

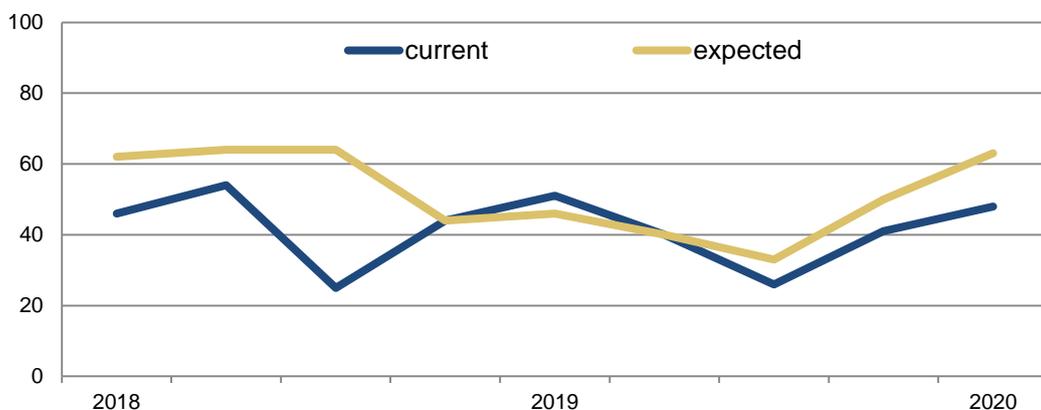
Free Zones World Economic Barometer

F-WEB SPECIAL SURVEY ON THE CORONAVIRUS PANDEMIC

Introduction

In spring 2020, the world is severely affected by the COVID-19 pandemic. As the novel coronavirus has spread to more and more countries, measures designed to contain the disease are weighing on economic activity and are adding to the significant negative impact on growth from the steep decline of production in China, where the virus was first discovered. Initially, the virus progressed most in Asia and Europe where the probability of disruptions of production through interrupted value chains is particularly high. By now, developed and developing countries around the globe are affected by the pandemic and governments worldwide have taken wide-ranging measures as a response. Measures range from social distancing regulation and quarantine of (potentially) infected individuals to shutdown of significant parts of the economy and curfews for the whole population.

Figure 1: F-WEB Economic Conditions Index without impact of COVID-19 pandemic



Source: F-WEB survey.

The COVID-19 pandemic hits Free Zones at a time when economic sentiment had been improving. After the deterioration in economic sentiment seen during the second and third quarter of 2019, signs of improvement becoming visible in the fourth quarter were confirmed in the first quarter of 2020 (Figure 1) – at least as of early February 2020 when the most recent regular F-WEB survey was conducted. The outlook for the next three months had also become more positive at the start of the year. However, the most recent dramatic change in the global economic environment due to the COVID-19 pandemic had not yet been picked up in the survey conducted in early February 2020.

Free Zones are affected by the pandemic through various channels. First, economic activity in many countries has come to a halt due to measures taken by governments to contain the spread of the virus. These measures also affect Free Zones, especially since they are often engaged in sectors and activities where working from home is not an option. Second, health measures and high levels of uncertainty regarding the future development of the pandemic drag on consumption and investment. Recent estimates of UNCTAD (2020) based on earnings revisions of the largest multinational enterprises suggest that FDI could drop by as much as 30 to 40 percent on a global basis during 2020-2021. Third, production in Free Zones could be affected by supply chain disruption. For many goods, China lies at the heart of global value chains (GVCs) and is a major producer of intermediate inputs required for production in other countries. Due to the severe drop in industrial production and exports seen in January and February, raw materials and input goods are now missing for other stages of production. Even though there are some signs of recovery in China by now, the supply chain disruptions likely have amplified with the further spread of the pandemic. And fourth, the economic downturn could be reinforced by financial feedback loops, leading to liquidity problems in the corporate sector. In an apparent flight to safety international investors have already withdrawn a record amount of 83 billion US dollars from emerging markets since the beginning of the coronavirus crisis, according to the IMF.¹

An F-WEB Special Survey was conducted on the impact of the coronavirus pandemic on economic activity in Free Zones. The following three questions were asked between March 23, 2020, and April 3, 2020.

¹ See IMF Managing Director Kristalina Georgieva's Statement Following a G20 Ministerial Call on the Coronavirus Emergency. [Press Release No. 20/98](#) (23 March 2020).

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

- a. Not really
- b. To some extent
- c. Substantially

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

- a. Not really
- b. To some extent
- c. Substantially

3. By which channels is or will activity in your Free Zone likely be affected? (Select all that apply.)

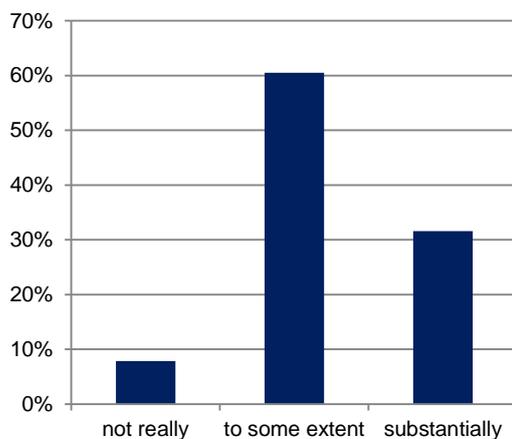
- a. Limitations to activity due to measures to contain the virus
- b. Loss of business due to drop in demand
- c. Production problems due to supply chains
- d. Deterioration in the financial environment

Representatives from 81 Free Zones in 41 countries responded. This Special Report presents the results of the F-WEB Special Survey on the Coronavirus Pandemic. In addition to a global analysis, regionally disaggregated results are also presented in order to gain a better understanding of the consequences for Free Zones in different parts of the world.

Results at the Global Level

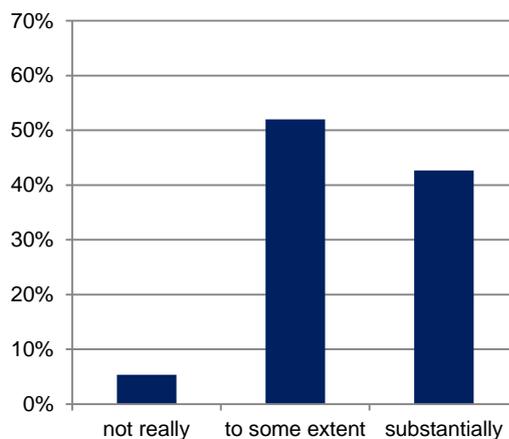
Most Free Zones worldwide are currently affected by the pandemic and expect limitations to activity to become worse in the coming months. Over 90 percent of Free Zones state that economic activity in their Free Zones is currently hampered by the spread of COVID-19 (Figure 2). While 60 percent of Free Zones report some limitations, over 30 percent report the impact of the pandemic to be severe. Only 8 percent of respondents indicate that their Free Zone is currently not really affected. Over the next few months, the impact is expected to intensify. Almost 95 percent of the participants expect to be affected by the pandemic in the future (Figure 3). Compared with the current situation, fewer Free Zones (52 percent) expect moderate consequences, while more than 40 percent see substantial negative impacts in the coming months.

Figure 2: Current degree of limitations to activity due to COVID-19 pandemic



Source: F-WEB survey.

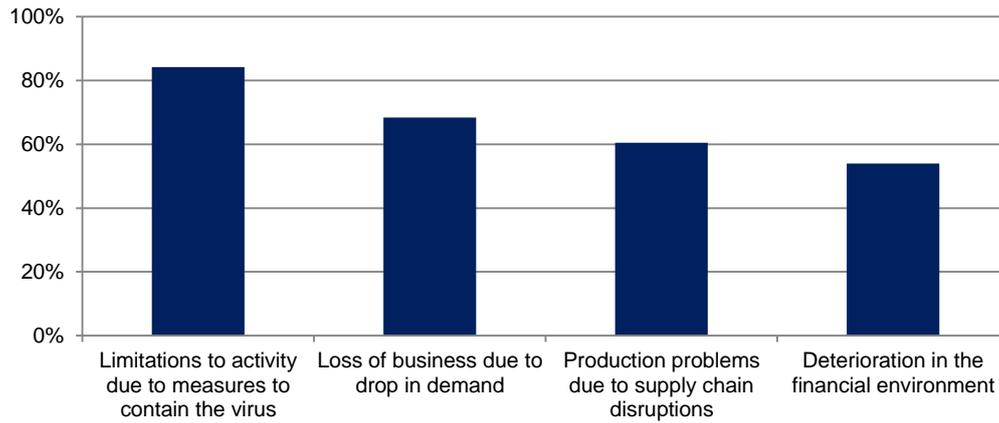
Figure 3: Expected degree of limitations to activity due to COVID-19 pandemic



Source: F-WEB survey.

Free Zones are affected by the pandemic through various channels at the same time. Almost 85 percent of participating Free Zones report that activity in their Free Zone is or will be affected by measures to contain the spread of the disease (Figure 4). 68 percent report a loss of business due to the global drop in demand while 60 percent report production problems due to disruptions of supply chains. Also a deterioration of the financial environment due to the COVID-19 crisis is affecting (or is expected to affect) a substantial share of Free Zones – 54 percent. In sum, all transmission channels of economic effects seem to be relevant for Free Zones, although to a varying degree.

Figure 4: Transmission channels for the negative effects of the COVID-19 pandemic

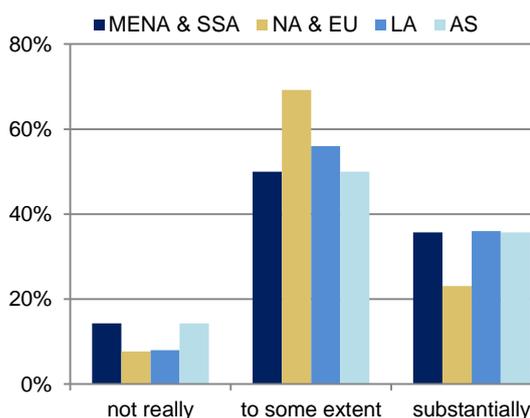


Source: F-WEB Survey.

Regional Analysis

Free Zones in all world regions are affected by the pandemic. Currently, Free Zones in all world regions report to be affected to a similar extent (Figure 5). Only in North America and Europe, Free Zones are somewhat less affected compared with other world regions, according to the F-WEB special survey. Regional heterogeneity is somewhat larger when it comes to expectations over the coming months. While almost all Free Zones independent of their location expect negative impacts of the pandemic over the coming months, the degree of expected limitations to activity varies somewhat across regions (Figure 6). In Africa and the Middle East, roughly two out of three Free Zones expect to be affected to some extent, the rest expect substantial negative consequences. In comparison, in North America and Europe as well as in Latin America a smaller share of Free Zones expects to be affected to some extent (56 and 50 percent, respectively) and a larger share (40 and 46 percent, respectively) expects substantial consequences. However, in those regions and as in Africa and the Middle East, Free Zones expecting some effects still outnumber those expecting a severe impact. This is not the case in Asia where half of all responding Free Zones expect substantial consequences.

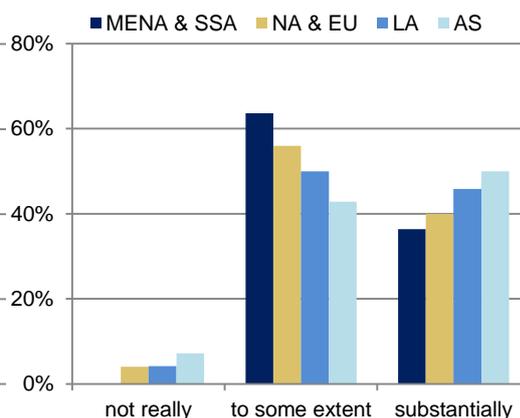
Figure 5: Current degree of limitations to activity due to COVID-19 pandemic by region



Note: Region acronyms: MENA (Middle East and North Africa), SSA (Sub-Saharan Africa), NA (North America), LA (Latin America and the Caribbean), EU (Europe), AS (Asia).

Source: F-WEB survey.

Figure 6: Expected degree of limitations to activity due to COVID-19 pandemic by region



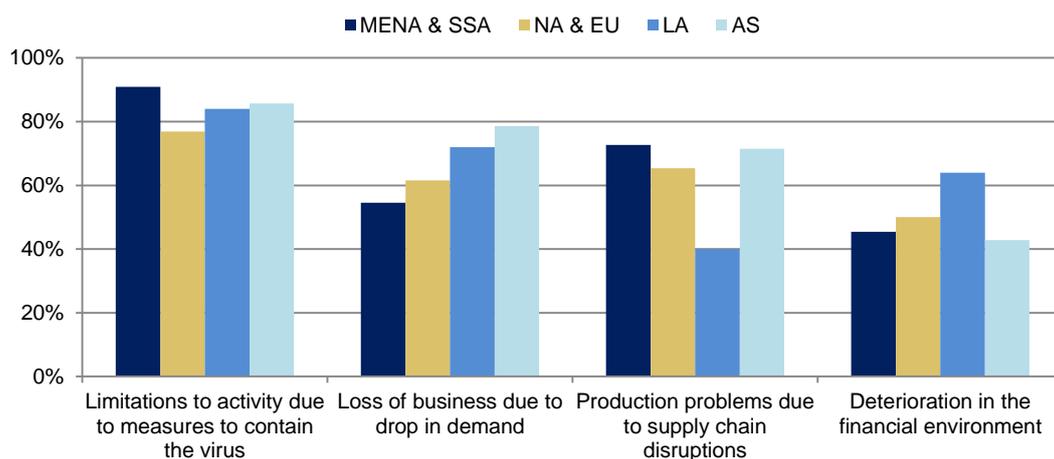
Note: Region acronyms: MENA (Middle East and North Africa), SSA (Sub-Saharan Africa), NA (North America), LA (Latin America and the Caribbean), EU (Europe), AS (Asia).

Source: F-WEB survey.

Free Zones in all regions worldwide are similarly affected by measures to contain the virus. Across world regions, between 77 and 91 percent of Free Zones report production limitations due to measures to contain the virus. The share of Free Zones affected via this channel is highest in the Middle East and Africa and lowest in North America and Europe.

Depending on their region of location, Free Zones are affected by the pandemic to a different extent via the demand, supply and financial channels. Across regions, a majority of Free Zones reports to be affected via the demand channel (Figure 7). The share of Free Zones reporting a loss of business due to a drop in global demand is highest in Asia (79 percent), followed by Latin America (72 percent), North America and Europe (62 percent), and Africa and the Middle East (55 percent). In all regions but Latin America, Free Zones are affected to a similar extent via the supply and the financial channel. Thus, between 65 and 73 percent of Free Zones report to face production problems due to supply chain disruptions and between 43 and 50 percent report consequences due to the deterioration in the financial environment. Latin America, however, is the only region where the deterioration in the financial environment is regarded as a transmission mechanism by more Free Zones (64 percent) than supply chain disruptions (40 percent).

Figure 7: Transmission channels for the negative effects of the COVID-19 pandemic



Note: Region acronyms: MENA (Middle East and North Africa), SSA (Sub-Saharan Africa), NA (North America), LA (Latin America and the Caribbean), EU (Europe), AS (Asia).

Source: F-WEB Survey.

Concluding Remarks

The F-WEB Special Survey provides first evidence how Free Zones around the globe are affected by the coronavirus pandemic via different channels. While most Free Zones around the globe already experience negative effects, expectations are that limitations to activity become even worse in the coming months. Measures to contain the spread of the disease are currently the main transmission channel of negative economic effects. However, a majority of Free Zones is also hit by the drop in demand, supply chain disruptions as well as the deterioration in the financial environment attributable to the COVID-19 crisis.

The next regular F-WEB survey scheduled for May will provide further insights into the impacts on the Free Zones community. The regular F-WEB questions on current and expected economic situation, as well as the questions on detailed dimensions of economic activity including turnover, investment, employment and profitability, are well suited to capture the effects of the pandemic on Free Zones. In addition, special questions on the COVID-19 pandemic will again be asked. By May, the economic consequences for individual Free Zones will also be clearer. Those who are registered on our F-WEB email list will receive an invitation for participation in May. 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](#).