

Free Zones World Economic Barometer

ECONOMIC TRENDS AND PROSPECTS IN 2018 IN FREE ZONES AROUND THE GLOBE

2018 Annual Summary

In 2018, the World Free Zones Organization (WorldFZO), in cooperation with the Kiel Institute for the World Economy, launched the Free Zones World Economic Barometer (F-WEB), a quarterly, survey-based sentiment indicator designed to gauge current momentum and future trends of economic activity in free zones around the globe. Four rounds of the F-WEB have been conducted in 2018 in which free zones from 55 countries worldwide have shared their assessment of current and future economic conditions. This report gives an overview of the F-WEB, including its design, its main goals and its benefits for the free zones community, and summarizes the economic trends and prospects in free zones around the globe as captured by the F-WEB in 2018.

INTRODUCTION

The World Free Zones Organization, in cooperation with the Kiel Institute for the World Economy, a German economic research institute, launched the Free Zones World Economic Barometer (F-WEB) at the start of 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. It is built on regular easy-to-answer qualitative questions on current developments and expectations regarding key economic variables (turnover, output, investment, employment) and a small number of special questions to account for specific developments.

For free zones around the globe, the F-WEB is a unique tool to evaluate their relative performance. The quarterly F-WEB notes provide detailed reports of the survey results and can help free zone representatives put recent developments in their free zone as well as their expectations into a broader perspective. Thus, the F-WEB is a valuable source of information to free zones managers and strategists providing answer so questions such as:

- “Is the current uptake/decline in investment specific to my free zone or is it a broad-based development in the free zone community?”
- “What do other free zone managers consider the greatest risks to economic activity in free zones?”
- “Is our economic outlook broadly in line with the outlook of the free zones community in general?”

In addition to providing regular short-term benchmarking opportunities for free zones around the globe, the F-WEB has the potential to increase the visibility of the free zones community and the free zones approach. Worldwide, business sentiment indicators are a well-established tool in economic reporting. By collecting assessments directly from experts in their field of operations, sentiment indica-

tors give relevant insights that become quickly available for decision-makers, thus dramatically shortening the publication gap of official data as recorded in the national accounts or similar statistics. While qualitative in nature, they convey valuable information on trends and trend reversals with respect to the relevant macroeconomic picture. As free zones are by their very nature especially intensively connected with the outside world, data on economic trends in free zones provide additional timely information for the assessment of the evolution of the global economy in general and world trade in particular.

DESIGN OF THE QUESTIONNAIRE

The quarterly F-WEB survey consists of a set of questions related to economic performance in free zones that is asked in every round of the F-WEB in order to establish a history of results that can be used to extract information on medium-term and long-term developments. In addition, a small number of questions is included that are asked irregularly as a reaction to specific developments or at a lower frequency. In total, each F-WEB survey has a maximum of 16 questions. All of them are easy to answer and qualitative in nature, i.e. it is not required to enter any data. The survey consists of the following sections:

1) General information

In the first part of the F-WEB survey general information on the free zone is collected in order to allow evaluation of the results with respect to specific characteristics, such as size in terms of the number of employees and the dominant sector in the free zone. With respect to size, four groups of free zones are distinguished, those with less than 100 employees, those with between 100 and 999 employees, those with between 1,000 and 9,999 employees and those with 10,000 and more employees. Concerning dominant sectors, potential answers are trade, industry, services and none if no particular sector is dominating.

2) Current economic developments

The second section of the F-WEB survey asks for an assessment of current economic conditions in the free zone. First, participants are asked to give a general assessment of economic activity in their free zone compared to the previous three months (*improved / unchanged / deteriorated*). In order to evaluate whether this economic assessment is broad-based or industry-specific, the second questions inquire whether the economic situation differs across firms (or sectors) within the free zone or is more or less the same for everyone. More detailed questions on the evolution of key economic dimensions (turnover, employment, investment and profitability) follow, asking for recent developments compared to the previous three months (*improving / unchanged / deteriorating*). In all of these questions respondents are asked to take account of the usual seasonal pattern. Whether and to what extent seasonality remains in the answers, will have to be assessed at a later stage when a sufficiently rich time series will exist to allow for statistical seasonal adjustment. The final question of this section relates to the specific situation of free zones and asks whether the economic situation in the free zone is better, more or less the same or worse than the situation in the host country.

3) Future economic prospects

The assessment of the ongoing economic situation is followed by a set of questions designed to gauge expectations about upcoming economic developments. Participants are asked – corresponding to the assessment of the current situation – about the expected economic conditions in general and, more specifically, about the expected development of turnover, employment, investment and profitability for the upcoming three months (*improving / unchanged / deteriorating*).

4) Special questions

Finally a set of special questions is allowed for. Some of them will be asked on an annual basis, others are asked irregularly as a reaction to specific developments. A maximum of two special questions is asked in each round of F-WEB. In 2018, the following special questions were asked:

- 2018Q1 – Special Question 1: “In your view, over the last few months the global trade environment has improved, stayed the same or worsened?” (*improved / stayed the same / worsened*)
- 2018Q1 – Special Question 2: “How do you expect the recent increase in global oil prices to affect activity in your Free Zone?” (*positively / neutral / negatively*)
- 2018Q2 – Special Question 1: “How do you expect monetary tightening in the US to impact on economic conditions in your free zone?” (*positive / no significant impact / negative*)
- 2018Q2 – Special Question 2: “To what extent is current production in your free zone limited by capacity constraints?” (*to an unusually large degree / not more than normal / no significant capacity constraints*)
- 2018Q3 – Special Question 1: “How do you expect trade tensions between several countries and the United States to affect business in your free zone?” (*strongly negative / somewhat negative / no significant impact*)
- 2018Q3 – Special Question 2: “How have financing conditions for businesses in your free zone developed over the past six months?” (*tightened / unchanged / eased*)
- 2018Q4 – Special Question 1: “How was business activity in your free zone in the last year affected by the rising number of free zones worldwide?” (*strongly negative / somewhat negative / no significant impact / somewhat positive / strongly positive*)
- 2018Q4 – Special Question 2: “Have fluctuations in the exchange rate of your host country's currency vis-à-vis the US-dollar affected business activity in your free zone over the past three months?” (*strongly negative / somewhat negative / no significant impact / somewhat positive / strongly positive*)

Background information on the motivation of the special questions and the answers of the F-WEB participants will not be reported in this 2018 summary report. They are provided in the respective quarterly F-WEB notes which are available on the website of the [Kiel Institute for the World Economy](#).

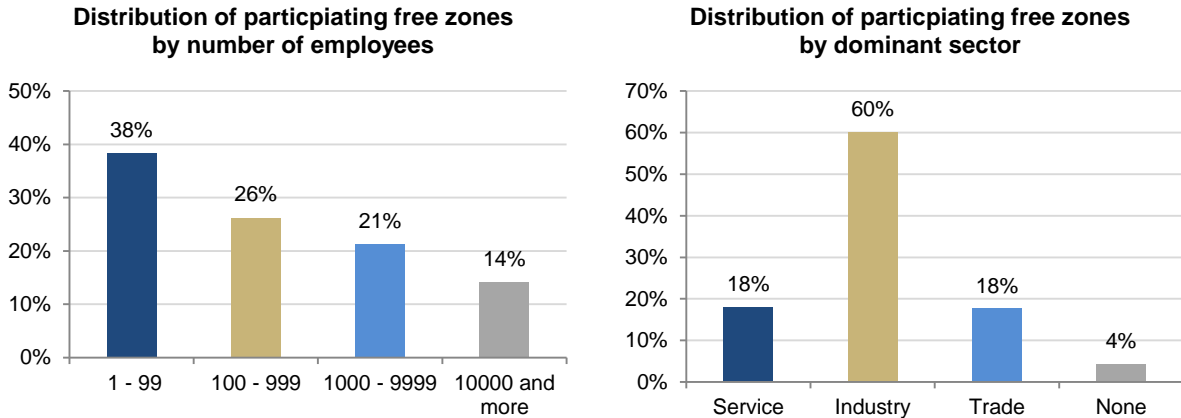
METHODOLOGY FOR CALCULATING F-WEB INDICATORS

The aim of the F-WEB is, in line with the purpose of sentiment indicators in general, to condense the available information into a single number. To this end, we calculate F-WEB indicators based on the survey results for various questions. Positive answers (increasing, improving, good) get the value of 100 and negative answers (decreasing, deteriorating, poor) the value of -100, while neutral answers (unchanged, more or less the same, normal) 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 question. The indicator value is 100 when all participants give positive answers and -100 when answers are throughout negative. An indicator value of 0 is the result when all answers are neutral or in the case that the same number of positive and negative answers is given.

F-WEB 2018 RESULTS

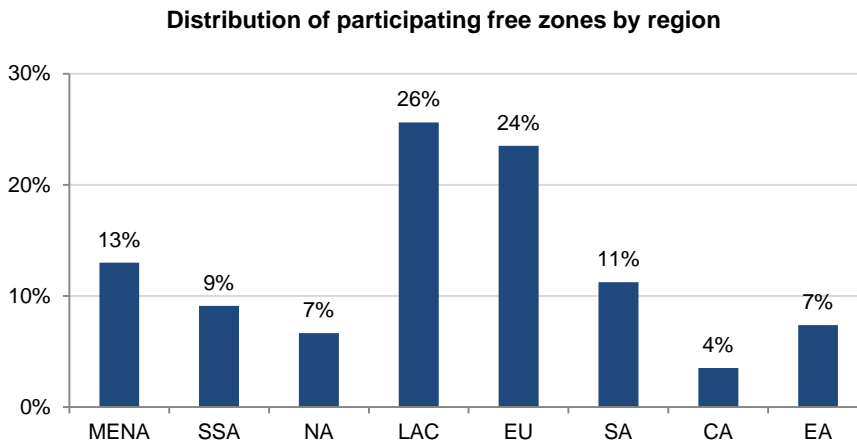
GENERAL INFORMATION

In 2018, four rounds of the newly established F-WEB were conducted. The F-WEB was launched in March and followed by additional rounds in June, September and December. In total, more than 250 free zones participated over the course of the year. Thus, on average, more than 60 free zones took part in each survey; a number we hope can still be raised in coming rounds of the F-WEB.



The share of free zones answering the survey in its first year declined with size. Almost 40 percent of participants represent small free zones with 1 to 99 employees, followed by 26 percent of free zones with 100 to 999 employees. 21 percent of answers came from free zones with 1,000 to 9,999 employees, while only 14 percent had more than 10,000 employees working in the businesses located in the free zone.

With respect to sectors, industry is clearly the most important one. On average, 60 percent of participating free zones focus on this type of activity. With 18 percent each, free zones specializing in services and trade were equally represented in the F-WEB indicators throughout the year. Only a very small number of free zones have no clear focus on a specific sector.



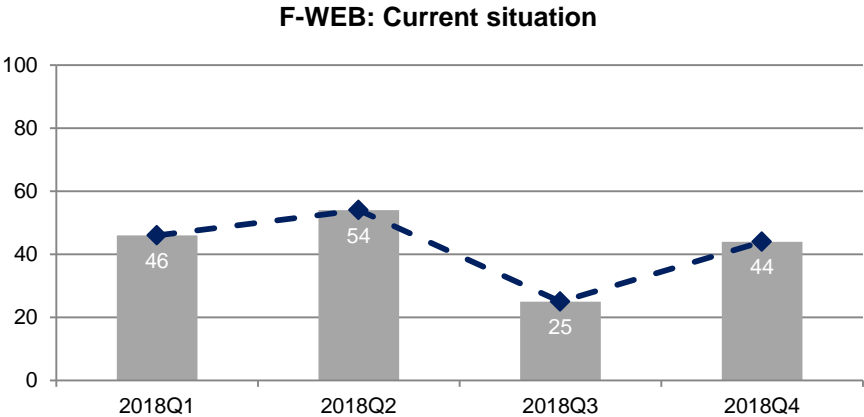
Region acronyms: MENA (Middle East and North Africa), SSA (Sub-Saharan Africa), NA (North America), LAC (Latin America and the Caribbean), EU (Europe), SA (South Asia), CA (Central Asia), EA (East Asia).

In terms of geographic distribution, the largest number of participants came from free zones in Latin America and the Caribbean (LAC) and Europe (EU) which account for 26 and 24 percent of all responses, respectively. Asian free zones are the third most important region represented in the F-WEB, with 22 percent of answers coming from free zones there. More specifically, 11 percent of the participants are located in South Asia (SA), followed by 7 percent in East Asia (EA) and 4 percent in Central Asia (CA). Free zones from the Middle East and North Africa (MENA) account for 13 percent in all answers. Only few participants in 2018 came from Sub-Saharan Africa (SSA, 9 percent) and North America (NA, 7 percent). In total, free zones from 55 countries around the globe participated in the F-WEB in 2018.

2018 TRENDS IN CURRENT ECONOMIC SITUATION

General situation

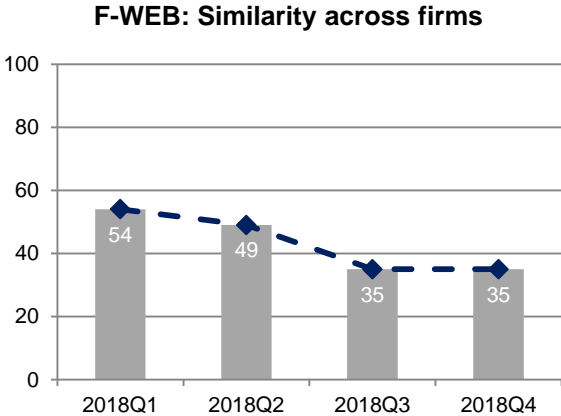
Question 1.1: “Overall, how do you assess the current economic situation in your Free Zone, taking into account the usual seasonal pattern?”



Throughout the year, the number of free zones evaluating their current economic situation as good outnumbered significantly the number of free zones reporting poor conditions. This is reflected by positive F-WEB indicator values in all four quarters. The year 2018 started out on a positive note, with 51 percent of participants reporting a good economic situation and only 6 percent reporting poor conditions. The rest considered the situation as normal. These results corresponded to an F-WEB indicator value of 46 at the start of the year. In the second quarter of 2018, the economic situation even improved, reflected in an increase of the F-WEB indicator by 8 points to 54. In the third quarter, however, the assessment became less positive. The F-WEB indicator for the current economic situation dropped sharply to 25. The deterioration could be related to global factors. Not only did trade tensions between the United States and China intensify in 2018Q3 but many emerging economies also came under pressure from financial markets triggered by faster than expected monetary policy tightening in the US, although only Argentina and Turkey fell into recession in the second half of 2018. In the last quarter of 2018, the F-WEB indicator increased again to 44. While this is a considerable improvement compared to the situation in 2018Q3, it is still below the values reached in the first half of the year. Overall, the share of free zones reporting a good or normal economic situation did not fall below 93 percent in any round of the survey suggesting that 2018 was, on balance, a good business year for free zones around the globe.

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)?”

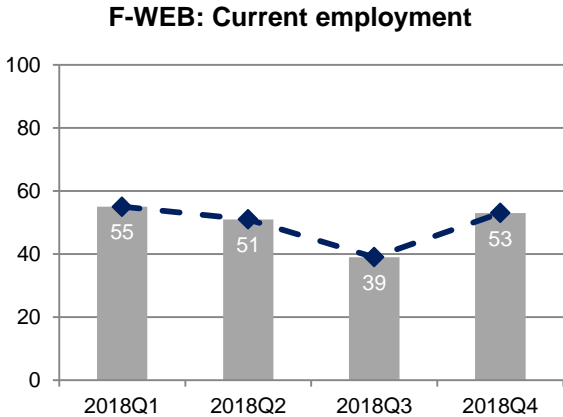
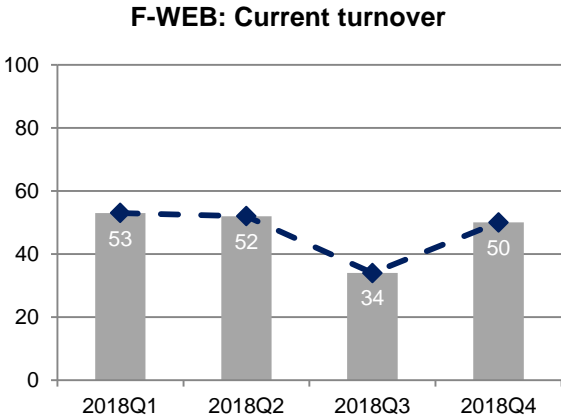


Throughout the year, a majority of free zones reported that all firms or sectors, respectively, in their free zone experienced similar economic situations. However, a downward trend became visible throughout 2018. While in the first round of the F-WEB, 77 percent of participants reported similar conditions across firms/sectors reflected in an F-WEB indicator for similarity of 54, the share decreased to 68 percent and an indicator value of 35 in 2018Q4. This suggests that economic conditions within free zones diversified somewhat over the course of the year.

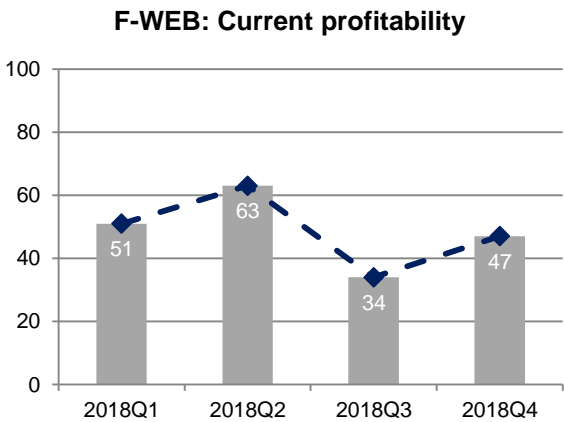
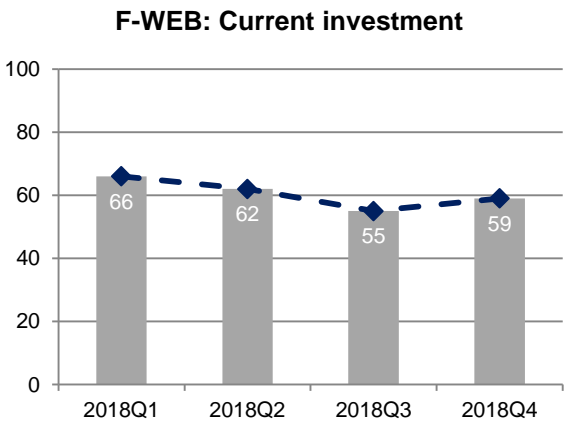
Detailed dimensions

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 all four rounds of the F-WEB survey, generally more than half of the free zones reported positive economic developments regarding turnover, employment, investment and profitability in each quarter compared to the previous three months. The share of free zones reporting deteriorating conditions compared to the previous quarter was low throughout the year. It reached its highest – but still very modest level – in 2018Q3, when roughly 15 percent of participants answered that turnover, employment and profitability had decreased compared to 2018Q2. In general, the development of the F-WEB indicators for current turnover, current employment, current investment and current profitability is in line with the F-WEB indicator for current economic situation. After a strong start into the year 2018, the assessment became less positive across dimensions in 2018Q3 but recovered in the fourth quarter.

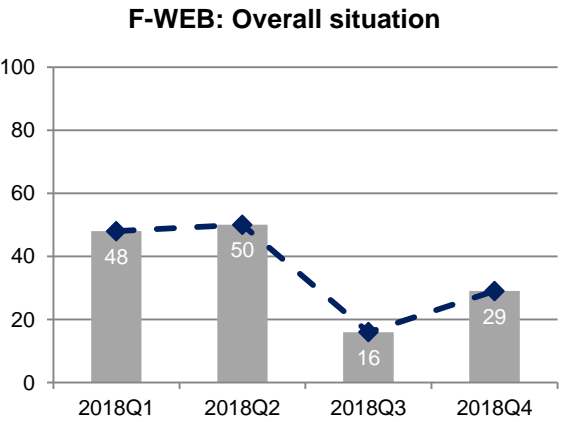


Of all four economic dimensions, the development of current investment compared to the previous quarter was consistently assessed most positively by free zones and accordingly, the F-WEB indicator values for current investment were the highest among all economic dimensions in every quarter. Moreover, the assessment of current investment was least volatile throughout 2018, ranging from its highest value of 66 in 2018Q1 to its lowest value of 55 in 2018Q3. The most volatile economic dimension was current profitability, dropping from an indicator value of 63 in 2018Q2 to 34 in 2018Q3. However, it is important to keep in mind that the F-WEB indicator value of 34 for current profitability still reflects a share of 48 percent of free zones answering that profitability had increased compared to 2018Q2, 39 percent reporting an unchanged profit situation and only 14 percent giving negative answers. In line with the general upward trend across dimensions, the assessment of current profitability became again more positive towards the end of the year and the indicator value increased to 47.



Relative assessment

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



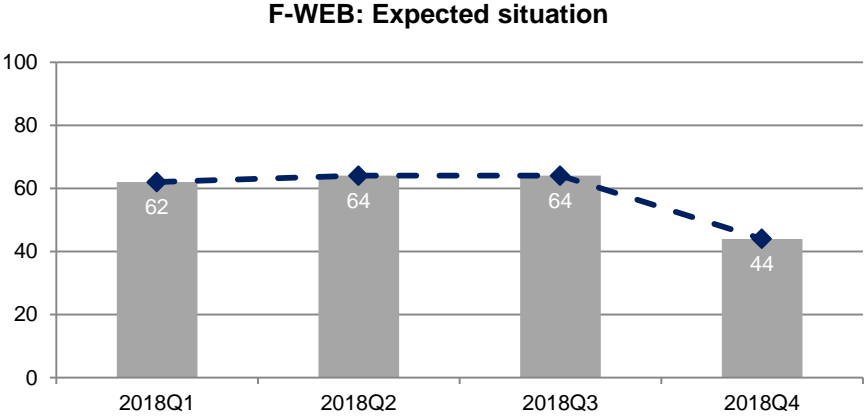
In 2018, most free zones have faced a similar or better economic situation than their host countries in general. The share of free zones reporting poor conditions relative to the host country remained low throughout the year; the maximum was reached in 2018Q3 at 16 percent.

Overall, the development of the F-WEB indicator for relative performance closely follows the F-WEB indicator for current situation.

2018 TRENDS IN 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?”



Short-term expectations of economic conditions were positive throughout the year. In all four rounds of the F-WEB more than half of the free zones reported to expect improved economic conditions in the next three months compared to the current situation. The share of free zones expecting deteriorating conditions remained below 10 percent in all quarters. While the outlook was very stable from the start of the year through the third quarter, free zones overall became less bullish towards the end of the year. While in 2018Q4 the corresponding F-WEB indicator value was still substantially positive at 44 (with 53 percent of participants expecting economic conditions to improve in 2019Q1, 38 percent reporting stable expectations and only 9 percent having a negative outlook), it was well below the previous readings of 62 to 64. This suggests that free zones may have somewhat adjusted downwards their expectations towards the end of the year after weaker than expected economic activity in 2018Q3 as implied by the F-WEB indicator for current economic situation. The overall outlook for free zones, however, remained positive going into 2019.

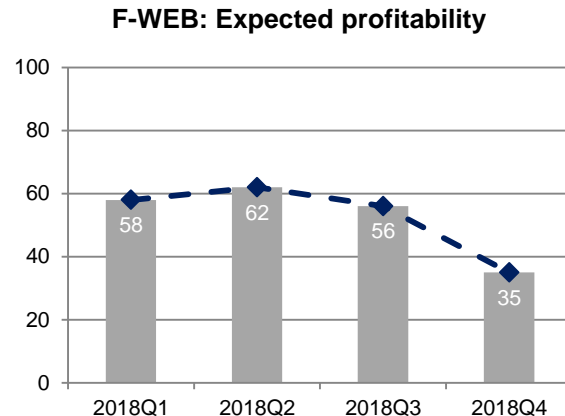
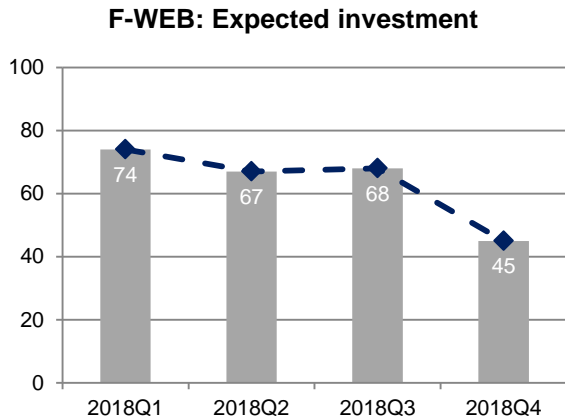
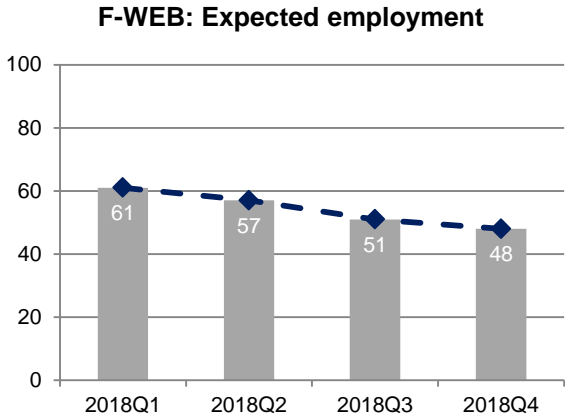
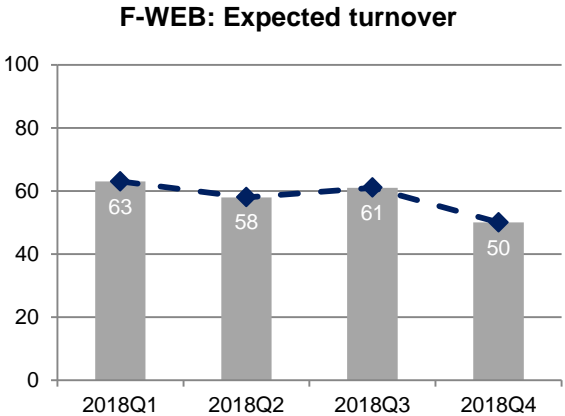
Detailed dimensions

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 become less optimistic, on average, in the course of 2018. Regarding expected turnover, employment and investment, in 2018Q4 more than half of the free zones still had a positive outlook for the start of the new year, and 44 percent of respondents expected profitability to increase over the next quarter. However, the share of negative answers increased somewhat for all dimensions in the course of the year. While in the first round of the F-WEB survey, almost no free zone reported negative prospects, the share rose – depending on the economic dimension – to between 6 and 9 percent of participants in 2018Q4.

This development is reflected in the corresponding F-WEB values. While the indicators for expected turnover and employment fell rather gradually over time, the indicators for expected investment and

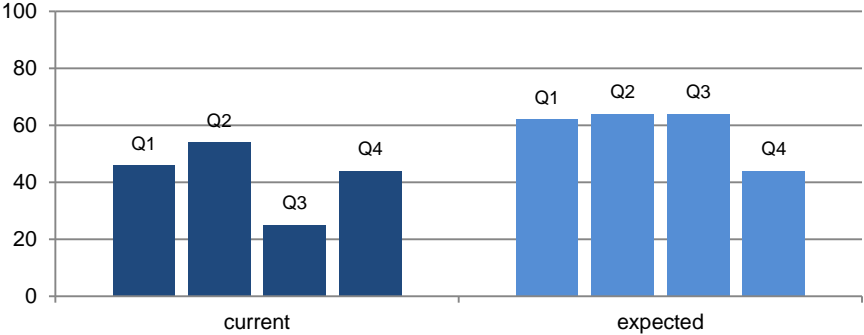
profitability were broadly stable until 2018Q3 and then recorded a more pronounced fall towards the end of the year. However, the number of free zones with a positive outlook still by far outnumbers the numbers of free zones with a negative outlook across all dimensions.



SUMMARY

Throughout the year, the number of free zones evaluating their current economic situation as well outnumbered significantly the number of free zones reporting poor conditions. This is reflected by positive F-WEB indicator values in all four quarters. The year 2018 started out on a positive note, reflected by an indicator value for current economic situation of 46. After a further improvement in the second quarter, the assessment became less positive in 2018Q3. However, it improved again in the fourth quarter and, with an indicator value of 46, reached a similar level as in the beginning of the year. Short-term expectations of economic conditions remained positive throughout the year although free zones adjusted their expectations downwards in 2018Q4. Nonetheless, the number of free zones expecting deteriorating business conditions in the months to come remains low and the overall outlook for early 2019 continues to be optimistic, on balance.

F-WEB: Economic Conditions Index 2018



The full amount of information contained in the F-WEB indicator values can, of course, only be assessed once there is a sufficiently long time series available. It is generally the fluctuations of sentiment indicators that can inform about current and future developments more than the absolute value. Moreover, the survey results can be evaluated with respect to several dimensions of free zones, such as size, dominant sector or geographical location. However, exploiting the full potential of analysis will require an increased number of participants. The F-WEB will only reach its full potential over time and highly depends on the regular participation of a large number of free zones. We therefore hope that the number of participants will further increase enhancing the benefits for all free zones.