

Free Zones World Economic Barometer

ECONOMIC TRENDS AND PROSPECTS IN 2019 IN FREE ZONES AROUND THE GLOBE

2019 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 were conducted in 2019 – the same number as in 2018 – in which Free Zones from 68 countries worldwide shared their assessment of current and future economic conditions. This report summarizes the economic trends and prospects in Free Zones around the globe as captured by the F-WEB in 2019. While 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, sentiment in 2019 deteriorated compared with the previous year.

BACKGROUND INFORMATION ON THE F-WEB

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 relevant to the Free Zones community. 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.

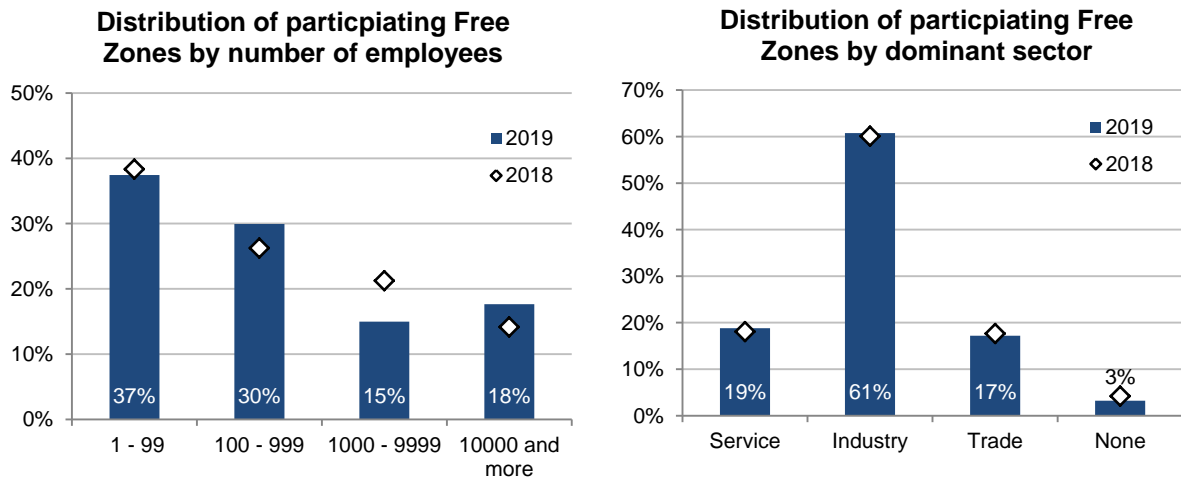
For Free Zones around the globe, the F-WEB is a unique tool to evaluate their relative performance. The quarterly F-WEB notes provide detailed reports of the survey results and can help Free Zone representatives put recent developments in their Free Zone as well as their expectations into a broader perspective. Thus, the F-WEB offers the opportunity to benchmark the current and expected performance of an individual Free Zone against an international peer group.

More details on the design and methodology of the F-WEB as well as its benefits for the Free Zones community can be found [here](#).

F-WEB 2019 RESULTS

GENERAL INFORMATION

In 2019, four rounds of the F-WEB were conducted. The first survey in 2019 was carried out in February with subsequent rounds following in May, August and November. In total, more than 230 Free Zones participated over the course of the year. Thus, on average, more than 50 Free Zones took part in each survey; a number we hope can still be raised in coming rounds of the F-WEB.

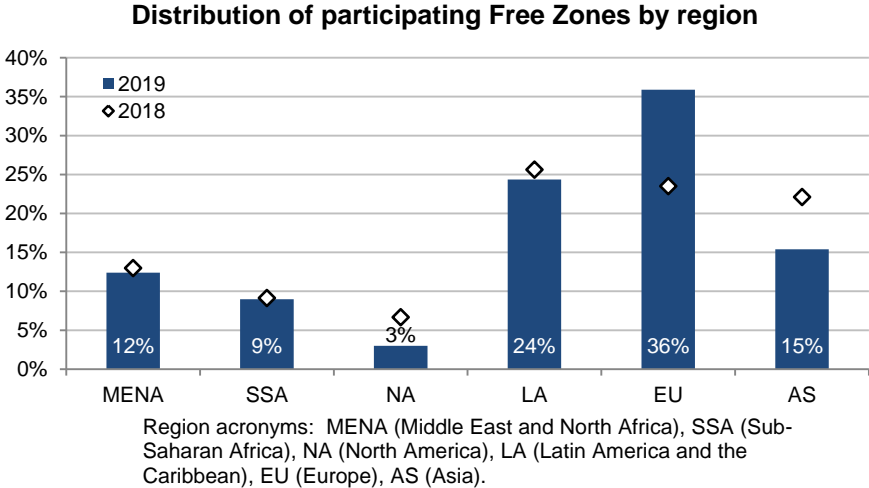


In 2019, around two-thirds of participating Free Zones had less than 1,000 employees. 37 percent of participants represent small Free Zones with up to 99 employees, followed by 30 percent of Free Zones with 100 to 999 employees. 15 percent of answers came from Free Zones with 1,000 to 9,999 employees, while 18 percent had more than 10,000 employees working in the businesses located in the Free Zone. In comparison with the results from 2018, the share of Free Zones with less than 1,000 employees increased slightly. At the same time, the share of participating Free Zones with 1,000 to 9,999 employees decreased from 21 percent in 2018 to 15 percent in 2019, while the share of Free Zones with more than 10,000 employees increased from 14 to 18 percent.

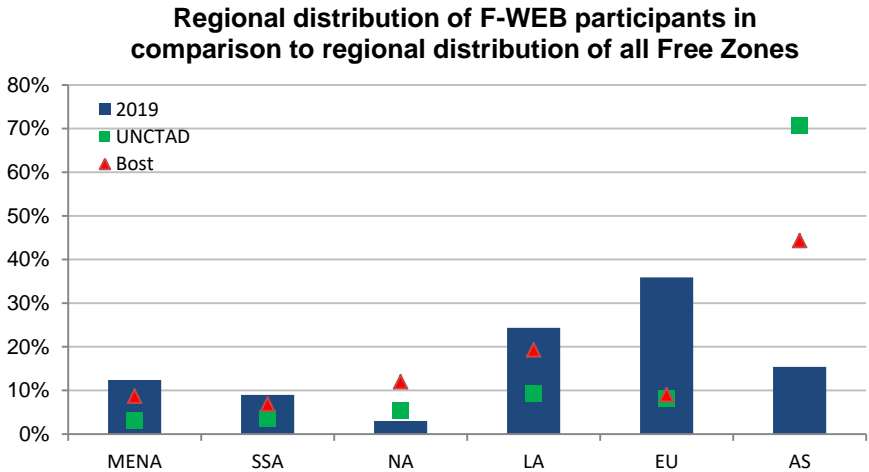
With respect to sectors, industry clearly remains the most important one. Overall, 61 percent of Free Zones, which participated in 2019, focus on this type of activity. With 19 and 17 percent, respectively, Free Zones specializing in services and trade were almost equally represented in the F-WEB indicators throughout the year. Only a very small number of Free Zones have no clear focus on a specific sector. Compared with the results from 2018, the distribution by dominant sectors remained almost identical which is a good sign regarding comparability of the F-WEB over time.

In terms of geographic distribution, the largest number of participants came from Free Zones in Europe (EU) and Latin America and the Caribbean (LA) which account for 36 and 24 percent of all responses, respectively. Asia was the third most important region represented in the F-WEB in 2019, with 15 percent of answers coming from Free Zones there, followed by the Middle East and North Africa (MENA) which accounted for 12 percent in all answers. Fewer participants came from Sub-Saharan Africa (SSA, 9 percent) and North America (NA, 3 percent). In total, Free Zones from 68 countries around the globe participated in the F-WEB in 2019. In comparison with the results from 2018, the share of Free Zones from Europe increased noticeably from 24 to 36 percent. The F-WEB also saw an increase in participation from the American continent, albeit much less pronounced than

in the case of Europe. At the same time, the share of participants from Asia decreased from 22 to 15 percent, while participation from Africa and the Middle East remained more or less the same.



How representative is the F-WEB regarding its regional coverage? Depending on the definition of Free Zones, counting their number in a specific world region yields different results. We use data provided by the World Free Zones Organization (2018) and UNCTAD (2019) to compare the regional distribution of F-WEB participants to the regional distribution of the universe of Free Zones. The comparison illustrates that the survey data does not fully resemble the regional distribution of the universe of Free Zones. Especially Asia seems to be underrepresented in the F-WEB data.¹ On the other hand, the share of participants from Europe is considerably larger than the corresponding share at the global level.

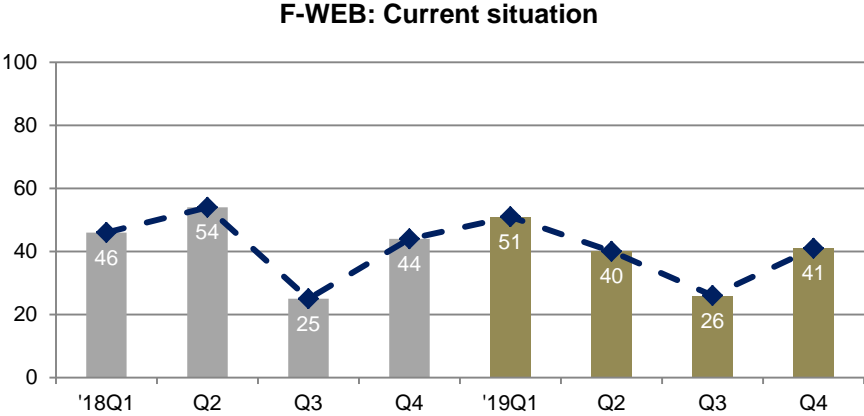


¹ According to the numbers provided by UNCTAD (2019) more than half of all Free Zones worldwide are located in China. Since the F-WEB aims to capture developments in Free Zones around the globe and not just in a specific country, some underrepresentation of Asia in the F-WEB survey is therefore acceptable.

2019 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?”



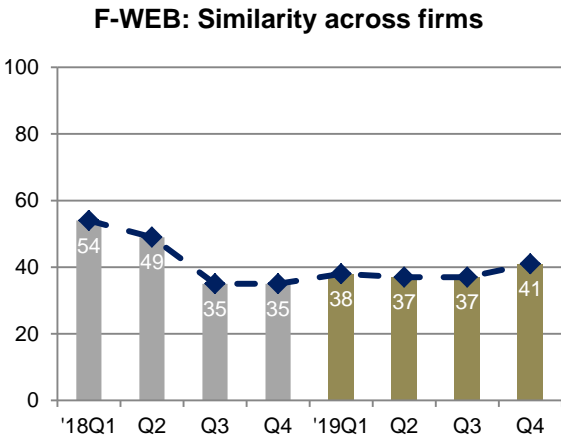
Throughout the years 2018 and 2019, the number of Free Zones evaluating their current economic situation as well outnumbered significantly the number of Free Zones reporting poor conditions. This is reflected by positive F-WEB indicator values in all eight quarters. The year 2019 started out on a positive note, with the F-WEB indicator reaching a value of 51 – a reading only slightly below its all-time high of 54 which was reached in the second quarter of 2018. Thus, in the beginning of 2019, economic conditions in Free Zones had recovered from the pronounced deterioration seen in the third quarter of 2018. In the second quarter of 2019, however, sentiment reversed again and the F-WEB indicator dropped for two consecutive quarters, to 40 and 25 in the second and third quarter, respectively. Finally, in the fourth quarter of 2019 the F-WEB indicator increased again to 41 points. Overall, the large share of Free Zones reporting a good or normal economic situation in any round of the survey suggests that 2019 was, on balance, a good business year for Free Zones around the globe.

Taking a more disaggregated perspective by considering the regional-level, the data indicates that the downward movement in 2019 was mainly driven by a sharp decline of the F-WEB scores for Asia and Latin America. Further, the upward movement in 2019Q4 is partly driven by an improvement reported by European Free Zones. These developments may reflect broader economic developments in the respective regions such as the trade disputes between China and the United States, the social unrest in many South American countries, as well as uncertainties and progress surrounding Brexit.

While these global and regional factors may have contributed to the cyclical pattern observed in 2019, at the same time the similar developments observed in 2018 and 2019 could also be a sign of seasonality. Even though F-WEB participants are asked to provide their assessment taking into account the usual seasonal pattern, it cannot be ruled out that seasonal factors still influence the F-WEB. Once the F-WEB is available over a longer time horizon, a more precise conclusion on this matter will be possible.

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 years 2018 and 2019, a majority of Free Zones reported that all firms or sectors, respectively, in their Free Zone experienced similar economic conditions. In fact, the dispersion of economic activity within the participating Free Zones has not changed much since the second half of 2018. Most recently, 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 face a similar economic situation, while 30 percent describe the situation of sectors/firms in the Free Zone as substantially diverse. Thus, the F-WEB indicator for similarity across firms closed the year 2019 at a value of 41, only somewhat higher than the readings seen in the previous quarters of the year.

Detailed dimensions

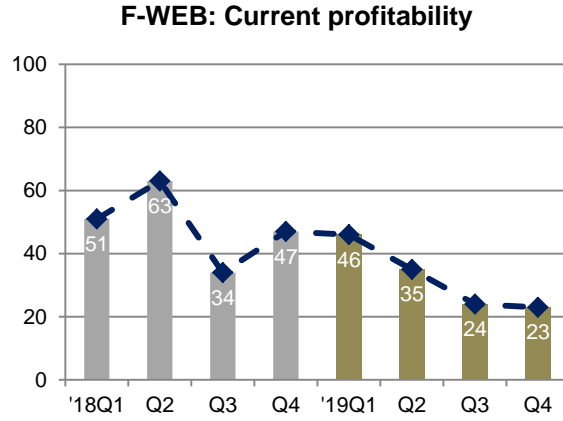
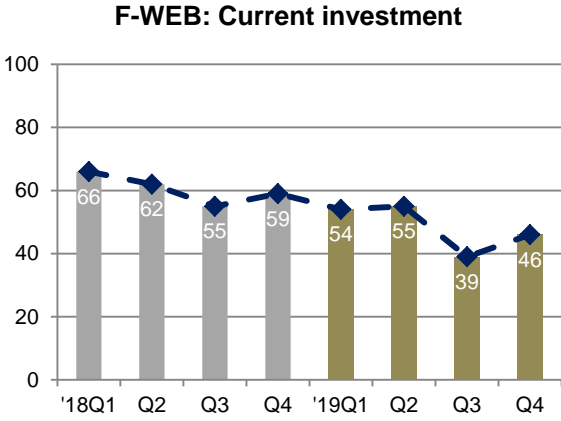
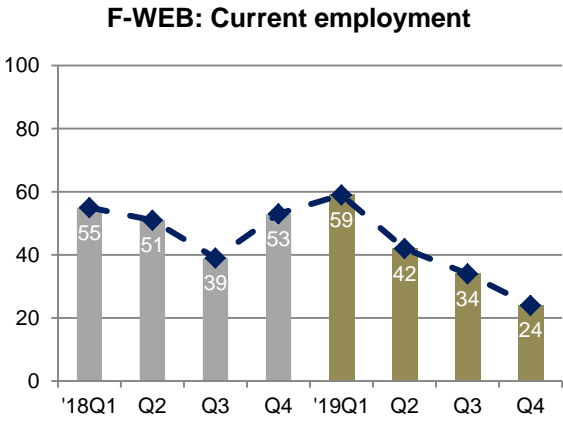
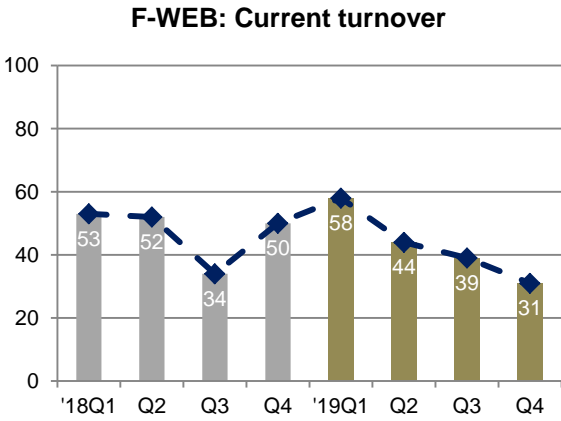
Questions 1.3-1.6 relate to recent developments in more detailed economic dimensions: “Compared to the previous three months and taking into account the usual seasonal pattern...” how has turnover/employment/investment/profitability developed?

Overall, the F-WEB indicators for economic developments in Free Zones regarding turnover, employment, investment and profitability were less positive in 2019 than they were in 2018. In 2018, the deteriorations in economic sentiment in the F-WEB indicators for current turnover, employment and profitability observed in the third quarter proved to be largely temporary and overall there was no clear trend visible regarding any of the detailed dimensions.

However, 2019 presents a different picture. The F-WEB indicators for current turnover, employment and profitability display a steady downward trend throughout the year reaching all-time low levels in the fourth quarter. The deterioration was most pronounced for employment, where the F-WEB indicator dropped from a high of 59 at the start of the year to 24 in 2019Q4, followed by current turnover (2019Q1: 58, 2019Q4: 31) and profitability (2019Q1: 46, 2019Q4: 23). Investment – which already showed the lowest volatility across economic dimensions in 2018 – seems to be less affected by the downturn; however, there was still some deterioration in the second half of 2019.

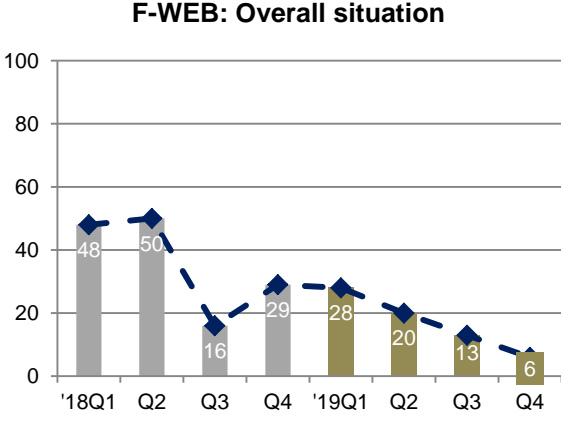
The deterioration in sentiment across dimensions is reflected in the lower percentage of Free Zones reporting increasing numbers for turnover, employment, profitability and investment. For example, the share of Free Zones reporting an increase in employment compared with the previous three months dropped from 63 percent in 2019Q1 to 38 percent in 2019Q4. At the same time, the share of Free Zones reporting a decrease in employment rose from less than 5 percent at the start of the year to 14 percent in the last quarter. The developments for turnover and profitability were similar. Despite the downturn it is important to keep in mind that all F-WEB indicator values are still well in the positive – reflecting that the number of Free Zones with positive answers continues to outweigh the number of Free Zones with negative answers.

Interestingly, the upward movement the F-WEB indicator for current economic situation saw in the last quarter of 2019 is not visible for current turnover, employment and profitability. Only the indicator for investment improved towards the end of the year. This divergence at the current edge is noteworthy considering that the indicators followed the same overall trend in all previous periods.



Relative assessment

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

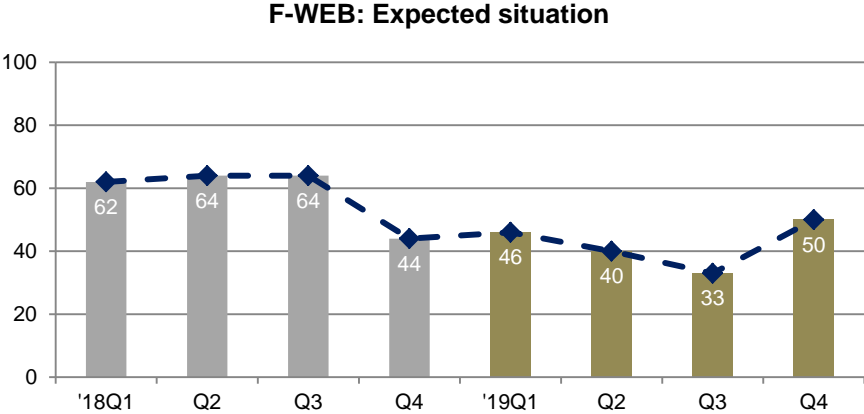


In 2019, the F-WEB indicator capturing the economic situation in Free Zones compared to the host country displayed a steady downward movement from a value of 29 in 2018Q4 to a value of six in 2019Q4. While in 2018Q4 35 per cent reported a better situation in their Free Zone than in the host country, this number declined to 22 percent in 2019Q4. The share of Free Zones reporting underperformance compared to the host economy has increased sequentially, from 5 per cent at the beginning of 2019 to 17 percent in the fourth quarter.

2019 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 2019. In all four rounds of the F-WEB at least 39 percent 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. Despite this optimism, expectations, on average, were less positive in 2019 than in 2018. Expectations had already become substantially less positive at the end of 2018, reflected by a drop of the F-WEB indicator from 64 in 2018Q3 to 44 in 2018Q4. After a slight uptake in the beginning of 2019, they continued to deteriorate through the third quarter of 2019. Towards the end of the year, Free Zones became increasingly optimistic again. In 2019Q4 the F-WEB indicator value was at 41 (with 50 percent of participants expecting economic conditions to improve in 2020Q1, 50 percent reporting stable expectations and no one having a negative outlook), and thus well above the readings for the other quarters in 2019. This suggests that Free Zones expect a good start into the year 2020.

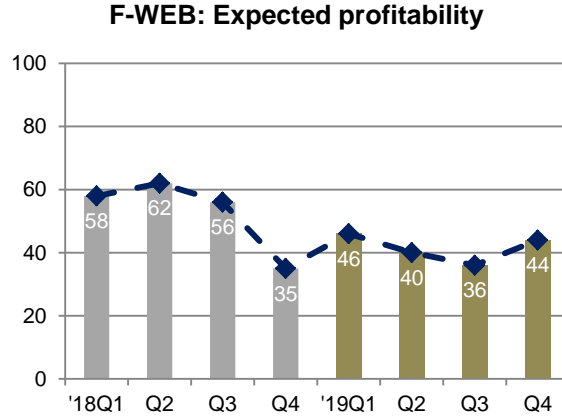
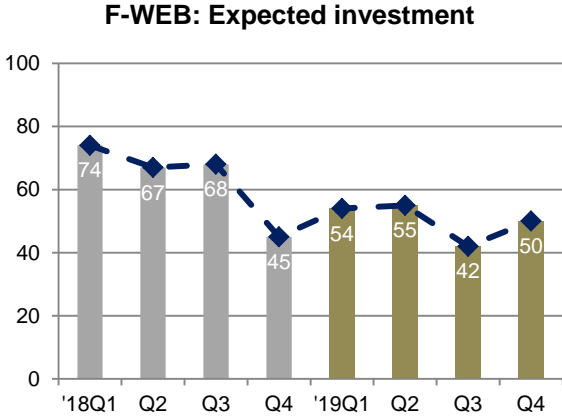
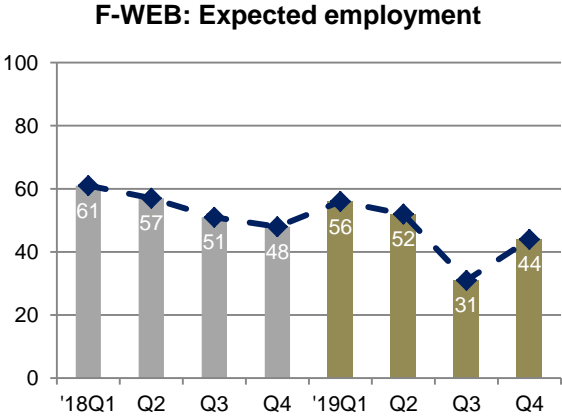
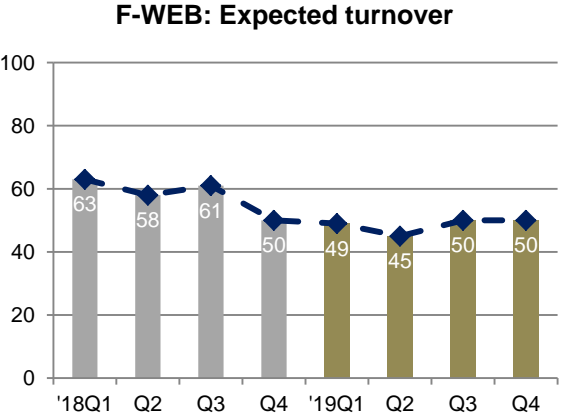
Detailed dimensions

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?

Across all economic dimensions, i.e. turnover, employment, investment and profitability, the outlook of respondents over the next three months was, on average, less positive in 2019 than it was in 2018. This is in line with the overall F-WEB indicator for expected economic situation.

At the same time, some divergence could be observed across dimensions. The outlook for expected turnover remained largely stable throughout the year at a level of around 50, whereas the F-WEB indicators for expected employment, investment and profitability exhibited greater volatility. They all showed a pronounced drop in 2019Q3 with a subsequent increase in 2019Q4. While expected profitability and investment recovered towards the end of the year to a similar level as the one seen in 2019Q1, expected employment in 2019Q4 was still noticeably below the value reported at the start of the year. Still, 44 percent of respondents expected employment to increase over the next quar-

ter. Regarding expected turnover, profitability and investment, more than half of the Free Zones had a positive outlook for the start of the new year. In sum, 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.



SPECIAL QUESTIONS

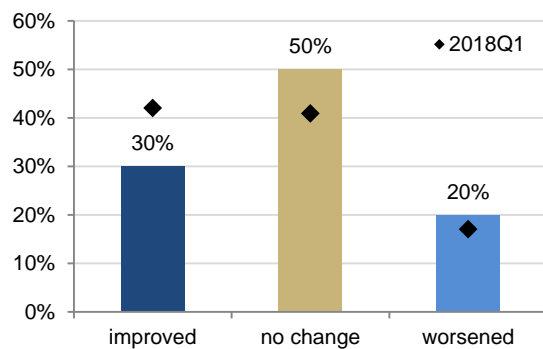
Each F-WEB survey closes with two special questions. Some of them are asked on an annual basis, others irregularly as a reaction to specific developments. This section gives a brief overview of the results of the special questions asked throughout the year 2019. For additional background information and interpretation, please refer to the respective quarterly F-WEB notes available on the website of the [Kiel Institute for the World Economy](#).

Annual special questions

2019Q1: “In your view, over the last few months the global trade environment has improved, stayed the same, or worsened?”

On average, the trade environment for Free Zones was still evaluated positively in 2019Q1, it seems to have deteriorated somewhat compared to 2018. This is likely to be the result of continuing international trade tensions and uncertainty evolving around the trade policy of the US government.

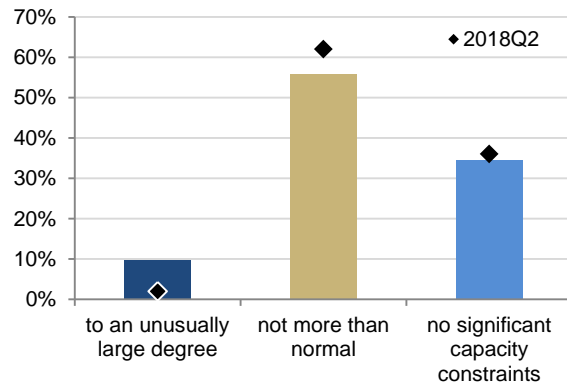
Global trade environment from a Free Zone perspective



2019Q2: “To what extent is current production in your Free Zone limited by capacity constraints?”

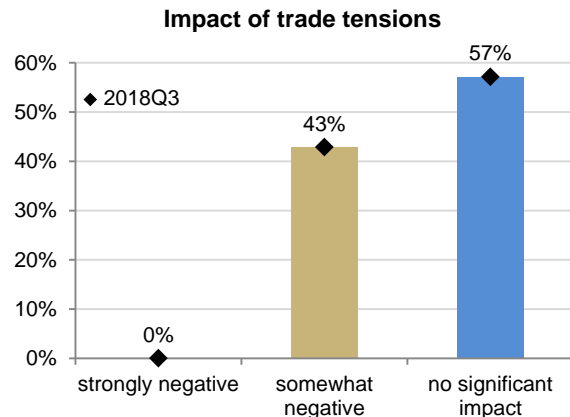
Even though the world economy had lost momentum in the second half of 2018, unemployment continued to be at multi-year lows in many countries and survey results indicated that capacity utilization in many economies was still high. In Free Zones, production capacity was no particular constraint in 2019Q2 and at similar levels as one year before.

Capacity constraints of current production



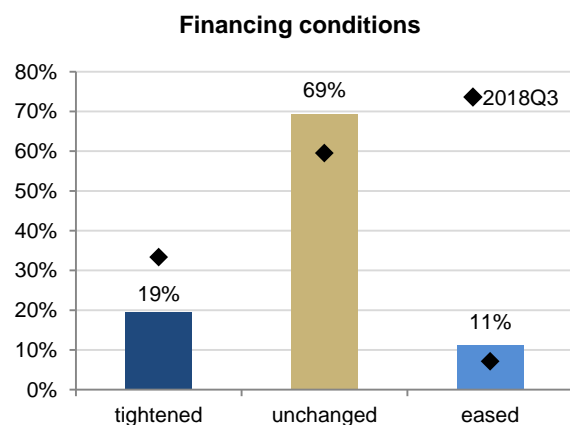
2019Q3 – “How do you expect trade tensions between several countries and the United States to affect business in your Free Zone?”

In light of the more protectionist stance of the US administration this special questions asked explicitly about potential consequences of these policies for Free Zones. While a majority of did not expect a significant impact their business activities, there over 40 percent of Free Zones expected some negative effect.



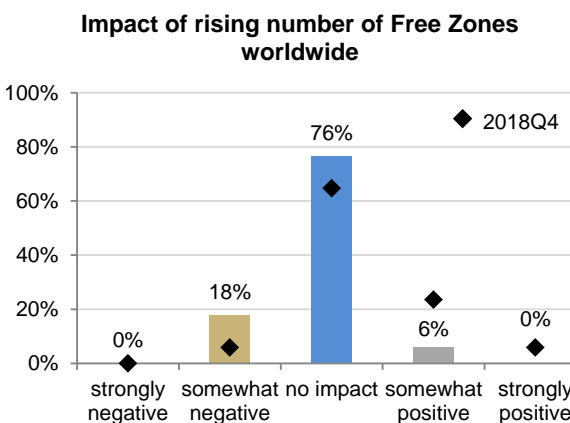
2019Q3 – “How have financing conditions for businesses in your Free Zone developed over the past six months?”

After a period of rising interest rates in 2018, the US central bank started to lower interest rates again in mid-2019 potentially increasing the room to maneuver also for central banks in emerging economies. This seems to have transmitted – at least to some extent – to Free Zones. Compared to the situation in 2018, the share of Free Zones facing tighter financing conditions dropped and the share facing easier money increased somewhat.



2019Q4 – “How was business activity in your Free Zone in the last year affected by the rising number of Free Zones worldwide?”

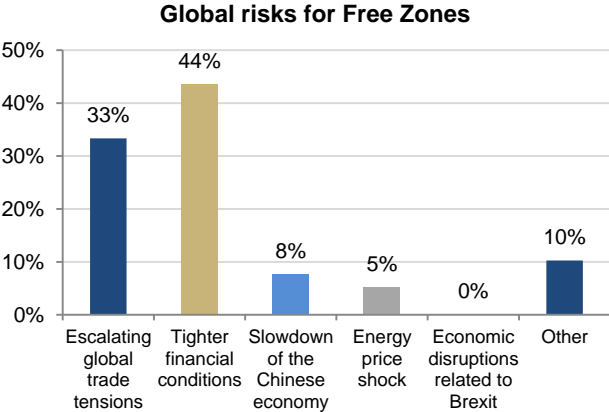
The number of Free Zones worldwide has increased substantially over the past decades. On the one hand, the increasing quantity of Free Zones reflects a growing popularity – existing zones may benefit from increased attention and a growing network of peers. At the same time, it also implies more competition. In 2019, the overall impact of the rising quantity of Free Zones was, on average, negative according to F-WEB participants which reflects a reversal compared to one year ago.



Additional special questions

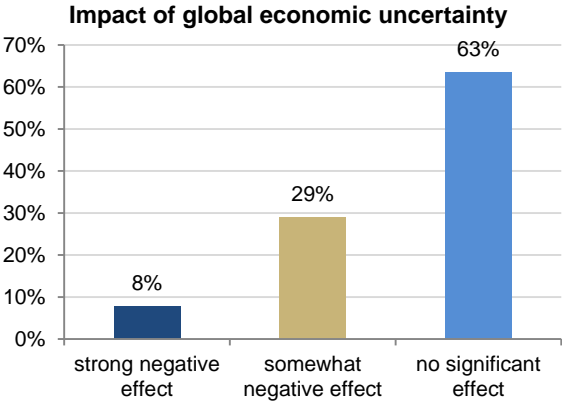
2019Q1: “In your opinion, which of these risks to the global economy poses the highest risk to the economic activity in your Free Zone?”

This question was asked to find out which risk to the global economy was of most relevance for Free Zones. The results show that the majority of participants considered tighter financial conditions the most pressing global risk to the economic activity in their Free Zones, followed by escalating global trade tensions.



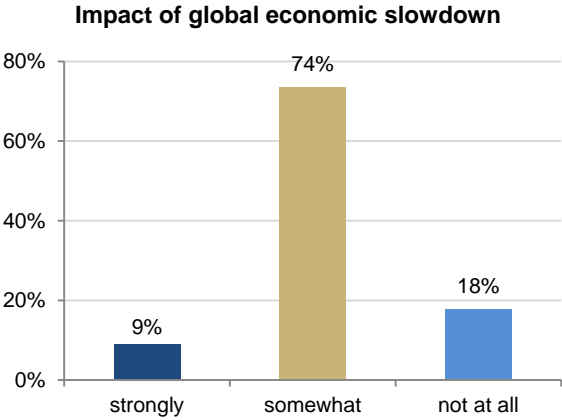
2019Q2: “Over the past 6 months, has your Free Zone been affected by the elevated levels of economic policy uncertainty observed globally?”

Economic policy uncertainty had been elevated since mid-2018 mainly due the trade conflict between the US and China as well as geopolitical tensions in the Middle East. More than one in three participating Free Zones were affected by these uncertainties.



2019Q4: “How has the slowdown in global economic activity over the past year been reflected in your Free Zone?”

After strong growth in 2017 and early 2018, the world economy slowed down significantly in the course of 2018, and growth remained subdued in 2019. The combination of several negatives, including higher interest rates in the US, increased policy uncertainty, as well as slower growth in China weighed on global economic activity and also affected most Free Zones to some degree.

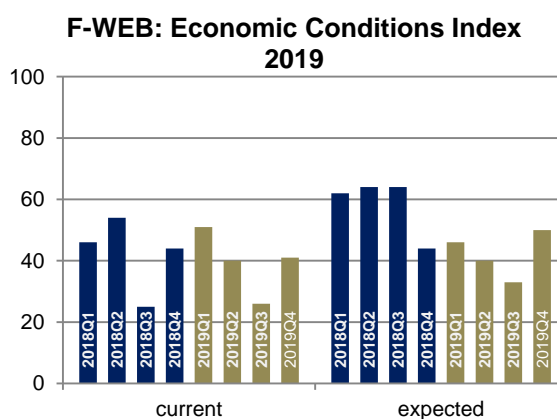


SUMMARY

Throughout the year 2019, 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 2019 started out on a positive note, reflected by an indicator value for current economic situation of 51. After a deterioration in the second and third quarter, sentiment improved again in the fourth quarter. With an indicator value of 41 in 2019Q4, it is, however, still well below the level reported at the start of the year.

Global and regional factors seem to have contributed to a deterioration of economic conditions compared with the previous year. According to the F-WEB Special Questions, Free Zones were – at least to some extent – negatively affected by global trade tensions and elevated levels of economic policy uncertainty seen throughout 2019. Moreover, the global economic slowdown also weighed on activity in Free Zones.

Short-term expectations followed a similar pattern as current economic conditions. Towards the end of the year, the number of Free Zones expecting deteriorating business conditions in the months to come remained low and the overall outlook for early 2020 continues to be optimistic, on balance.



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 the whole Free Zones community, and thank all regular respondents for their participation.

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