

Free Zones World Economic Barometer

F-WEB NOTE 2018-Q1

The World Free Zones Organization, in cooperation with the Kiel Institute for the World Economy, has launched the Free Zones World Economic Barometer (F-WEB) a quarterly, survey-based sentiment indicator designed to gauge current momentum and future trends of economic activity in free zones around the globe. The results of the first quarter 2018 round, conducted in late March and early April, suggest that activity in the free zones is on a firmly increasing trend. 51 percent of surveyed free zones describe their current economic situation as good, compared to only 5 percent reporting poor conditions, yielding an F-WEB indicator of current economic situation of 46. Expectations for economic conditions in three month time are even more optimistic, with the F-WEB indicator of the expected economic situation at 62.

The F-WEB questionnaire consists of a set of questions related to economic performance in the free zones that will be asked in every round in order to establish a history of results that can be used to extract information. In addition a small number of questions is included 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 one single number. 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 the first round of F-WEB. A more extensive discussion of the results and a description of the questionnaire can be found in the first World Free Zones Economic Outlook (WFZEO), produced by the World Free Zones Organization in cooperation with the Kiel Institute for the World Economy.

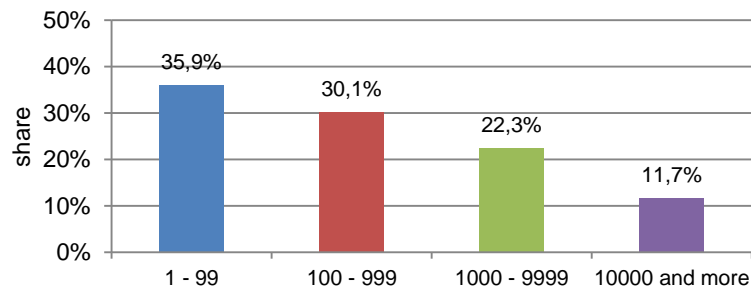
F-WEB 2018-Q1 RESULTS

General information

The first quarter 2018 round is the first round of the newly established F-WEB. It was conducted between March 15 and April 9, 2018. 103 participants completed and submitted the questionnaire, a number we hope can be raised in coming rounds of the survey.

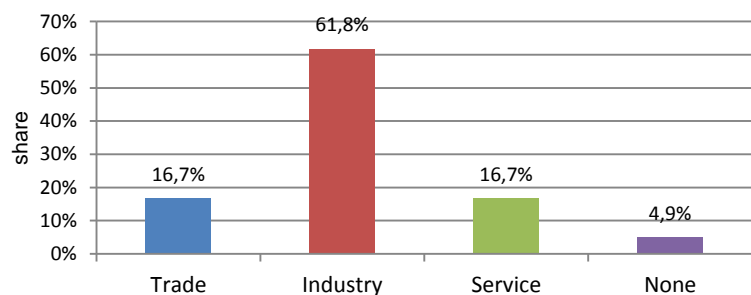
The number of respondents is decreasing with the size of the free zone.

Distribution of participating freezones by number of employees



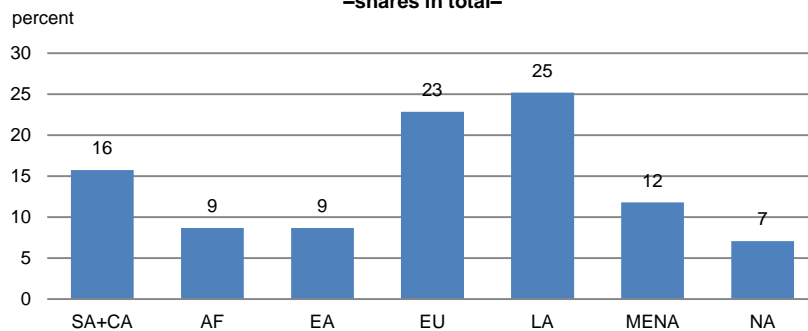
More than 60 percent of the free zones responding had a focus on industrial activity. Service and trade each account for 1/6 of participating free zones. Only 5 percent of the free zones have no clear focus on a specific sector.

Distribution of participating free zones by dominant sector



The largest number of participants came from free zones in Latin America and Europe which account for 25 percent and 23 percent of all responses, respectively. Free zones from South Asia and Central Asia together are next in terms of numbers constituting a share of 16 percent of the sample, followed by the Middle East and North Africa (MENA) accounting for 12 percent, East Asia and Africa (9 percent each) and North America (6 percent). Compared to the regional distribution of free zones in the real world we have to note that especially East Asia is so far strongly underrepresented in the survey, which will be an issue to improve upon in the coming rounds.

**F-WEB participants by region
-shares in total-**



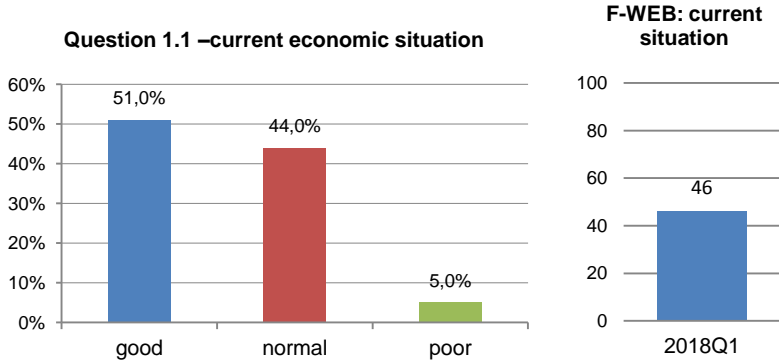
Region acronyms: SA (South Asia), CA (Central Asia), AF (Subsaharan Africa), EA (East Asia), EU (Europe), LA (Latin America), MENA (Middle East and North Africa), NA (North America).

Current economic situation

General situation

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

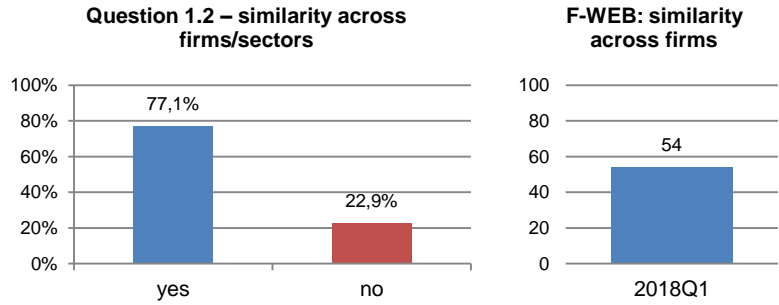
According to the answers, the majority regards the situation as good (51 percent), only 5 percent are experiencing a poor situation. The resulting F-WEB indicator value for this question is 46.



Structural Pattern

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)?”

A large majority (77 percent) of free zones reports that all firms or sectors, respectively, in their free zone experience similar economic situations; in less than 1 of 4 free zones the situation of sectors/firms in the free zone is substantially diverse. The F-WEB indicator for similarity of economic conditions takes the value 54.

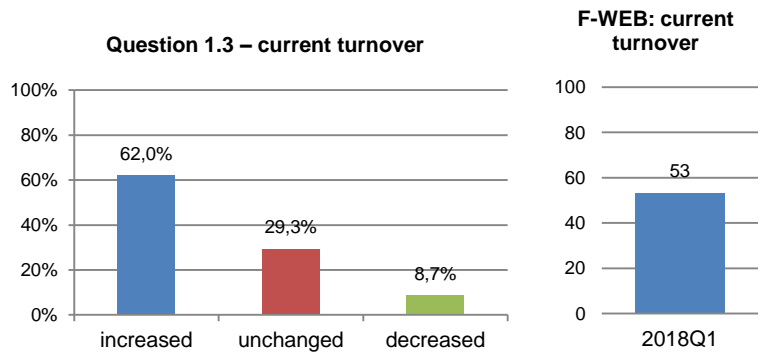


Detailed dimensions

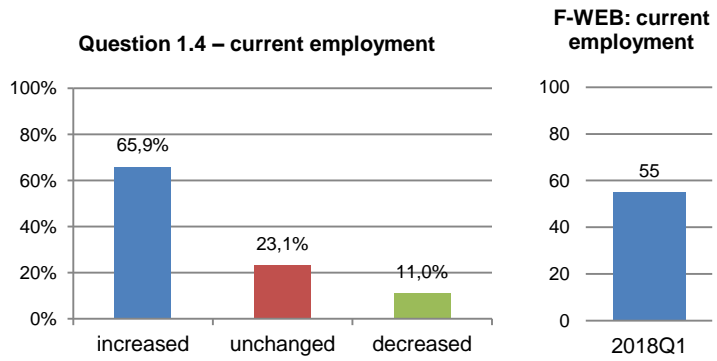
1.3 – 1.6 These questions relate to the recent developments in more detailed economic dimensions: “Compared to the previous three months and taking into account the usual seasonal pattern...” how has developed turnover, employment, investment and profitability, respectively?

Generally, there is a large majority of free zones reporting positive developments, no more than 10 percent of respondents observed deteriorating activity.

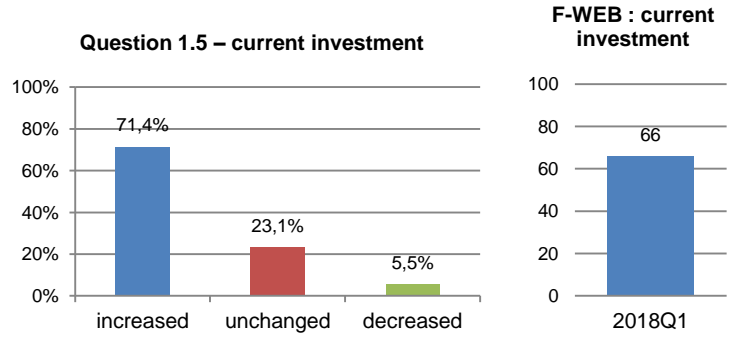
In the case of turnover, 62 percent of respondents saw an increase with respect the previous 3 months, close to 30 percent little change, and less than 9 percent reported decreasing business. The F-WEB indicator value for current turnover in 2018Q1 is 53.



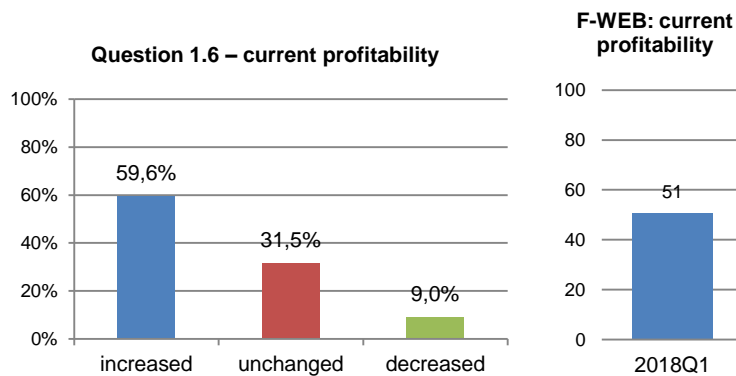
Employment has been increased compared to three months before in two thirds of the free zones, a larger share than in the case of turnover. But at the same time also the share of free zones reporting negative evolution is higher, 11 percent have reduced employment. As a result, the F-WEB indicator for current employment at 55 is only slightly higher than for turnover.



The assessment of the recent evolution of investment is particularly upbeat, with 71 percent of free zones reporting increasing investment and only 5 percent reporting cutbacks. The F-WEB indicator for current investment stands at 66.



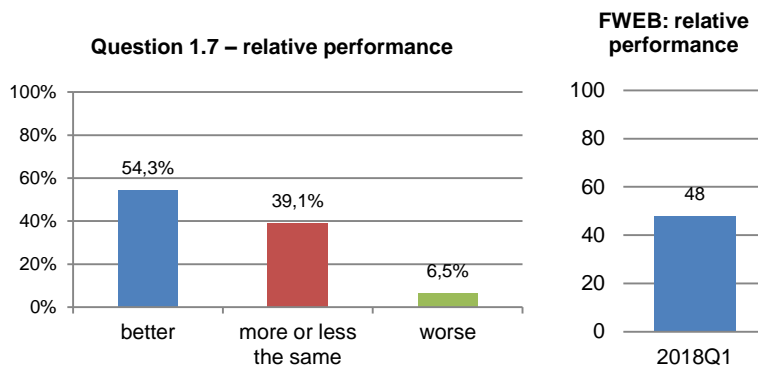
Profitability has increased over the past three months in close to 60 percent of the free zones. A relatively large share of free zones (31.5 percent) reports unchanged conditions with respect to this element, whereas the share of negative answers is again low, at 9 percent. The resulting F-WEB indicator for current profitability is 51.



Relative assessment

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

According to the answers to this question, most free zones (54 percent) have fared better over the past three months than their host countries in general. Only 6.5 percent underperformed with respect to the rest of the country. The F-WEB indicator for relative performance of free zones comes in at 48.

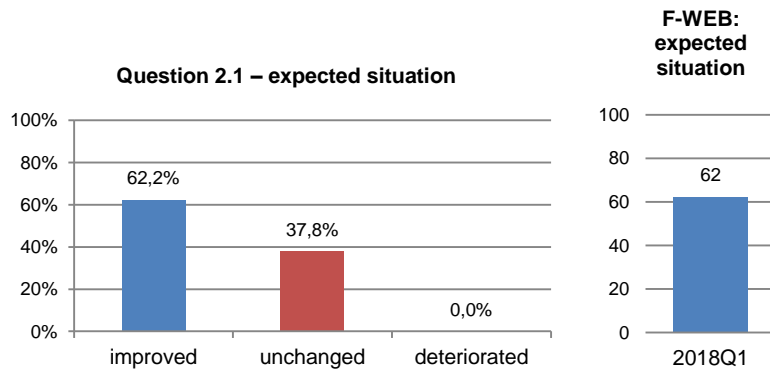


Expectations

General situation

2.1 “Overall, compared to the current situation, how do you expect economic conditions in your Free Zone over the next 3 months?”

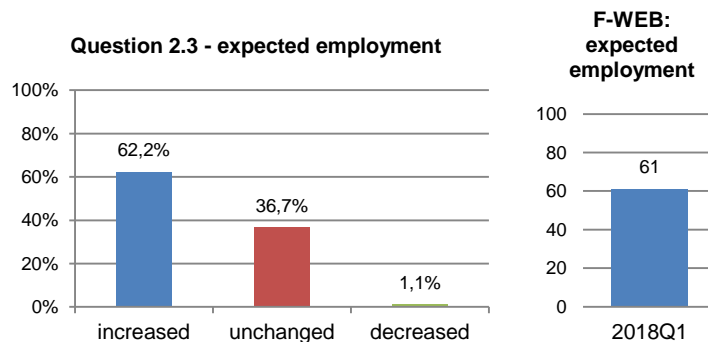
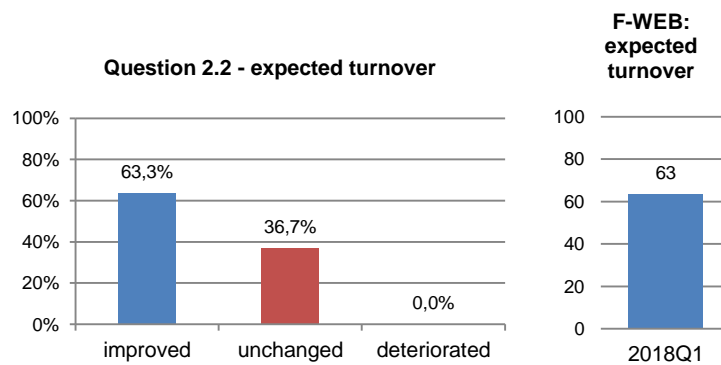
A majority of 62 percent of free zones expects improvement of their economic situation over the next three months. Almost 38 percent expect no change; there is no free zone in the survey that expects its situation to worsen in the near future. The F-WEB indicator for the expected situation stands at 62.

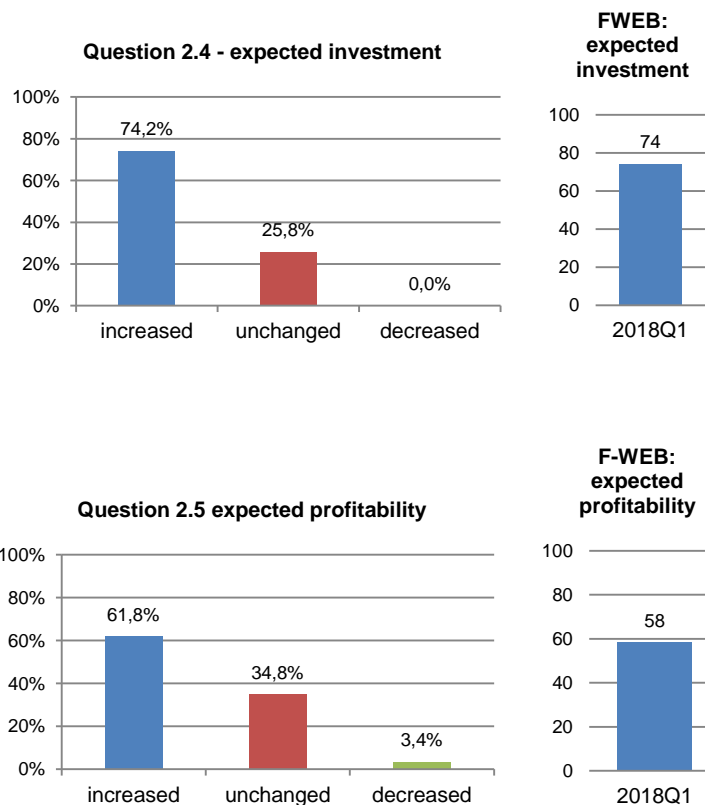


Detailed dimensions

2.2–2.5 These questions 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” ... with respect to turnover, employment, investment and profitability, respectively?

The expectations of respondents with respect to turnover, employment, investment and profitability over the next three months are optimistic on balance. More than 60 percent of free zones expect increases of turnover (63.3 percent), employment (62.2 percent) and profitability (61.8 percent), and even 74 percent expect higher investment. Almost no free zone is particularly worried about the outlook in the very short-term. The F-WEB indicator value for expected turnover is 63, the respective value for expected employment is 61 and for expected profitability is 58. The F-WEB indicator for expected investment has the value of 74 in the first quarter in 2018Q1.



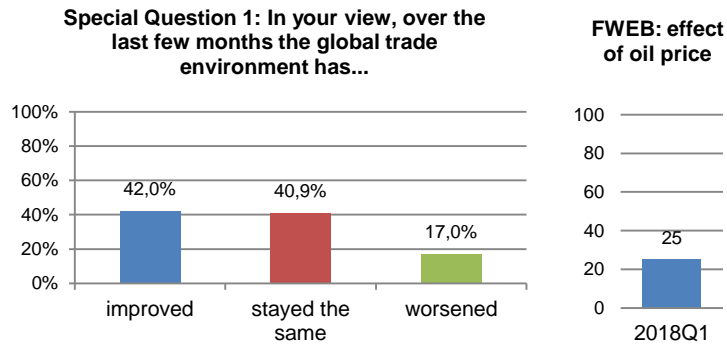


Special focus questions

In this section of the questionnaire we ask questions regularly, but at a lower than quarterly frequency, or spontaneously in response to specific economic or political developments that may have an impact on free zones. In the first round two special questions were asked.

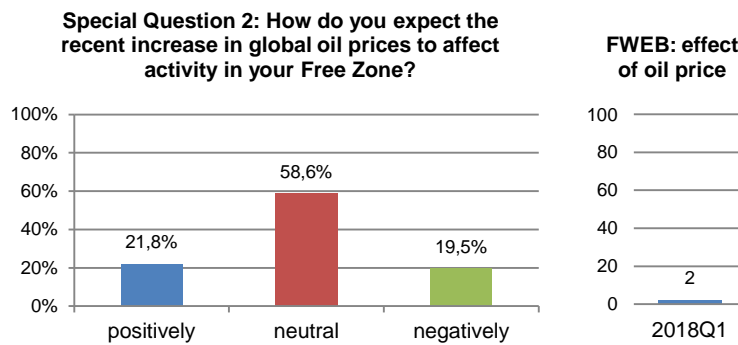
Special question 1: “In your view, over the last few months the global trade environment has improved, stayed the same, or worsened?”

This question was asked against the background of announced plans of the US government to introduce tariffs on steel and aluminum and a number of imported goods from China and threats of retaliatory measures by Chinese and European authorities. The impact of these trade conflicts on free zones seems to be limited, however. Only 17 percent of F-WEB participants think that the global trade environment has deteriorated over the last few months. By contrast 42 percent think that the global trade environment has improved, probably a reflection of the observed recent increase in world trade volumes. 40 percent of respondents see the global trade environment unchanged.



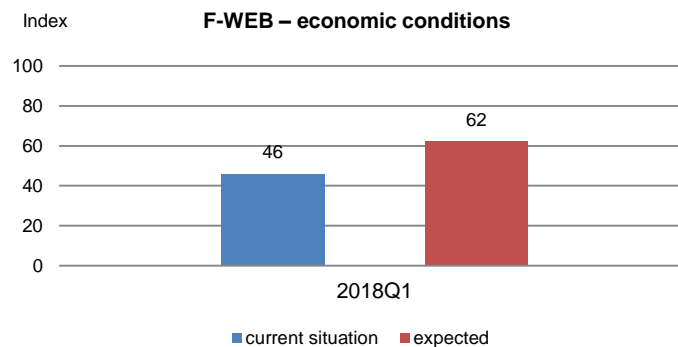
Special question 2: “How do you expect the recent increase in global oil prices to affect activity in your Free Zone?”

With oil prices having increased from around 50 US-dollar per barrel (Brent) in autumn 2017 to close to 70 dollar by the end of March, we were interested in the effect this might have on free zones. According to the answers to the questionnaire, the impact is divided, with an almost even share of close to 20 percent of free zones expecting positive or negative effects, respectively. The remaining almost 60 percent of free zones do not expect economic activity to be particularly affected by higher oil prices. The resulting value of the F-WEB indicator is 2.

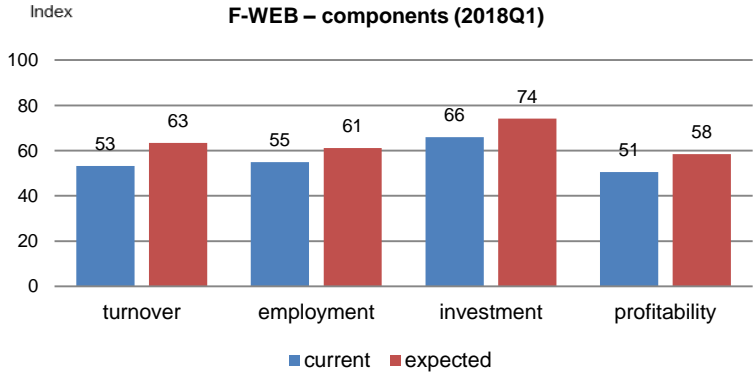


Summary

In 2018Q1, the newly launched F-WEB survey starts on an optimistic note. On balance, the participants assess current conditions as having improved from three months before, with the F-WEB index of current economic conditions at 46. The balance of positive answers over negative answers is even larger, when it comes to expectations for the immediate future. The F-WEB indicator value for expected economic conditions is even higher at 62.



A closer look at the various elements of business activity reveals that free zones reporting improvements of the current situation compared to the past three months in turnover, employment, investment and profitability, respectively, uniformly outnumber by a large margin those reporting deteriorations. Again the outlook for the next three months is even better, as the respective F-WEB indicators for the expected developments are uniformly higher. Free zones are especially optimistic about investment, which nicely fits into the global picture of an investment driven upturn in the world economy.



The full amount of information contained in these indicator values can of course only be judged 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.

The answers of F-WEB participants 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. Having in mind the limitations of a sometimes small number of participants in some categories, the disaggregation with respect to regions serves as an example of potential insights from this instrument rather than a serious piece of analysis.

