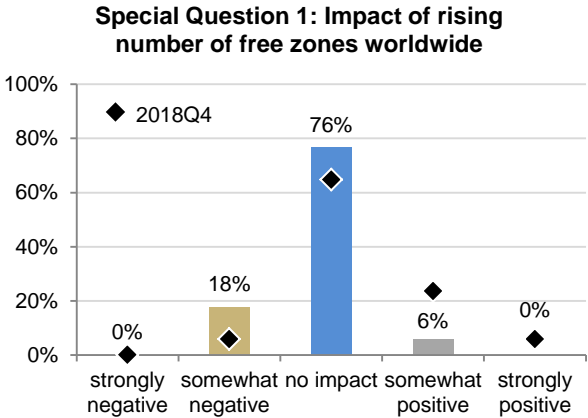
Against this background, the question arises to what extent existing free zones are affected by the rising number of free zones worldwide. On the one hand, the increasing quantity of free zones reflects the growth in popularity – existing zones can thus benefit from increased attention towards the free zone approach and a growing network of peers. At the same time, this development also implies more competition among free zones when trying to attract investors. Therefore, a priori both positive and negative answers to Special Question 1 are possible.

According to the results of Special Question 1 in the 2019Q4 round of the F-WEB, the overall impact of the rising quantity of free zones is negative, on average. While 76 percent of respondents have not experienced any effect over the past year, 18 percent of participants report some negative effects and only 6 percent report positive effects. When the same question had been asked one year ago (2018Q4), the picture was reversed: 30 percent of free zones had reported gains due to the increasing number of free zones and only 6 percent had reported negative experiences. The reason for this reversal could be that free zones increasingly experience the competition induced by the rising number of free zones worldwide in the current less benign growth environment.

Special Question 2: How has the slowdown in global economic activity over the past year been reflected in your Free Zone?

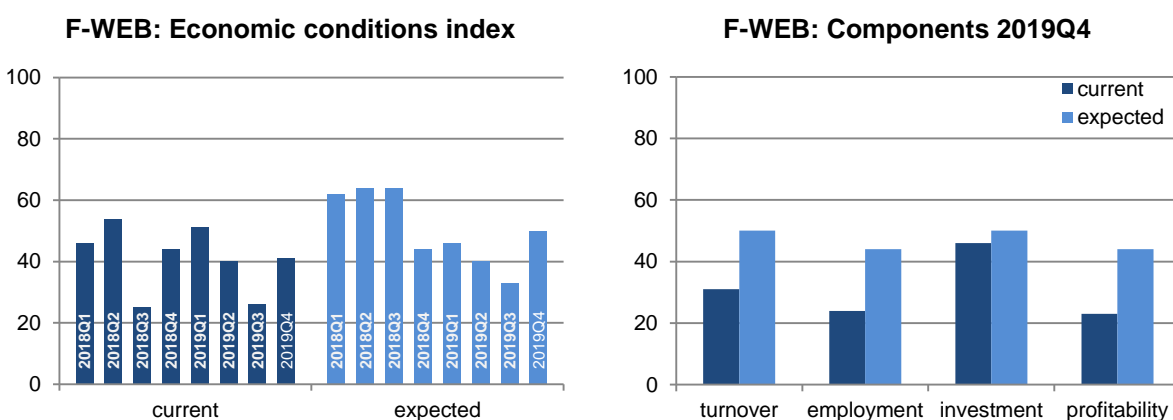
Global growth has lost momentum. After strong growth in 2017 and early 2018, the world economy slowed down significantly in the course of 2018, and growth remained subdued in the first half of 2019. The combination of several negatives, including higher interest rates in the United States, increased policy uncertainty stemming from escalating trade conflicts and unresolved issues around Brexit, as well as slower growth in China weighed on global economic activity. Capital outflows from emerging economies led to tightening financial conditions in many emerging economies, triggering outright currency crises in Argentina and Turkey. In the course of 2019 sentiment in advanced economies has deteriorated further, whereas activity in emerging economies seems to have stabilized. On aggregate, the IMF expects world output in 2019 to increase by only 3.0 percent based on purchasing power parities and 2.5 percent based on market exchange rates, down from 3.6 and 3.1 percent, respectively, in the year before.

Against this background, Special Question 2 asked if free zones have been affected by the slowdown in global economic activity. The answers show that 82 percent of free zones indeed experienced negative effects. While 74 percent report some negative impact, 9 percent have been strongly hit by the global slowdown. Less than one fifth of participating free zones have not been affected by lower growth of the world economy.



SUMMARY

In 2019Q4, the F-WEB survey suggests that the economic situation in free zones around the globe, on average, may have stopped deteriorating. The share of free zones assessing their situation as good increased to 46 percent, up from 34 percent in 2019Q3. A somewhat larger share of free zones (49 percent) now report normal conditions, down from 58 percent, while the share of free zones experiencing poor conditions declined from 8 to 5 percent. The improvement in sentiment is reflected in the corresponding F-WEB indicator value for current economic situation which increased from 26 to 41, i.e. to a similar level as recorded in 2019Q2. After two consecutive quarters with decreasing optimism, it seems that economic activity in free zones around the globe has picked up again. The outlook for the next three months has also become more positive. More specifically, the F-WEB Expected Economic Conditions Index jumped from 33 to 50 - its highest value since 2018Q3.



At the same time, however, a closer look at the various elements of business activity – i.e. turnover, employment, investment, and profitability – reveals that economic performance has developed unevenly across dimensions, suggesting some caution with respect to the robustness of the positive signal given by the overall sentiment index. While the F-WEB indicator for current investment increased, it stayed broadly stable for current profitability and decreased for current turnover and employment suggesting that the upswing in current economic conditions is unbalanced. The improvement in expectations, by contrast, was broad-based as the respective F-WEB indicators improved across the board.