

Free Zones World Economic Barometer

F-WEB NOTE 2020Q2

EXECUTIVE SUMMARY

In the second quarter of 2020, the world is severely affected by the COVID-19 pandemic, and so are Free Zones around the globe. This is the result of the 2020Q2 F-WEB survey conducted in May 2020. The global crisis hit at a time when economic sentiment in Free Zones had been on an upward trend. However, due to the pandemic and measures taken to contain the spread of the virus, economic conditions in Free Zones have deteriorated markedly. The share of Free Zones reporting good economic conditions decreased drastically from 56 percent in this year's first quarter to 15 percent now. About 49 percent evaluate their current situation as normal and 36 percent as poor. As a result, the F-WEB Economic Conditions Index dropped from +48 to -20 and registered a negative value for the first time since the start of the F-WEB in 2018. The outlook is more optimistic, on average, but still less than half of the Free Zones expect an improvement in economic activity in the next three months and one in four Free Zones have a negative outlook. Accordingly, the Expected Economic Conditions Index decreased from 63 to 20. Moreover, the survey results suggest that Free Zones are hit particularly hard in comparison with their host economies and that the pandemic affects sectors and firms within Free Zones to a different extent.

A set of Special Questions reveals in more detail the impact of the COVID-19 pandemic on the economic situation and the outlook in Free Zones. In a nutshell we find that (1) the vast majority of Free Zones worldwide are currently affected by the pandemic through a combination of various channels and they expect economic activity to be hampered also in the coming months; (2) although there has been improvement in expectations compared to April, the majority of Free Zones do not yet see indications of recovery; (3) measures to contain the virus mostly in the form of temporary shutdowns and health measures have been a prominent source of limitation for economic activity; (4) various measures to support the economic recovery in Free Zones are being implemented, with reducing the cost of doing business, rent deferral systems, staff salary support measures and easier access to credit being the programs most often mentioned; (5) two out of three Free Zones are considering initiatives in order to be able to respond more effectively to similar future crises, including disaster risk management plans and enhanced environmental, health and safety policies.

Background information

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 about economic developments over time. In addition, a small number of special questions are 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.

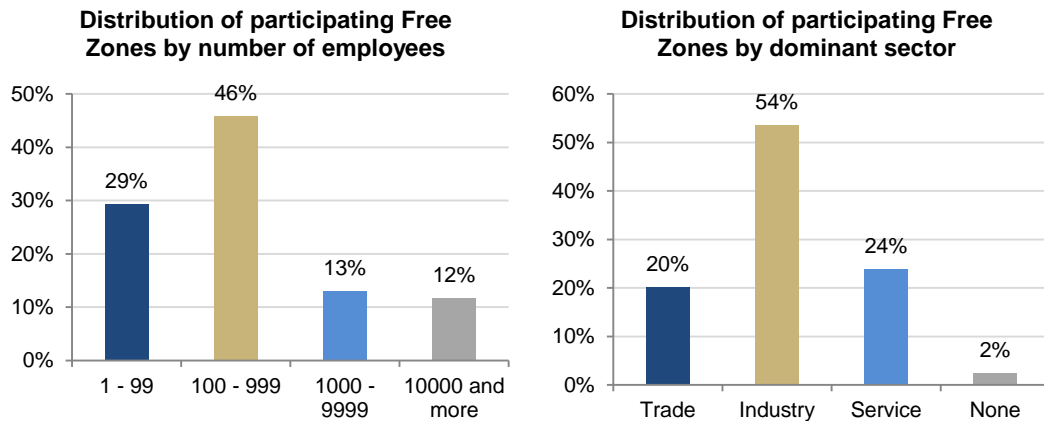
In this note, we present a summary of the results from 2020Q2, the tenth round of the F-WEB. An extensive description of the questionnaire can be found in the [World FZO Outlook Report 2018](#) produced by the World Free Zones Organization in cooperation with the Kiel Institute for the World Economy. The [World FZO Outlook Report 2020](#) provides an overview of the results of the F-WEB through the first quarter of 2020.

The next F-WEB survey is scheduled for September. Those who are not yet registered but would like to share their assessment with the community are invited to send an email to FWEB.worldfzo@ifw-kiel.de. A detailed description of the design of the survey and the F-WEB methodology, as well as all quarterly F-WEB reports, can be found [here](#).

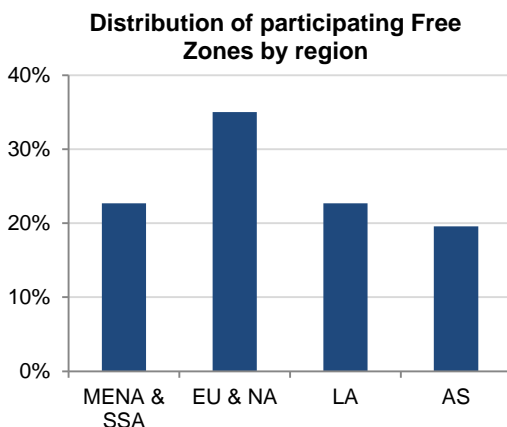
F-WEB 2020Q2 RESULTS

General information

The 2020Q2 survey is the tenth round of the F-WEB. It was conducted between May 18 and June 5, 2020. Representatives of 86 Free Zones in 48 countries worldwide participated in the survey. Similar to previous F-WEB surveys, most of the participating Free Zones have less than 1,000 employees. The share of Free Zones with 1,000 to 9,999 employees and over 10,000 employees is similar with 13 percent and 12 percent, respectively.



Industry is the sector which most (54 percent) of the participating Free Zones specialize in, while 20 percent focus on trade and 24 percent on services. Very few Free Zones report no special focus. Overall, the sectoral distribution of participants is comparable to previous rounds of the F-WEB.

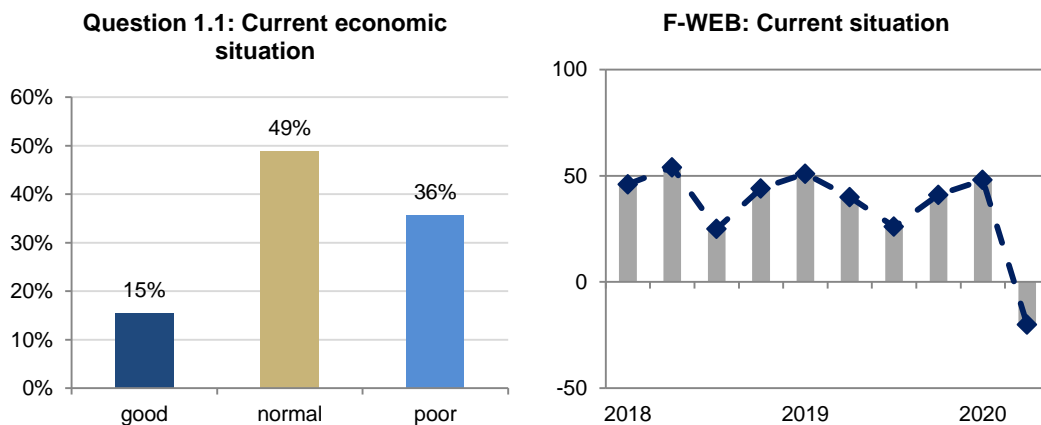


Free Zone representatives from all world regions participated in the survey. 35 percent of Free Zones sharing their assessment come from Europe and North America (EU & NA), slightly more than 20 percent from the Middle East and North Africa and sub-Saharan Africa (MENA & SSA), and Latin America (LA), respectively, and roughly 20 percent of participants are Free Zones located in Asia.

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?”

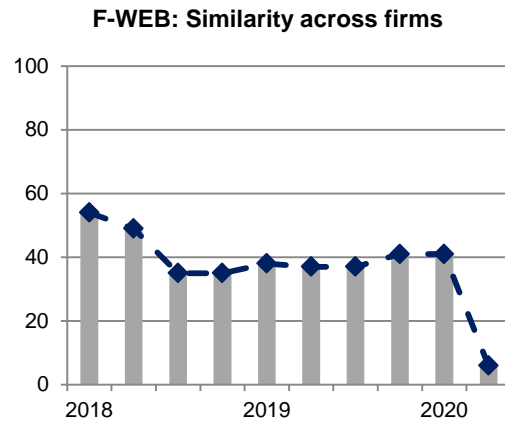
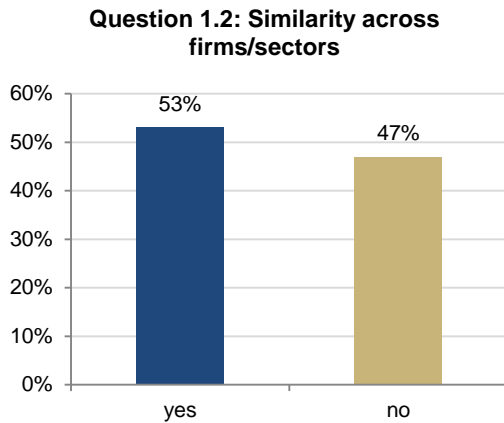


Amid the COVID-19 pandemic, the percentage of Free Zones evaluating their current economic situation as good plunged from 56 percent in the first quarter of 2020 to 15 percent in the second quarter. At the same time, the share of Free Zones reporting poor conditions jumped from 7 percent in the previous quarter to 36 percent now. Half of the participants experience a normal economic situation at the moment (up from 37 percent in 2020Q1). All in all, this translates into an F-WEB indicator value of -20, down from +48 and for the first time in negative territory.

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 situation of firms and sectors, respectively, has become more diverse, on average. Slightly more than half of the respondents report that the current economic situation is similar for all sectors and companies in their Free Zone, down from 70 percent in the previous quarter. Hence, the F-WEB indicator for similarity of economic conditions across firms and sectors dropped to 6 (down from 41 in 2020Q1). This indicates that some sectors are hit more than others by the COVID-19 pandemic.

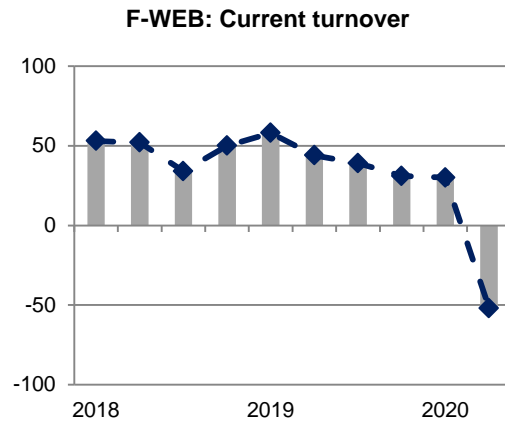
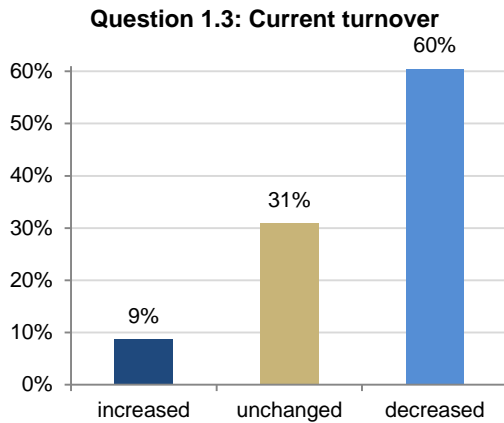


Detailed dimensions

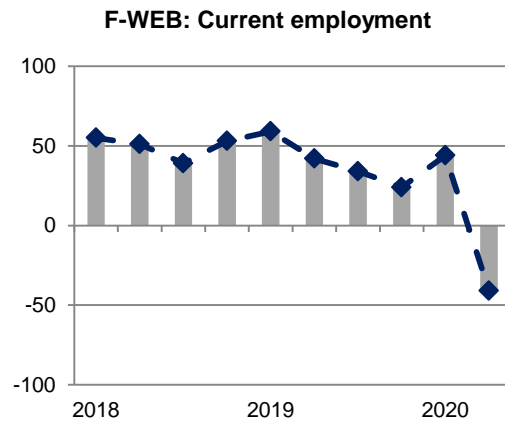
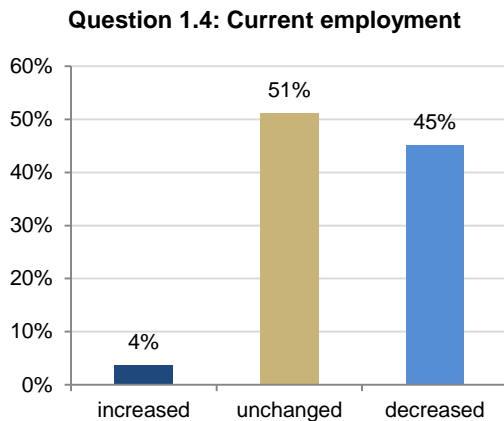
Questions 1.3-1.6 relate to recent developments in more detailed economic dimensions: “Compared to the previous three months and taking into account the usual seasonal pattern...” how has turnover/employment/investment/profitability developed?

The current drop in economic sentiment due to the COVID-19 pandemic is broad-based and reflected across all dimensions of economic activity. More than half of all participating Free Zones report a decrease in turnover, investment, and profitability compared with the previous three months. In addition, more than 45 percent of Free Zones saw a decrease in employment. The corresponding F-WEB indicators dropped deep into negative territory for the first time since the survey was established in 2018.

The current situation of **turnover** has deteriorated markedly. The share of Free Zones reporting an increase in turnover dropped from 44 percent at the start of the year to 9 percent in the second quarter. In contrast, 60 percent of respondents experienced a decline of turnover compared with the previous three months, up from 15 percent in 2020Q1. Roughly one third of Free Zones saw no change in turnover over the same time period (2020Q1: 41 percent). In total, the responses translate into an F-WEB indicator for current turnover of -52, down from 30 in the previous quarter.

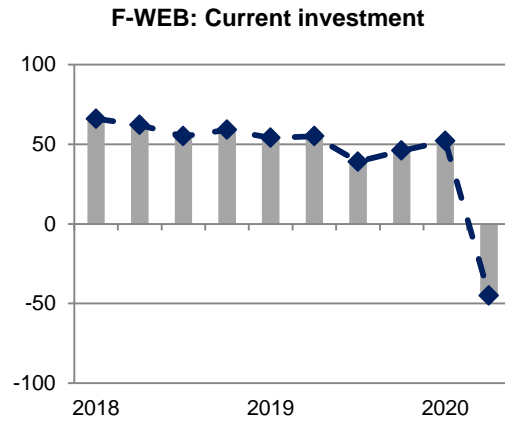
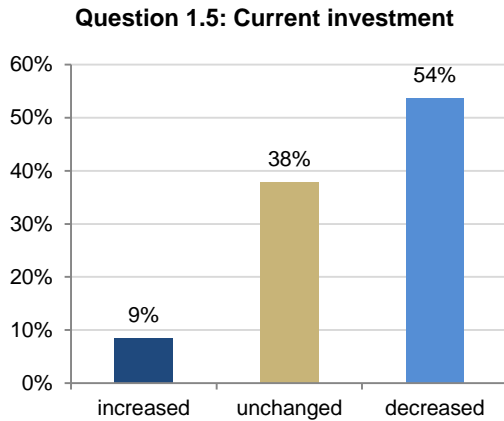


While in the first quarter of 2020 no Free Zone reported a decrease in **employment** compared with the previous three months, the share jumped to 45 percent this quarter. Around 50 percent did not see a change in employment numbers and only very few Free Zones increased their workforce. Similar to the indicator for current turnover, the F-WEB indicator for current employment dropped by over 80 points to -41.

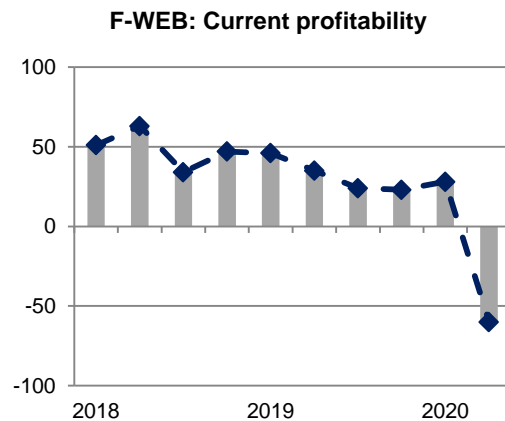
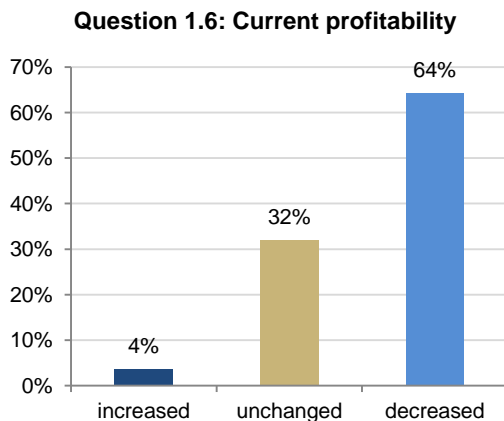


The situation regarding **investment** is similarly gloomy. The share of Free Zones reporting a decrease in investment is at 54 percent, up from 4 percent in the first quarter of 2020. Less than 10 percent of respondents saw an increase in investment, compared with 56 percent at the start of the year. The share of Free Zones registering no change in investment activity remained broadly stable at 38 percent (2020Q1: 41 percent). All in all,

the F-WEB indicator for current investment fell from 52 to -45, experiencing an even steeper drop than the indicators for employment and turnover.

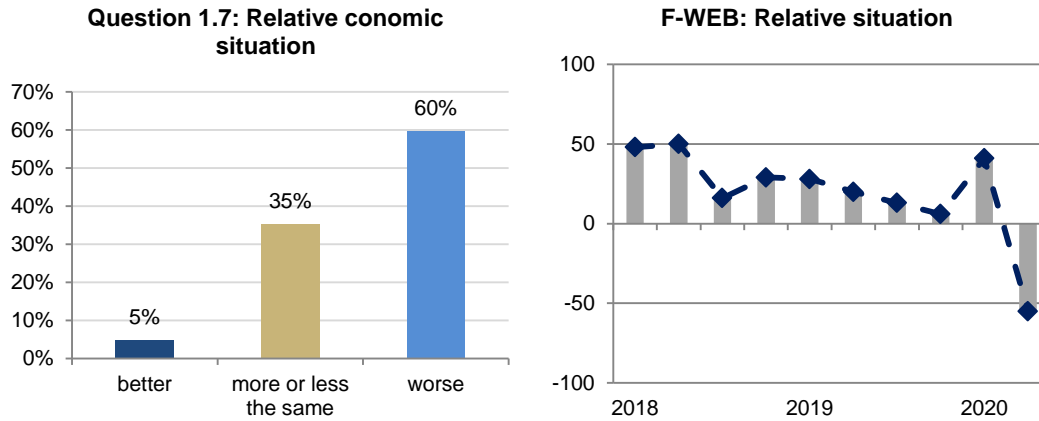


With 64 percent, **profitability** is the economic dimension for which the highest share of Free Zones reported a decrease this quarter compared with the previous one. At the start of the year, 16 percent of Free Zones had reported a fall in profitability and 44 percent an increase. Now very few Free Zones have become more profitable (4 percent). The share of Free Zones with unchanged profitability declined from 40 to 32 percent. As a result, the associated F-WEB indicator declined drastically to a value of -60, down from 28 in 2020Q1 and to the lowest level recorded for any economic dimension.



Relative assessment

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

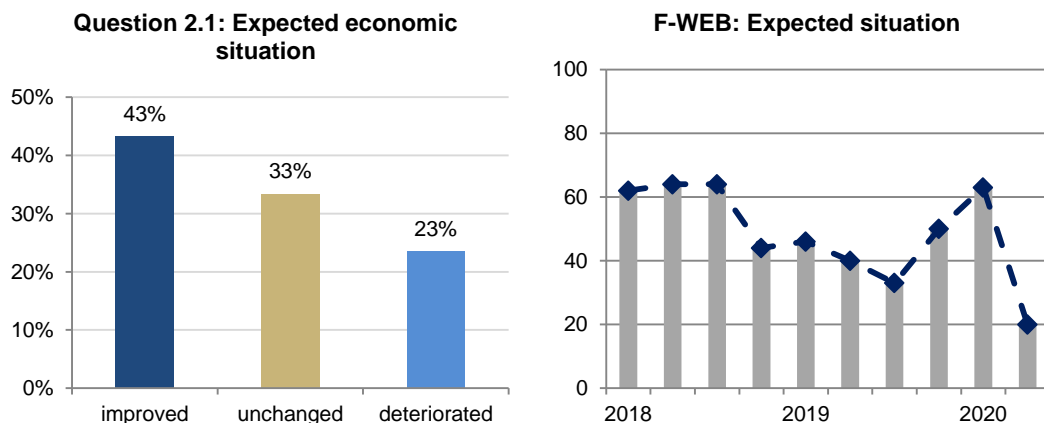


Almost two-thirds of Free Zones assess their overall economic situation as worse than in their host country in general, indicating that they are disproportionately affected by the COVID-19 pandemic. In the F-WEB survey of the first quarter of 2020, very few Free Zones had reported a comparatively worse situation and 44 percent had even evaluated their economic situation as better than in the general economy. The latter share now dropped to 5 percent, while 35 percent of participants assess their economic situation to be similar to the rest of the country (down from 52 percent). Compared with the previous round of the F-WEB, this is a substantial deterioration. The corresponding F-WEB indicator this quarter fell to -55, after having increased to 41 in 2020Q1 reflecting relatively good economic conditions at the start 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?”



After having become more optimistic for two consecutive quarters, average expectations regarding future business conditions have deteriorated substantially amid the COVID-19 pandemic. While at the start of the year two out of three Free Zones had been positive about the next three months, now less than half of the respondents (43 percent) expect an improvement of economic conditions in the near future. One in three Free Zones expect the economic situation to remain stable and one in four Free Zones have a pessimistic outlook. As a result, the corresponding F-WEB expectations indicator dropped markedly from 63 to 20, reaching its lowest value on the record.

Detailed dimensions

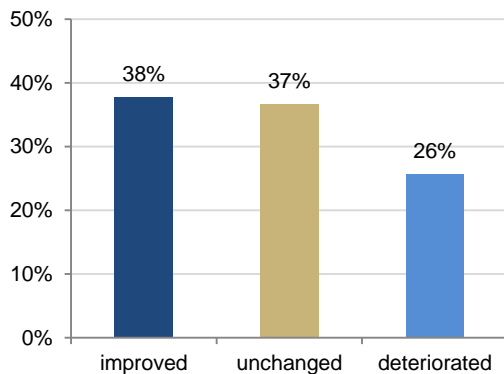
Questions 2.2–2.5 relate to the expectations for developments in specific economic dimensions in the near future: “Overall, compared to the current situation, how do you expect developments in your Free Zone over the next 3 months” ... regarding turnover, employment, investment and profitability, respectively?

The deterioration in expectations is reflected in expected turnover, employment, investment and profitability. The share of Free Zones with a negative outlook increased substantially across all dimensions. It is highest for profitability, where 40 percent expect a decrease over the next three months, followed by investment (34 percent), employment (27 percent) and turnover (26 percent). These numbers represent a significant change from the past when the share of negative answers had been low in the single digits. At

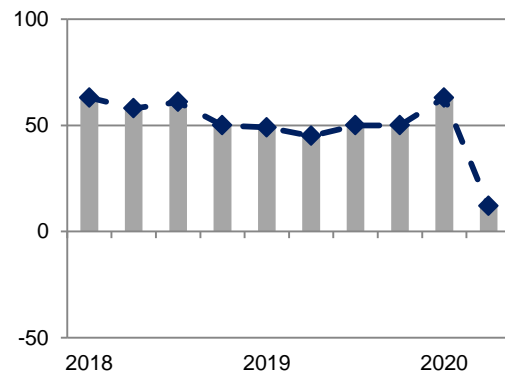
the same time, between 24 (employment) and 38 percent (turnover) of participating Free Zones do have a positive outlook for the coming months.

The F-WEB indicator values reflect the deterioration in the outlook due to the COVID-19 pandemic. The indicator values for all dimensions of economic activity decreased sharply compared with the 2020Q1 round of the F-WEB. The fall was most pronounced for expected profitability, for which the F-WEB indicator fell from 52 to -15. The indicators for expected investment and employment also dropped to negative values and are at -5 and -2, respectively, down from 54 both in 2020Q1. Only the indicator for expected turnover remained positive. However, it also fell from a higher level – it had reached its highest value of 63 in the previous quarter and dropped to its lowest value of 12 in this round.

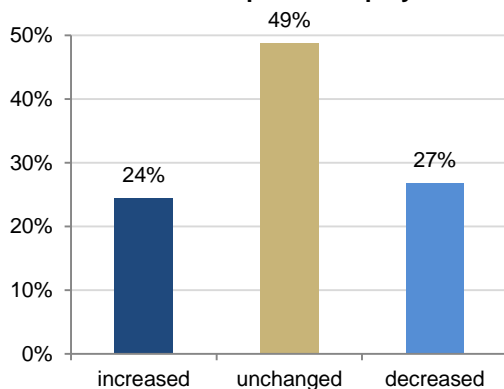
Question 2.2: Expected turnover



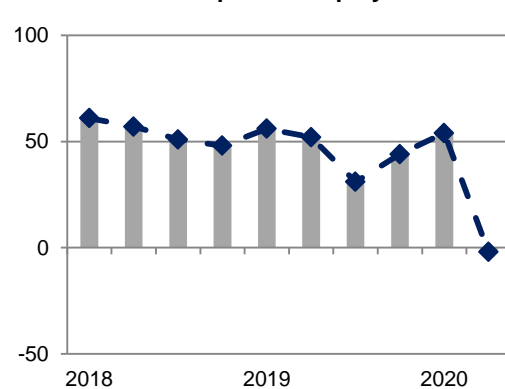
F-WEB: Expected turnover



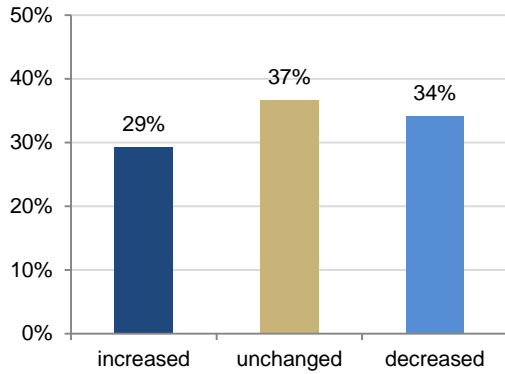
Question 2.3: Expected employment



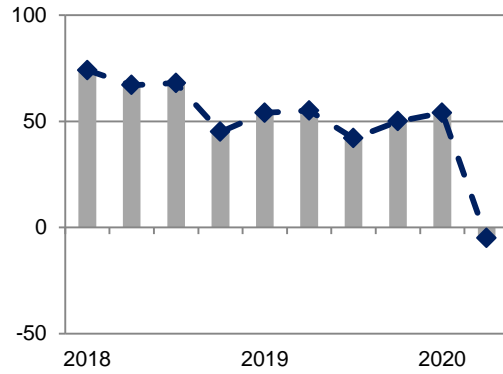
F-WEB: Expected employment



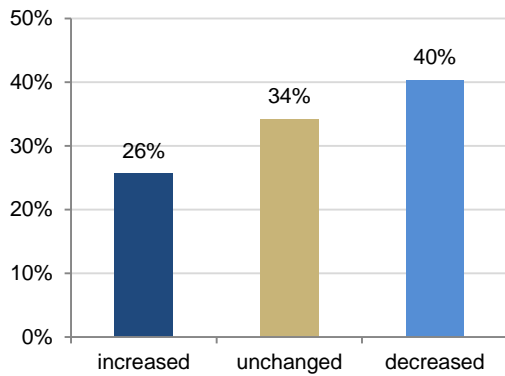
Question 2.4: Expected investment



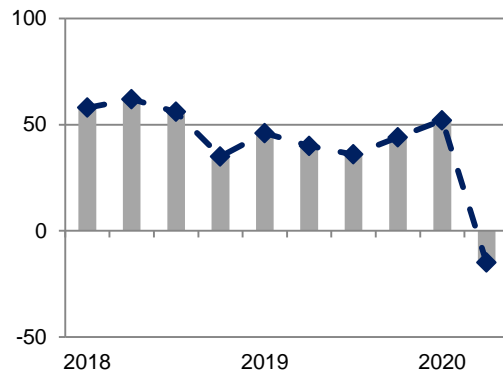
F-WEB: Expected investment



Question 2.5: Expected profitability



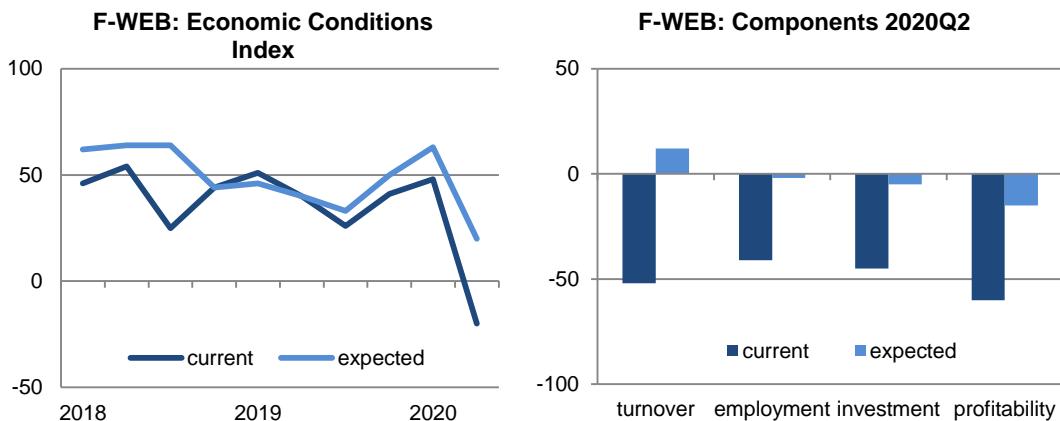
F-WEB: Expected profitability



Summary

The F-WEB survey in the second quarter of 2020 shows clearly that Free Zones across the world are substantially hit by the COVID-19 pandemic. Accordingly, only 15 percent of participating Free Zones evaluate their current economic situation as good, down from 56 percent in the previous quarter. The share of Free Zones assessing their situation as normal increased from 37 percent in 2020Q1 to 49 percent. At the same time, the percentage of Free Zones experiencing poor conditions increased drastically to 36 percent. In all previous F-WEB surveys, there were only one-digit shares of Free Zones reporting poor conditions. The sharp deterioration in sentiment is reflected in the F-WEB indicator for current economic situation which dropped to a negative value for the first time since the launch of the F-WEB in 2018. To be precise, the indicator dropped from +48 to -20.

After having become more optimistic for two consecutive quarters, average expectations regarding future business conditions have deteriorated substantially amid the COVID-19 pandemic. While at the start of the year two out of three Free Zones had been positive about the next three months, now less than half of the respondents (43 percent) expect an improved economic situation in the near future. One in three Free Zones expect the economic situation to remain stable and one in four Free Zones have a more pessimistic outlook. As a result, the corresponding F-WEB expectations indicator dropped markedly from 63 to 20, reaching its lowest value on the record.



The single components of business activity illustrate that the deterioration in economic conditions is broad-based. The F-WEB indicators for turnover, employment, investment and profitability all dropped substantially and into negative territory for the first time. Expectations also deteriorated markedly across dimensions. All in all, the COVID-19 pandemic has brought to an abrupt halt the upswing in economic activity and expectations that had been perceived by Free Zones at the start of the year.

COVID-19 SPECIAL QUESTIONS

At the moment, the world is severely affected by the COVID-19 pandemic and so are Free Zones. As the novel coronavirus has spread to more and more countries since the start of the year, measures designed to contain the disease have been weighing on economic activity around the globe. Already in April 2020, the [F-WEB Special Survey](#) showed that most Free Zones worldwide were affected by the pandemic at the time and that they expected limitations to activity to become worse in the coming months. Limitations to activity were reported to different degrees due to measures to contain the virus, the drop in global demand, supply chain disruptions and the deterioration in the financial environment.

The standard F-WEB questions are already well-equipped to capture the impact of the COVID-19 pandemic on Free Zones (see the chapter on the [F-WEB 2020Q2 results](#)). To gain an even better understanding of the effects of the current crisis a set of special questions was asked in the 2020Q2 round of the F-WEB. In addition, Free Zones were asked which measures have already been taken and which measures they would like to see put in place in order to cope with the current crisis and to support their recovery. The results are reported in the following.¹

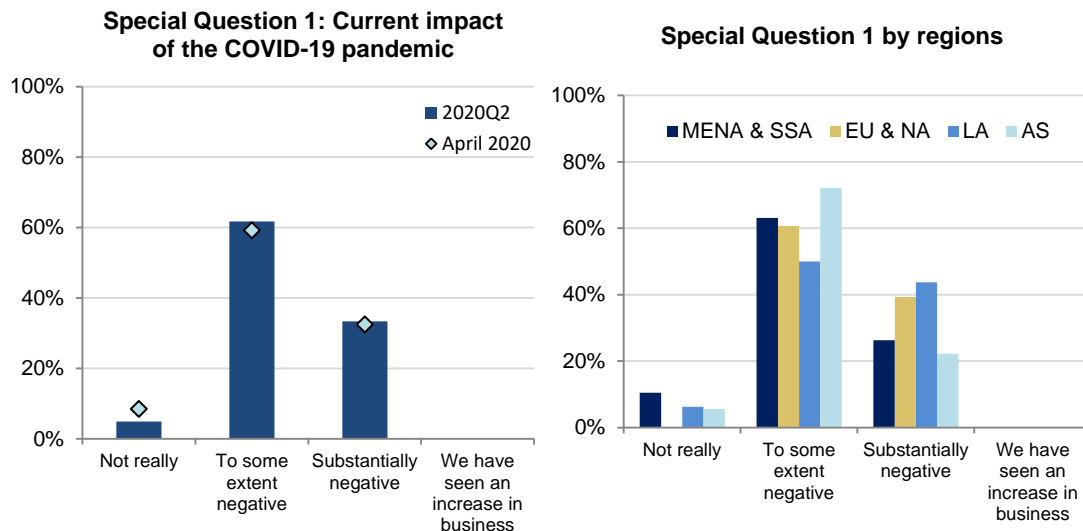
Current and expected impact of the COVID-19 pandemic

Special Question 1: Is activity in your Free Zone currently affected by the economic impact of coronavirus pandemic?

The vast majority of Free Zones worldwide is currently affected by the pandemic. Over 90 percent of Free Zones state that economic activity is currently hampered by the spread of COVID-19. While 62 percent of Free Zones report some limitations, over one in three respondents report the impact of the pandemic to be substantial. Only 5 percent of respondents indicate that their Free Zone is currently not really affected. No Free Zone has seen an increase in business due to the pandemic.² Overall, the results are very similar to those seen in the F-WEB Special Survey conducted in April. In terms of regional heterogeneity, Europe and North America as well as Latin America are somewhat more affected than Asia, Africa and the Middle East.

¹ Throughout this chapter, a disaggregated analysis at the regional level is provided. The following abbreviations are used: Middle East and North Africa as well as sub-Saharan Africa (MENA & SSA); Europe and North America (EU & NA); Latin America (LA); Asia (AS).

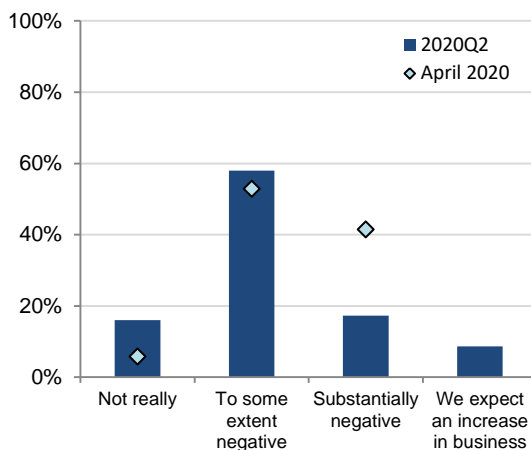
² Please note that the answering option "We have seen an increase in business." had not been given in the Special Survey conducted in April. It was added to account for the possibility that some Free Zones, for example those specializing in health care or digital services, see an increase in business due to the COVID-19 pandemic.



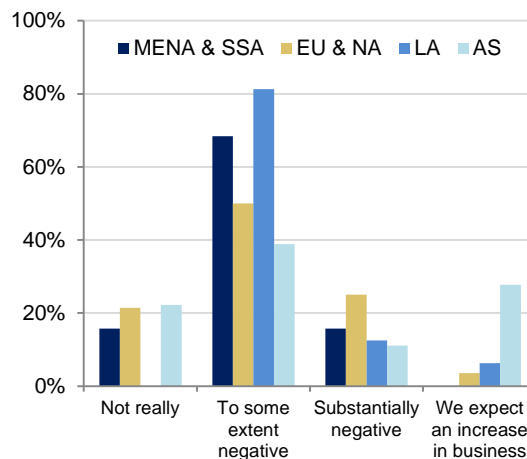
Special Question 2: Do you expect activity in your Free Zone to be affected by the coronavirus pandemic in the coming months?

A majority of Free Zones expects economic activity to be hampered in the coming months but there has been improvement in sentiment compared to April. Over the next few months, the impact of the COVID-19 pandemic is expected to ease somewhat. 75 percent of Free Zones expect to be negatively affected in the near future, compared with 90 percent experiencing negative effects at the moment (see Special Question 1). 58 percent of respondents expect moderate consequences, a share similar to the one seen in April (52 percent). 17 percent see substantial negative impacts in the coming months. This represents a decisive improvement in sentiment since April, when more than 40 percent of Free Zones feared substantial negative effects. 9 percent of participants expect an increase in business due to the pandemic in the coming months. While the improvement in sentiment compared with April is broad-based, it is most pronounced in Asia. Given that Asia was the continent hit first by the coronavirus, Asian countries (most notably China) were the first to implement strict lockdown measures – but they have also been the first to gain control over the outbreak and lift the measures designed to contain the spread of the disease. The differences in expectations across regions reflect this development.

Special Question 2: Expected impact of the COVID-19 pandemic

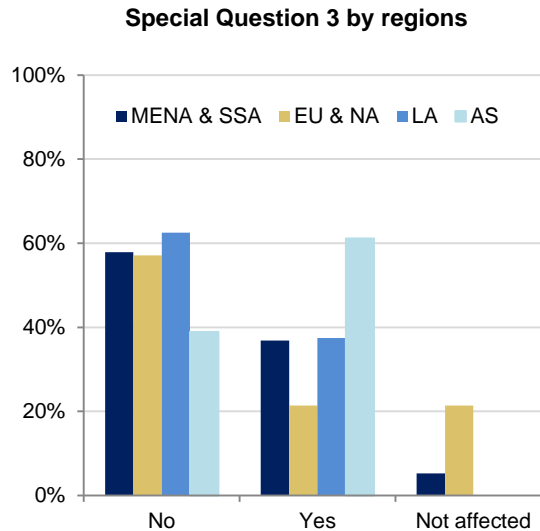
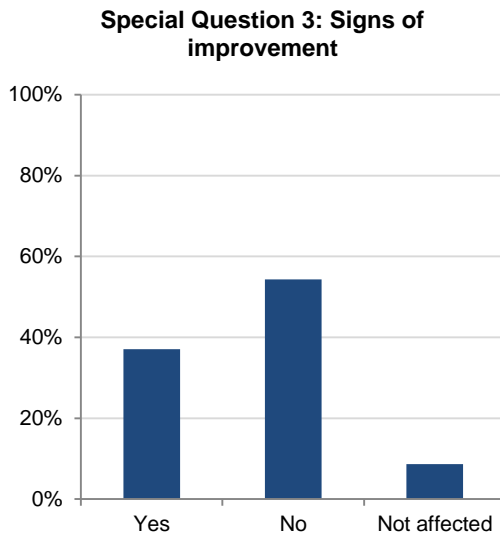


Special Question 2 by regions



Special Question 3: Do you already see first signs of improvement at the moment?

Around one in three Free Zones affected by the pandemic sees first signs of improvement. In light of significantly lower numbers of COVID-19 cases in some countries and lockdown measures being lifted gradually, 37 percent of Free Zones see first signs of recovery. At the same time, 54 percent of respondents do not yet see any signs of improvement. In line with the answers to Special Questions 1 and 2, Asia is the region where the largest share of Free Zones has seen the situation getting better, with more than 60 percent reporting signs of improvement. In all other world regions, around 60 percent of respondents are still waiting to see indications of recovery.



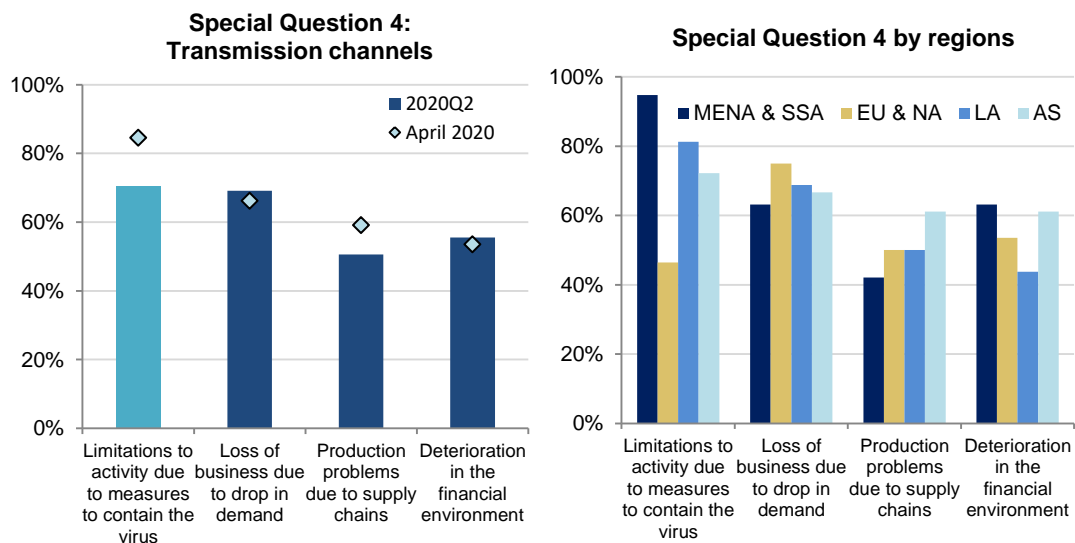
Transmission channels of negative economic effects

Special Question 4: By which channels is or will activity in your Free Zone likely be affected? (select all that apply)

Free Zones are still affected by the pandemic through a combination of various channels. 70 percent of Free Zones affected by the pandemic report limitations to activity due to measures to contain the virus and a loss of business due to the drop in global demand, respectively. Production problems due to disrupted supply chains and the deterioration in the financial environment impact relatively fewer but still over half of the Free Zones.

Lockdown-induced limitations and supply chain problems have eased somewhat, on average, in comparison to the situation in April. In comparison with the F-WEB Special Survey conducted in April, the share of Free Zones facing limitations due to lockdown or health measures designed to contain the virus has decreased by almost 15 percentage points, mostly due to a better situation of Free Zones in North America and Europe. Also disruptions to supply chains have become somewhat less of a problem, on average. The improvement is driven by the Middle East and Africa, seeing a drop by around 30 percentage points, Europe and North America (down by 15 percentage points) and Asia, where the share of Free Zones reporting supply chain problems fell by 10 percentage points compared to April. At the same time, supply chain disruptions have gained importance in Latin America, with the share of Free Zones reporting problems through this channel increasing by 10 percentage points to 50 percent.

The demand and the financial channel still affect Free Zones similarly to the situation in April, with some changes in the regional pattern. Regional heterogeneities changed especially with respect to the deterioration in the financial environment. In April, the highest share of Free Zones reporting problems via this channel was from Latin America (60 percent); in other world regions between 43 (Asia) and 50 percent (Europe and North America) reported to be affected by the worsening of financial conditions. Interestingly, the situation is now reversed. The share of Free Zones in Latin America dropped to roughly 45 percent whereas the percentage of Free Zones reporting problems due to tighter financial conditions increased in all other world regions. The drop in global demand affects Free Zones around the globe to a similar extent as in April. However, the share of participants from Europe and North America reporting to be affected via this channel increased by almost 15 percentage points while the share of participants from Asia indicating the importance of this channel fell to a similar extent.³

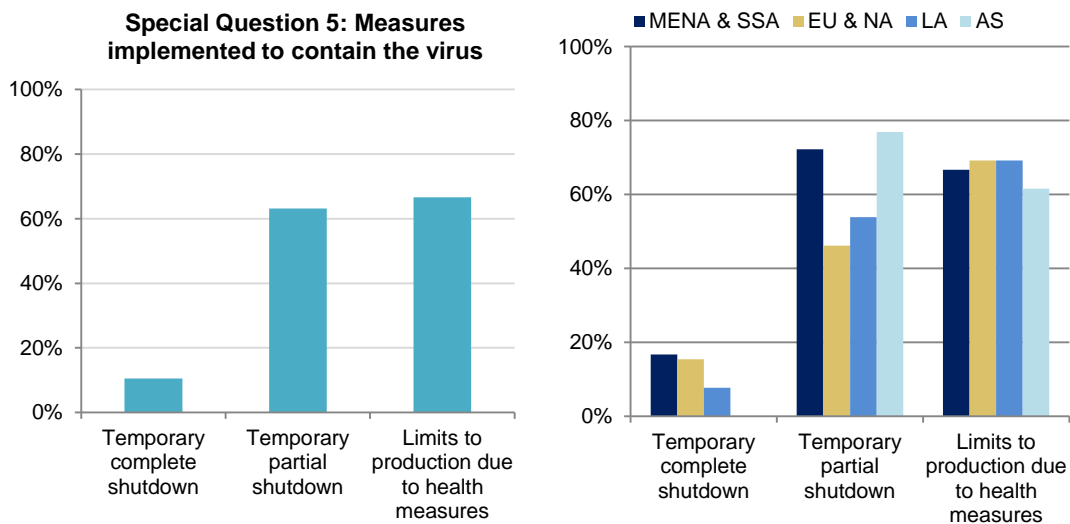


Special Question 5: How did measures to contain the virus limit activity in your Free Zone? (select all that apply)

The Free Zones reporting limitations to activity due to measures to contain the virus have been affected by temporary shutdowns and health measures. Special Question 5 was only asked to participants who selected “Limitations to activity due to

³ In this context it is worth pointing out that the results need to be treated with caution and should not be over-interpreted. The F-WEB surveys are not representative for all Free Zones and participants can change from survey to survey.

measures to contain the virus” as a transmission channel of the negative economic effects of the pandemic in Special Question 4. Of those Free Zones, 11 percent have faced a temporary complete shutdown – none of them in Asia –, and 63 have been shut down in parts. The share of Free Zones being partially shut down is particularly high in the Middle East and Africa (72 percent) and Asia (77 percent). In addition, two out of three Free Zones reporting limitations to activity due measures designed to control the spread of the disease have had to implement health measures that limit production. These health measures affect Free Zones in all regions to a similar extent.

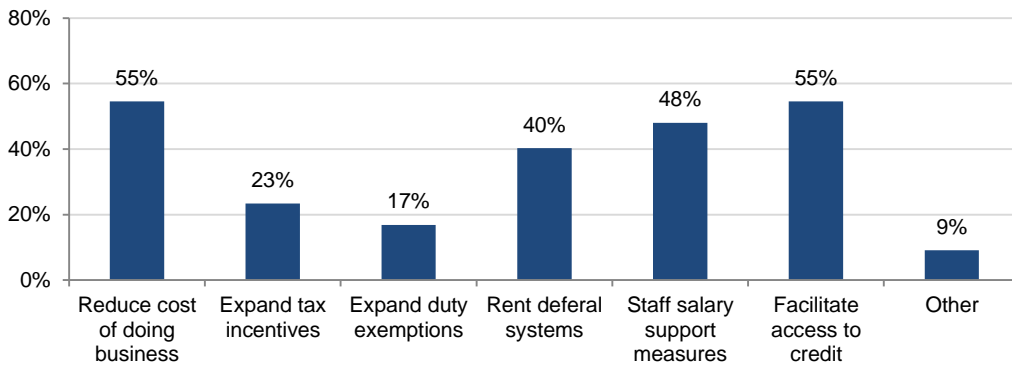


Policy measures to the crisis

Special Question 6: Are any measures in response to the crisis already planned for your Free Zone / for Free Zones in your country to support the recovery? (select all that apply)

Free Zones and governments plan to implement measures in response to the crisis to support the recovery of Free Zones. 55 of participating Free Zones report that a reduction in the cost of doing business and facilitated access to credit, respectively, are measures taken in order to support Free Zones in this crisis. Half of the respondents see staff salary support measures being planned and 40 percent will implement rent deferral systems. An increase in tax incentives and duty exemptions is envisaged for fewer Free Zones so far, with 23 and 17 percent, respectively, reporting those measures being planned. Additionally, some Free Zones report to have received direct transfers to companies by the government (included in “Other”).

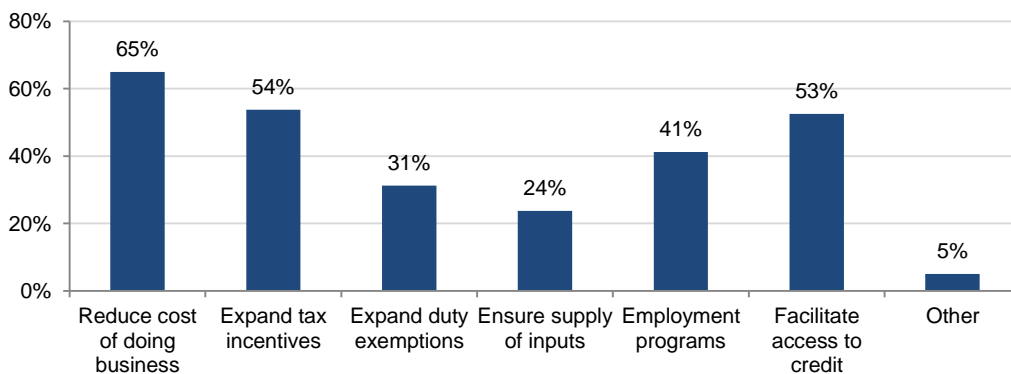
Special Question 6: Planned measures in response to the crisis



Special Question 7: Please select the top three government measures that would be most helpful for your Free Zone to support the recovery. (select all that apply)

Free Zones representatives consider reducing the cost of doing business, expanding tax incentives and facilitating access to credit the top three government measures most helpful for their Free Zones. More than half of the respondents think that these measures would support their recovery, with 65 percent considering a reduction of the cost of doing business beneficial, 54 percent expanded tax incentives and a similar share facilitated access to credit. 41 percent of respondents would find employment programs helpful. Expanded duty exemptions and measures to ensure the supply of inputs are mentioned by 31 and 24 percent of Free Zones, respectively.

Special Question 7: Most helpful government measures for the free zone



Special Question 8: What policies and measures will you be putting in place (or would you like to see put in place) that will enable your Free Zone to respond more effectively to similar future crises? (select all that apply)

Free Zones representatives consider several measures effective to prepare for similar future crises. Two out of three Free Zones will put in place (or would like to see put in place) disaster risk management plans and enhanced environmental, health and safety policies to cope with future crises in a more effective manner. 56 percent will/would like to introduce Disaster Standard Operating Procedures at the zone level, a smaller share (35 percent) would like to see these measures implemented at the firm level. Some Free Zones mention other measures including closer collaboration with Free Zones around the globe to increase supply chain resilience and establishing an early warning system for crises.

Special Question 8: Measures to respond more effectively to a similar future crisis

