

# Free Zones World Economic Barometer

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## F-WEB NOTE 2018-Q3

**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 2018Q3 round, conducted in the first half of September, suggest that economic activity in free zones worldwide has lost momentum. With 61 percent, the majority of free zones regard current economic performance as normal. 32 percent evaluate their situation as good and 7 percent have experienced poor conditions, resulting in an F-WEB indicator of current economic conditions of 25, down substantially from 54 in the previous quarter. At the same time, the outlook for the immediate future continues to be highly optimistic. The F-WEB indicator value for expected economic conditions remains unchanged at a value of 64.**

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. In addition, a small number of special questions is 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.

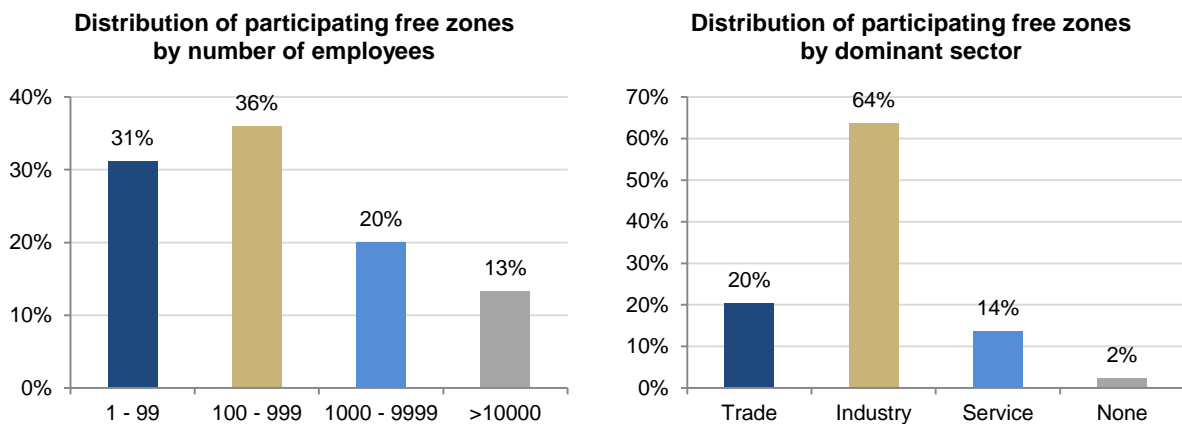
The aim of the F-WEB is to condense the available information into easily interpretable indicators. To this end, positive answers get the value of 100 and negative answers the value of -100. Neutral answers get the value of 0. Our indicator value is then calculated as the aggregate value of received 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 2018Q3, the third round of F-WEB. An extensive 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-Q2 RESULTS

## GENERAL INFORMATION

The 2018Q3 survey is the third round of the newly established F-WEB. It was conducted between September 3 and September 18, 2018. Representatives of 53 free zones in 33 countries participated in the survey. The number of respondents was relatively evenly spread over free zones with less than 100 employees, zones with 100 to 999 employees and zones with over 1000 employees with roughly one third of questionnaires answered by every subgroup. Compared to the previous round of F-WEB, this reflects an increase in the share of medium-sized free zones, whereas the share of small free zones with up to 99 employees decreased.

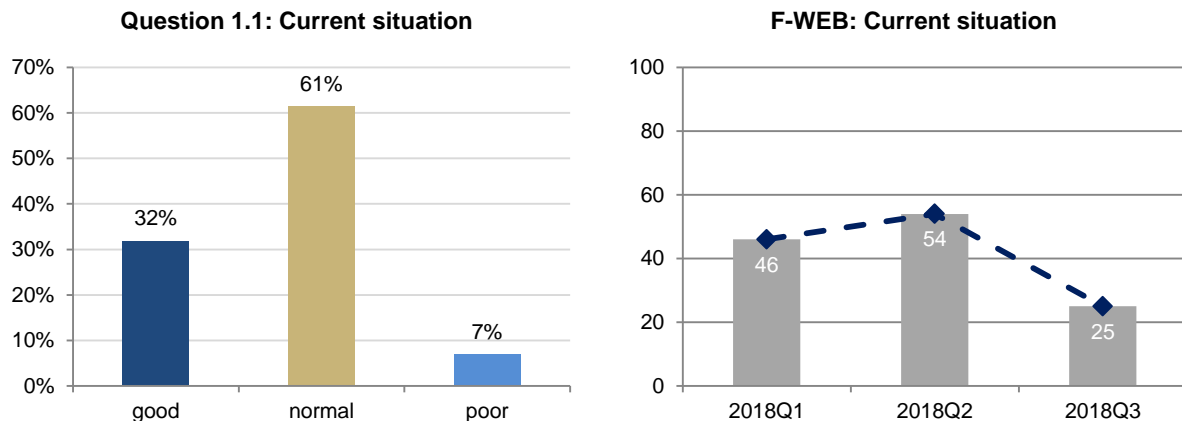


More than 60 percent of free zones that participated focus on industrial activities. 20 percent of the responding free zones report trade as their dominating sector; 14 percent focus on services. Only a very small number of free zones has no clear focus on a specific sector.

## CURRENT ECONOMIC SITUATION

### General situation

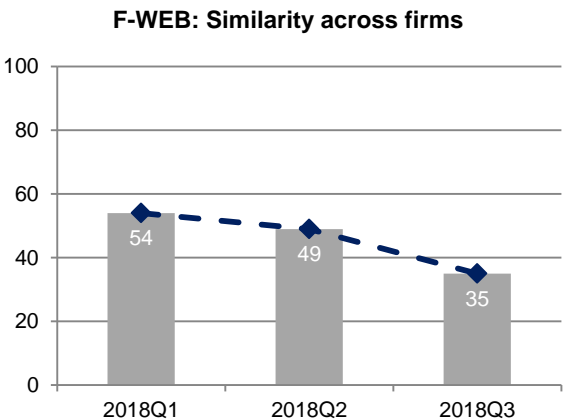
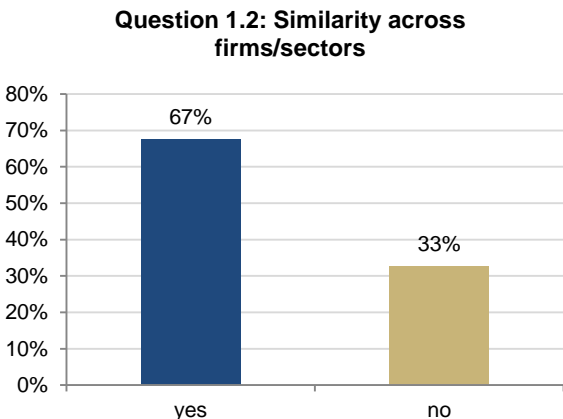
**Question 1.1: “Overall, how do you assess the current economic situation in your Free Zone, taking into account the usual seasonal pattern?”**



The majority of free zones regard the current economic situation as normal (61 percent). 32 percent evaluate the situation as good and 7 percent are experiencing poor conditions. The corresponding F-WEB indicator value is 25 which is a notable deterioration compared to the situation in the last quarter. In the 2018Q2 round, the share of free zones reporting a better than normal economic situation was considerably higher at 56 percent, while only 2 percent reported a poor business situation.

**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)?”**



A majority of free zones report that all firms or sectors, respectively, in their free zone experience similar economic situations (67 percent). One in three free zones, on the other hand, describe the situation of sectors/firms in the free zone as substantially diverse, compared to one in four free zones in Q2. The F-WEB indicator for similarity of economic conditions across firms/sectors takes the value 35 and is clearly below the Q2 value of 49.

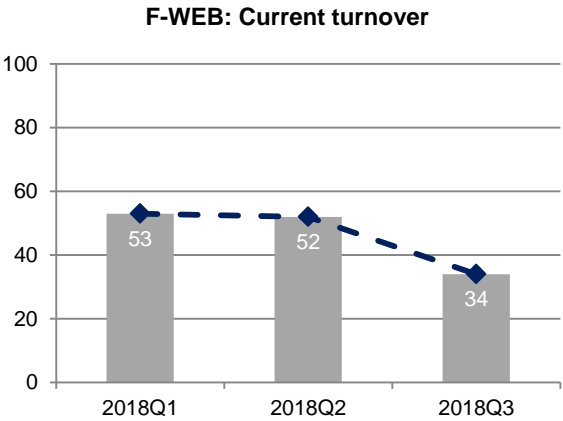
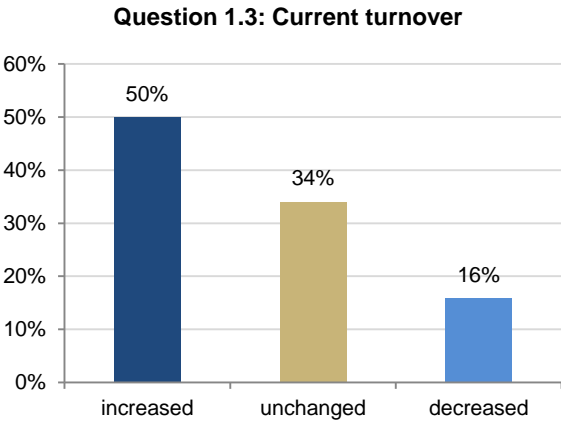
**Detailed dimensions**

**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?**

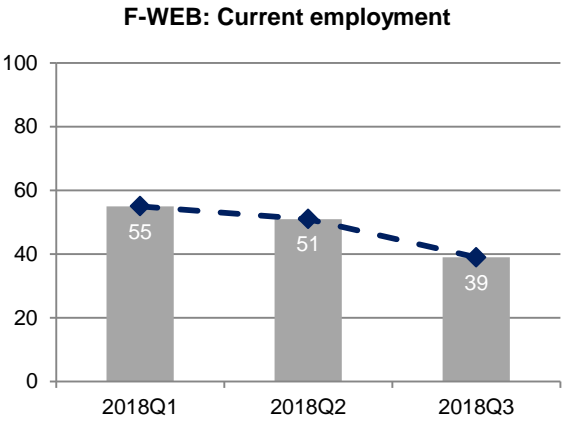
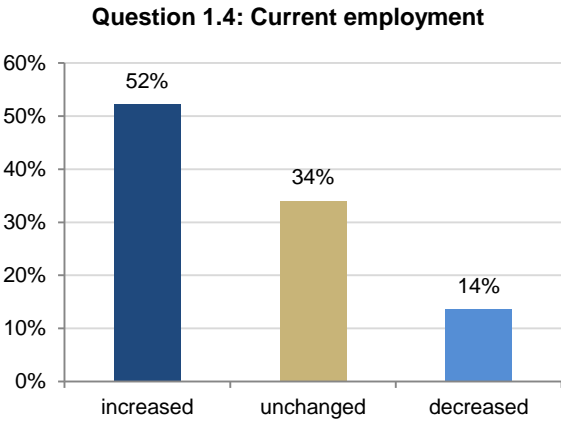
In general, around half of the free zones report positive economic developments regarding turnover, employment, investment, and profitability over the last three months. At the same time, up to 16 percent experienced worse economic performance in the last quarter compared to the previous three months. Roughly one third of the free zones report no change.

The responses translate into – for most economic dimensions substantially – lower values of the corresponding F-WEB indicators compared with the first half of 2018 when respondents evaluated performance more positively on all dimensions. The decrease in the F-WEB indicators were especially pronounced for profitability (from 63 in Q2 to 34) and turnover (from 52 in Q2 to 34), whereas investment was least affected (62 in Q2 compared to 55).

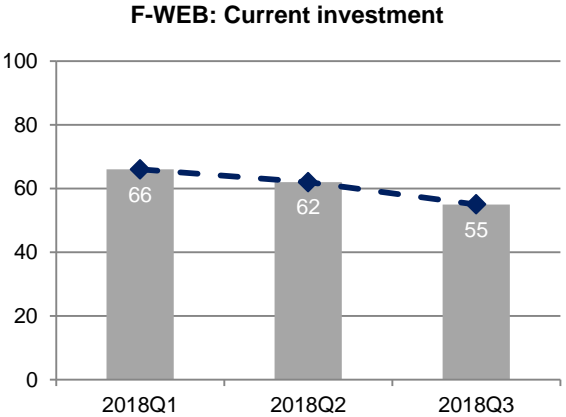
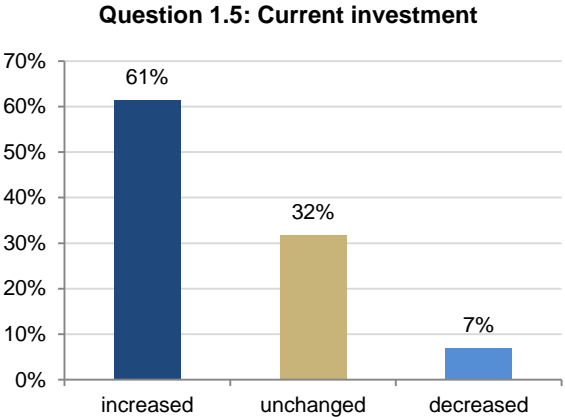
In the case of **turnover**, 50 percent of respondents saw an increase with respect to the previous three months, 34 percent experienced hardly any change, and 16 percent report decreasing business activity. The corresponding F-WEB indicator value for current turnover in 2018Q3 is 34, and thus substantially lower than in the first half of 2018.



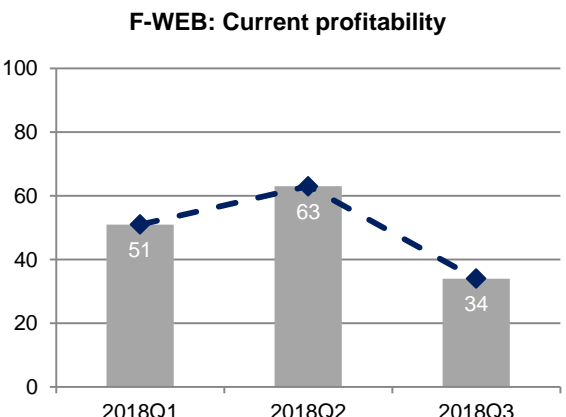
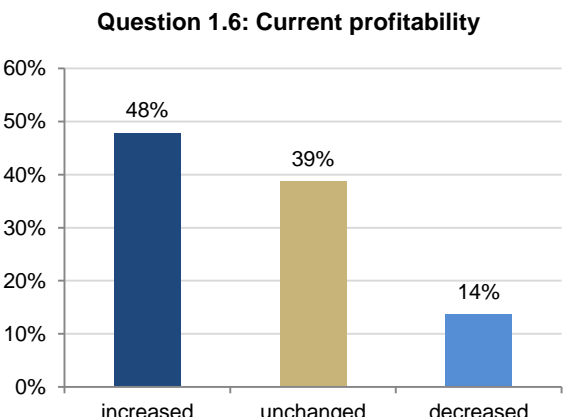
**Employment** has increased compared to the previous three months in 52 percent of the free zones, less than in Q2, and similar to recent turnover development. The share of free zones reporting negative developments in terms of employment is slightly lower compared to the result for turnover, at 14 percent. As a result, the F-WEB indicator for current employment at 39 is somewhat higher than the F-WEB for turnover. Still, it has also decreased markedly compared to the first half of 2018.



The assessment of the recent evolution of **investment** remains more positively compared to the other dimensions of economic performance, with 61 percent of free zones reporting increasing investment (similar to Q2 with 62 percent). However, while in the last round of F-WEB no free zone reported cut-backs, 7 percent of the participants experienced a decrease in investment in Q3. Therefore, the F-WEB indicator for current investment has declined to 55 from 62 in the previous quarter.

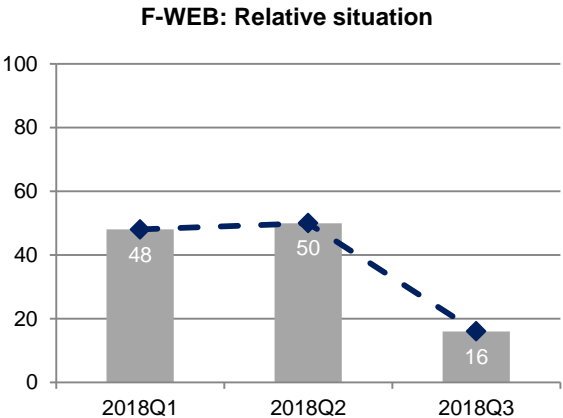
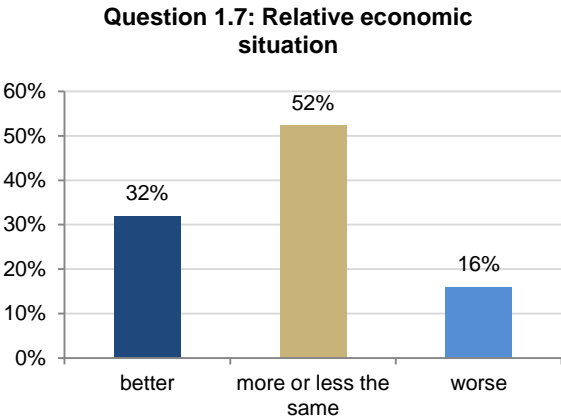


**Profitability** has increased over the past three months in almost half of the free zones, whereas 2/3 had reported profitability gains in the last round of F-WEB. 39 percent of participants report unchanged performance regarding this dimension. The share of negative answers is at 14 percent and has thus increased substantially from 2 percent in Q2. The resulting F-WEB indicator for current profitability has decreased sharply from 63 in Q2 to 34 in Q3 and is the business dimension that saw the strongest deterioration.



**Relative assessment**

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

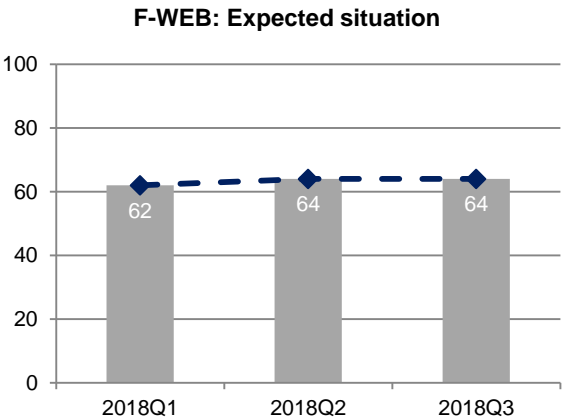
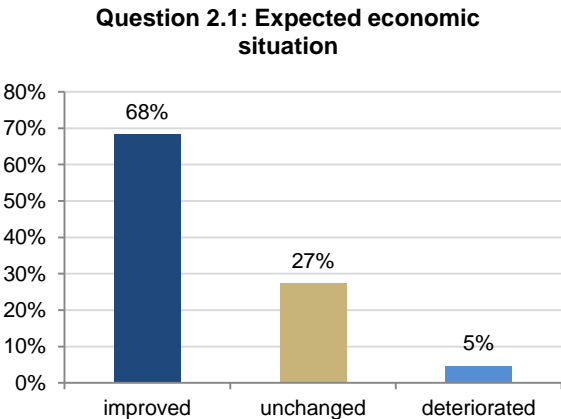


According to the answers to Question 1.7, most free zones (52 percent) have faced a similar economic situation in the past three months as their host countries in general. While 32 percent outperformed with respect to the rest of the country, 16 percent of free zones report a more negative economic situation. The resulting F-WEB indicator for relative performance of free zones is at 16 and thus – similar to the indicators of economic performance – substantially lower than in the first half of 2018.

**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?”**

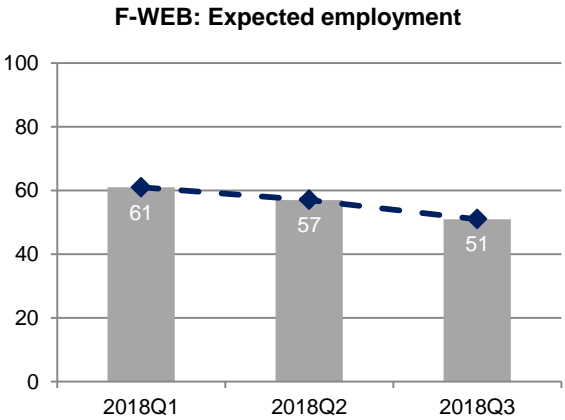
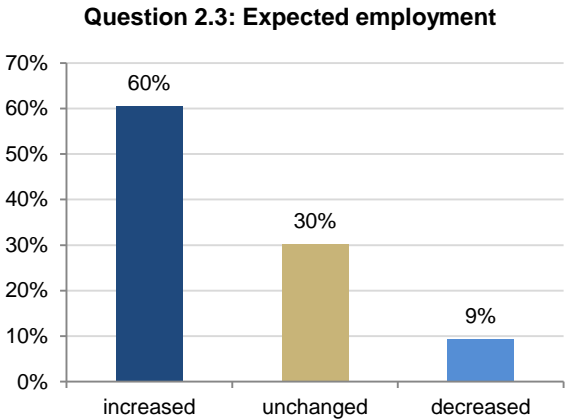
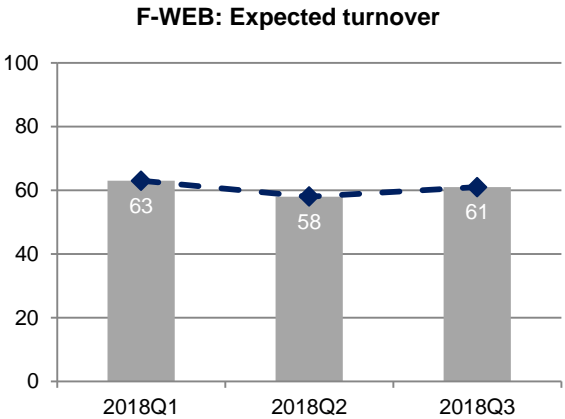
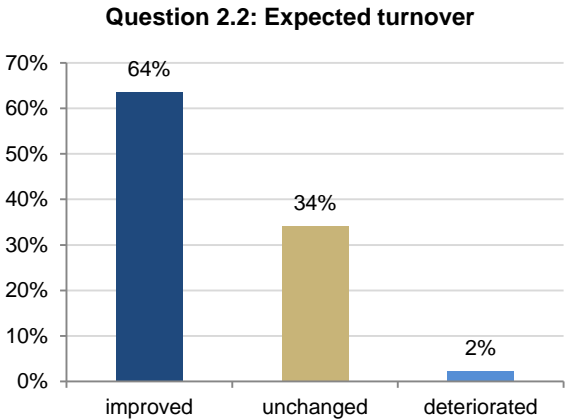


Despite current economic performance being less positive, expectations on future business conditions and performance are overall similar to the last round of F-WEB and remain optimistic. A majority of 68 percent of free zones expect their economic situation to improve over the next three months. Only 5 percent anticipate deteriorating conditions. The F-WEB indicator for the expected situation is stable at a value of 64.

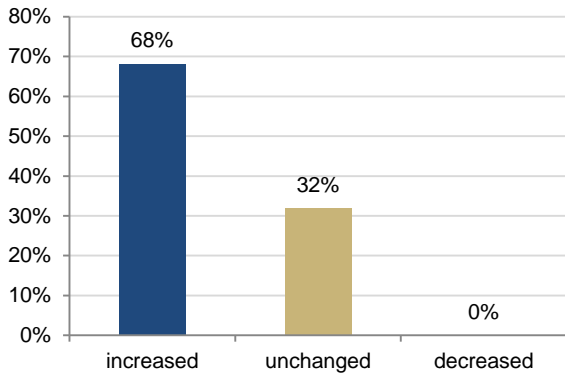
**Detailed dimensions**

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?

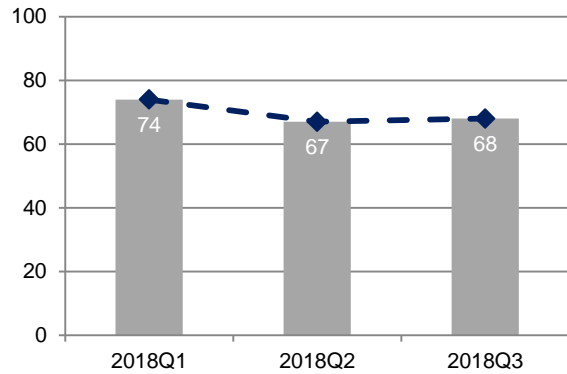
The outlook of respondents with respect to turnover, employment, investment, and profitability over the next three months remains highly optimistic on balance. Around 60 percent of respondents have positive expectations on each economic dimension. The share of optimistic answers is particularly high for investment, at 68 percent. Almost no free zones expect deteriorating economic conditions in the near future. An exception is the employment dimension where 9 percent of respondents have a negative outlook. All in all, the F-WEB indicators for expected turnover and investment increased slightly to 61 and 68, respectively, while the indicators on expected employment and profitability both fell by 6 points to 51 and 56, respectively.



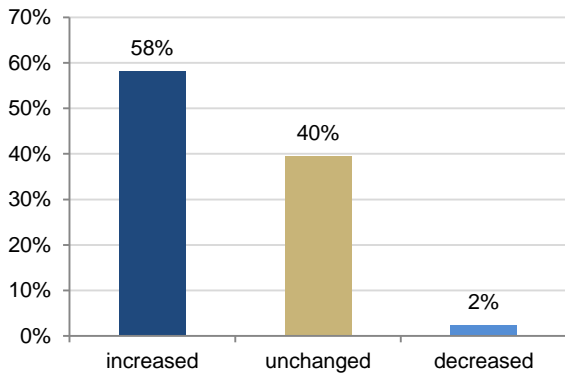
**Question 2.4: Expected investment**



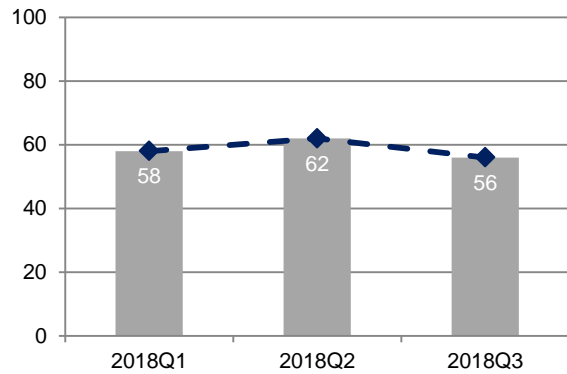
**F-WEB: Expected investment**



**Question 2.5: Expected profitability**



**F-WEB: Expected profitability**



**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 2018Q3 F-WEB survey, two special questions were asked.

**Special Question 1: How do you expect trade tensions between several countries and the United States to affect business in your free zone?**

Under President Trump US trade policy has taken a protectionist turn. Earlier this year, the US administration raised safeguard tariffs on washing machines and solar panels followed by duties on steel and aluminum imports due to alleged threats to national security. The focus of the protectionist measures, however, has so far clearly been China, with which the US runs the largest bilateral trade deficit. In early July, tariffs of 25 percent on US imports from China worth roughly 50 billion dollars came into effect; the Chinese authorities retaliated on a similar scale. Most recently, the trade conflict escalated further with the US having started to impose duties on another \$200bn of Chinese imports. China hit back at a lower scale, announcing tariffs on \$60bn on US imports. Moreover, President Trump has also threatened the European Union (EU) with higher tariffs and the US Commerce Department is currently reviewing whether imports on automobiles and car parts constitute a threat to



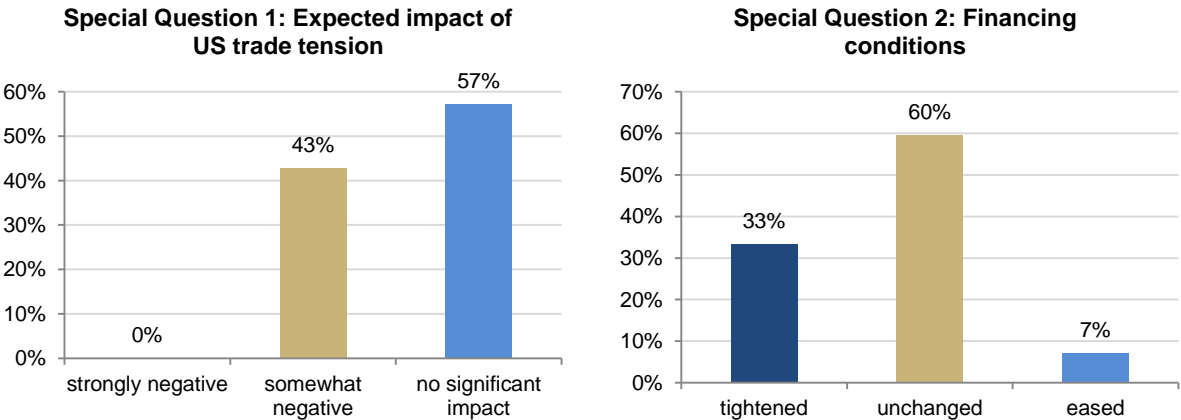
national security and are thus eligible for tariffs. An escalation of the conflict into a global trade dispute therefore poses a major risk to the world economy and could impact the performance of free zones worldwide.

According to the results of Special Question 1, while the majority of free zones do not expect a significant impact on their business activity, the trade tensions are believed to affect a substantial number of free zones. 43 percent of respondents expect a somewhat negative effect of the trade tensions between the US and other countries, in particular China. So far, no free zone anticipates strong detrimental consequences of the rise in protectionism.

**Special Question 2: How have financing conditions for businesses in your free zone developed over the past six months?**

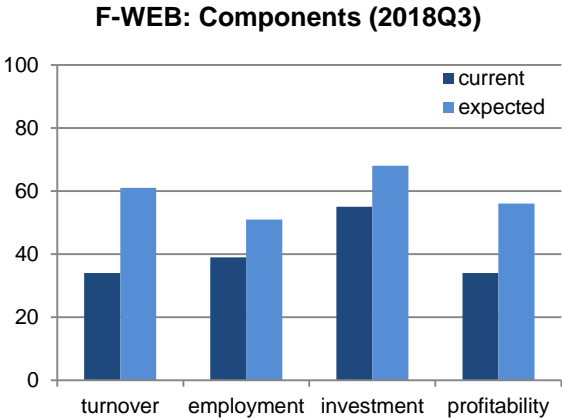
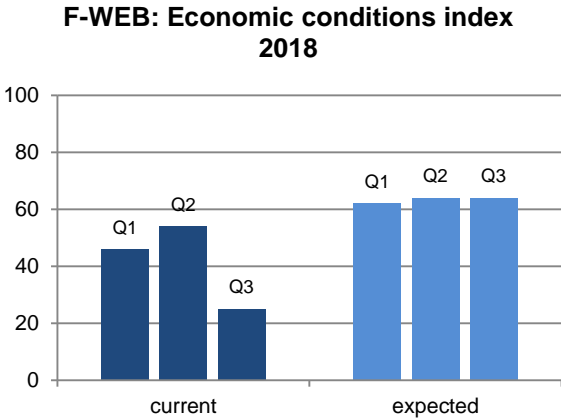
Recently, emerging and developing economies have been facing challenges as financial conditions have tightened. The reason is that interest rates in the US are rising faster than expected due to an acceleration of the US economy on the back of additional fiscal stimulus in a situation when inflation is already close to its target level and rising. While the US central bank has started to raise policy rates from zero already at the end of 2015, the pace of tightening has increased. The Fed Funds Rate will probably rise to around 3 percent by the end of 2019. Rising US interest rates have led to a stronger US-dollar and tighter financial conditions also in other parts of the world. Most recently, the currencies of emerging economies have come under pressure as investors have withdrawn funds. Countries with high borrowing needs, large dollar-denominated debt and a fragile macroeconomic environment are particularly vulnerable to a tightening in financial conditions and face the risk of high capital outflows.

The responses to Special Question 2 show that around one in three free zones have experienced a tightening in financing conditions over the past six months. The majority – 66 percent – has not seen any change, and 7 percent even report an easing of financing conditions. Compared with the Q2 F-WEB Special Question on the expected impact of monetary tightening in the US, where only 21 percent anticipated negative effects, the actual development of financing conditions over the past six months are evaluated more negatively. However, a direct comparison between expectations and outcome is difficult in this case due to the broader focus of the Special Question in this round of F-WEB.



**SUMMARY**

In 2018Q3, the F-WEB survey indicates that economic activity in free zones worldwide has lost momentum. Thus, it paints a substantially less positive picture compared with the F-WEB indicators of the first half of 2018. The majority of free zones regard their current economic situation as normal (61 percent), while 32 percent evaluate it as good and 7 percent report poor performance. This results in an F-WEB indicator value of 25 which is substantially lower than in the last round of F-WEB in which the indicator was at 54 (2018Q1: 46). The results of the Special Questions suggest that tighter financing conditions faced by around one third of the free zones over the past six months might explain part of this development. At the same time, the outlook for the immediate future remains optimistic suggesting that the apparent current slowdown in economic activity is perceived as being temporary. The F-WEB indicator value for expected economic conditions is unchanged at 64.



A closer look at the various elements of business activity – i.e. turnover, employment, investment, and profitability – reveals that economic performance has worsened across all dimensions, most notably regarding profitability and turnover. Nevertheless, free zones reporting improvements of the current situation compared with the previous three months still outnumber by a large margin those reporting deteriorations and the outlook for the next three months, having remained largely unchanged, is better than current developments for all performance indicators.