

# Free Zones World Economic Barometer

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## F-WEB NOTE 2019-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) 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 around the globe. The results of the 2019Q1 round, conducted in the second half of February, suggest that economic conditions in free zones worldwide have improved compared to the previous three months in the second consecutive quarter. 56 percent of the free zones participating regard their current economic performance as good, up from 50 percent at the end of 2018. 39 percent evaluate the current situation as normal, while only 5 percent experience poor conditions. This translates into an F-WEB Economic Conditions Index of 51, up from 44 in 2018Q4. These results are reflected in the corresponding F-WEB Economic Conditions Index of 51, up from 44 in 2018Q4 and substantially above the value of 25 observed in 2018Q3, reaching again a similar level as seen in the first half of 2018. At the same time, expectations regarding future economic conditions remained largely unchanged compared to the previous quarter and below the expectations seen in the first three rounds of F-WEB.

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.

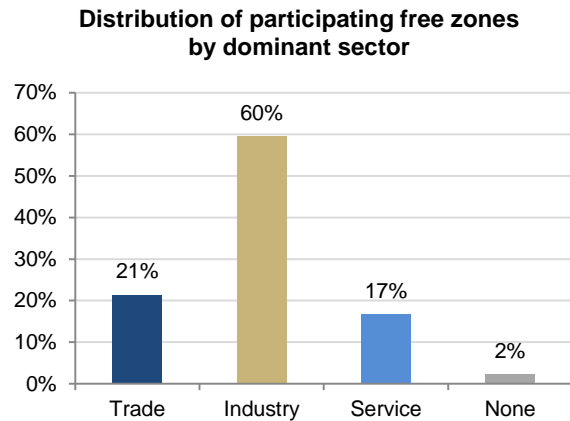
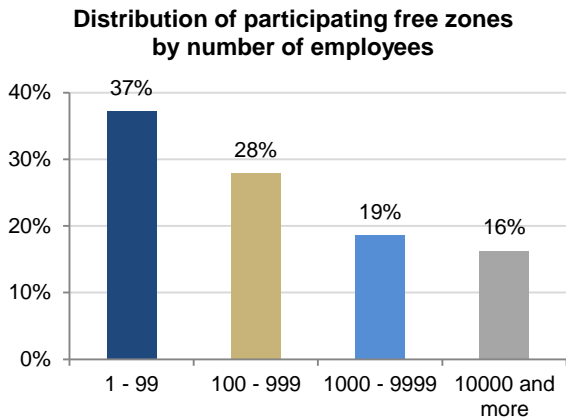
The aim of the F-WEB is to condense the available information into easily interpretable indicators. To this end, positive answers get the value of 100 and negative answers the value of -100. Neutral answers get the value of 0. Our indicator value is then calculated as the aggregate value of received 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 2019Q1, the fifth round of F-WEB. An extensive description of the questionnaire can be found in the first World Free Zones Economic Outlook produced by the World Free Zones Organization in cooperation with the Kiel Institute for the World Economy.

# F-WEB 2019-Q1 RESULTS

## GENERAL INFORMATION

The 2019Q1 survey is the fifth round of the newly established F-WEB. It was conducted between February 11 and February 26, 2019. Representatives of 59 free zones in 36 countries worldwide participated in the survey. Similar to the 2018Q4 round of the F-WEB, the majority of responses (65 percent) came from free zones with less than 1,000 employees. 19 percent of participating free zones have between 1,000 and 9,999 employees and 16 percent report more than 10,000 people working within their zone.

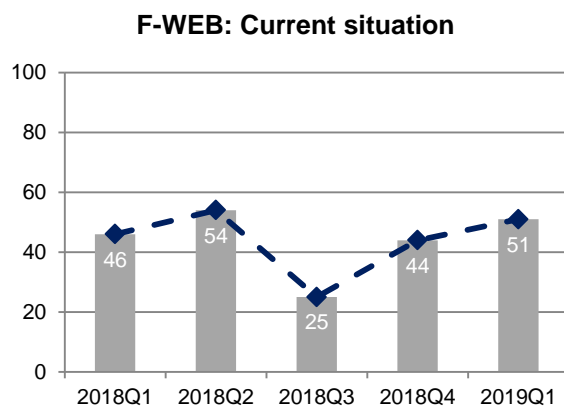
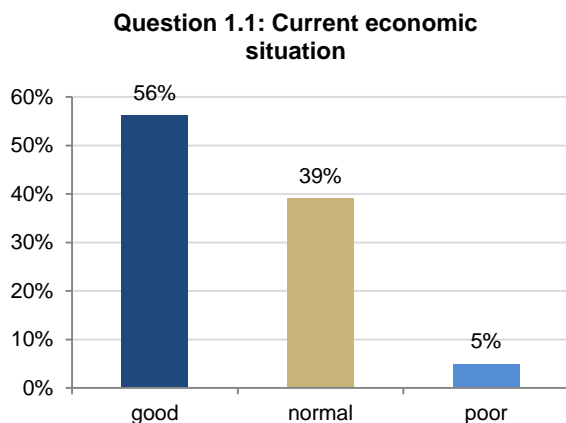


60 percent of free zones reflected in this quarter’s F-WEB focus on industrial activities, up ten percentage points compared to the last round of the survey. 21 percent of the respondents report trade as their dominating sector while 17 percent focus on services. Only a very small number of free zones have no clear focus on a specific sector.

## CURRENT ECONOMIC SITUATION

### General situation

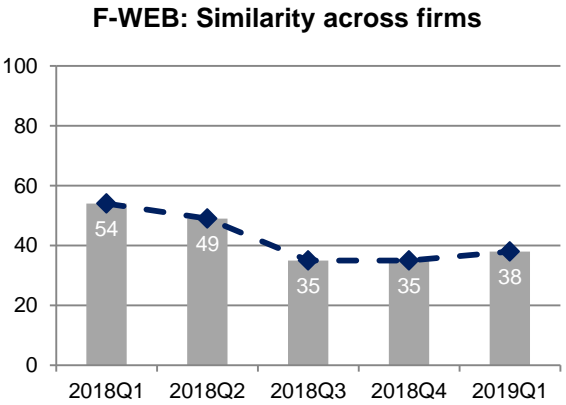
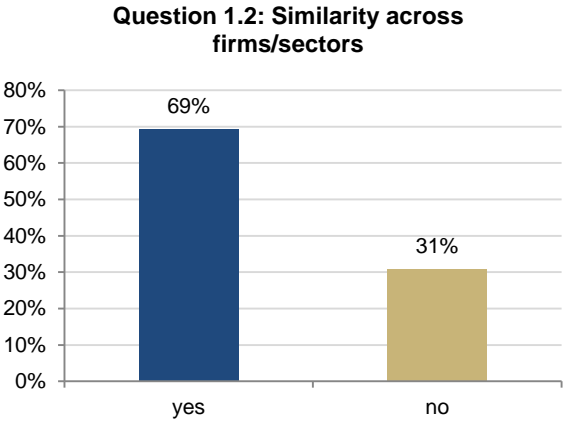
**Question 1.1: “Overall, how do you assess the current economic situation in your Free Zone, taking into account the usual seasonal pattern?”**



More than half of the representatives of free zones that answered the F-WEB survey regard the current economic situation as good, followed by 39 percent that consider the situation normal. Only very few free zones experience poor conditions. The corresponding F-WEB indicator value is 51 and reflects a rise in the F-WEB score for the second consecutive quarter. After a considerable drop in the F-WEB indicator for current economic situation in the third quarter of 2018, the situation is now reported at a similar level as in the first half of 2018.

**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)?”**



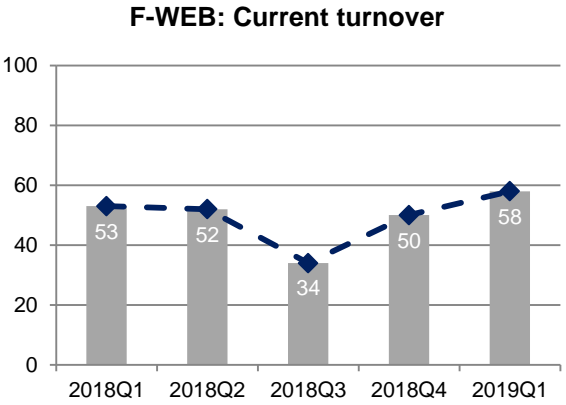
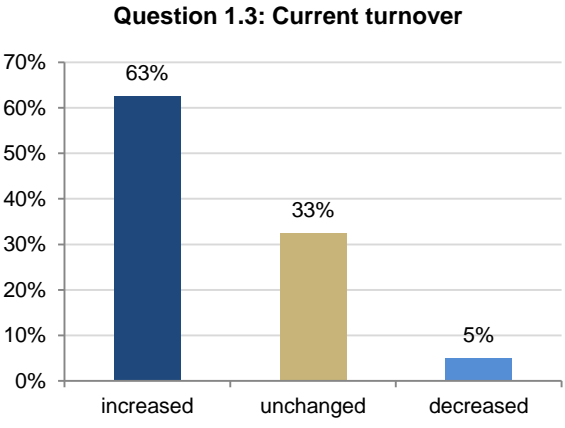
In line with past results, a majority of free zones report that all firms or sectors, respectively, in their free zone experience similar economic situations (69 percent). One in three free zones, however, describes the situation of sectors/firms in the free zone as substantially diverse. The responses are very similar to the 2018Q3 and the 2018Q4 round of the F-WEB. The F-WEB indicator for similarity of economic conditions across firms/sectors is only increased slightly from 35 in 2018Q3 and 2018Q4 to 38 in the first quarter of 2019.

**Detailed dimensions**

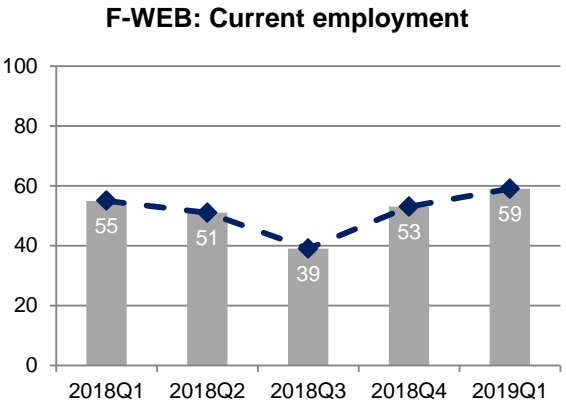
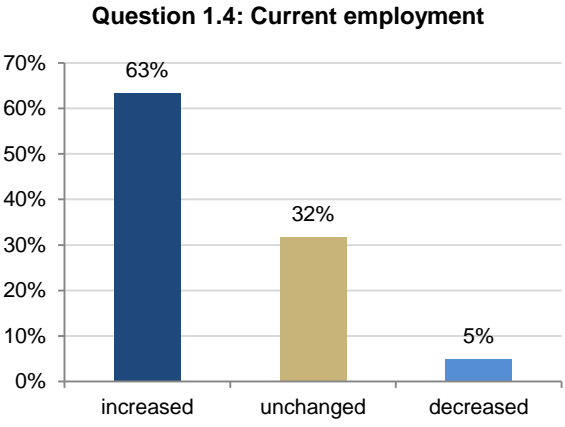
**Questions 1.3-1.6 relate to recent developments in more detailed economic dimensions: “Compared to the previous three months and taking into account the usual seasonal pattern...” how has turnover/employment/investment/profitability developed?**

Across all dimensions of economic performance, i.e. turnover, employment, investment and profitability, more than half of the free zones report positive developments over the past three months. At the same time, the share of free zones reporting worse economic performance compared to the previous quarter remains low at between 3 and 8 percent. Regarding turnover and employment, the corresponding F-WEB indicators reach their highest levels since the launch of the survey in the beginning of 2018 at 58 (up from 50) and 59 (up from 53), respectively. The F-WEB indicator value for investment, on the other hand, fell from 59 to 54, and is thus at a similar level as in 2018Q3. The results for profitability are almost unchanged compared to the previous quarter with a corresponding indicator value of 46 (compared to 47 in 2018Q4). The four dimensions of economic performance are described in greater detail below.

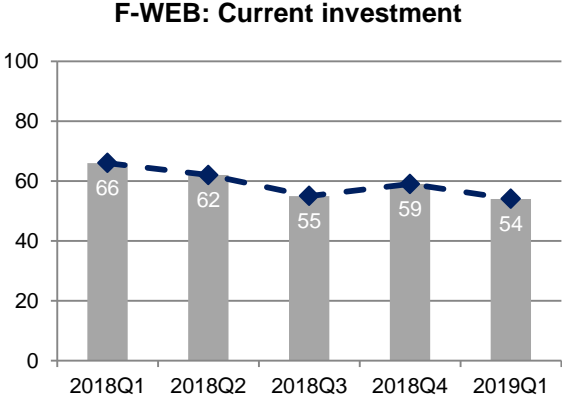
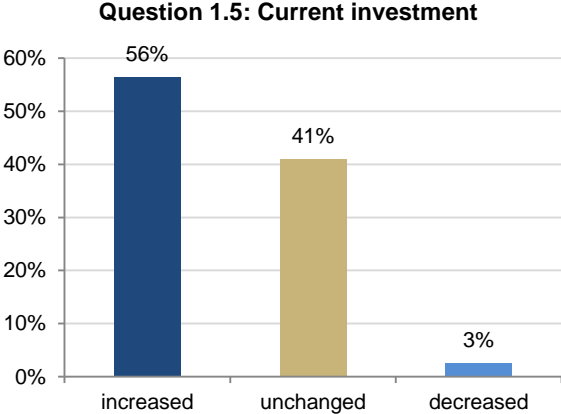
In the case of **turnover**, almost two thirds of participating free zones experienced an increase compared to the last quarter of 2018, while one third of respondents report no substantial change. Only very few free zones observed a lower level of business activity than in the previous three months. The corresponding F-WEB indicator value for current turnover in 2019Q1 is 58, up from 50 in the previous quarter. Thus, the F-WEB for current turnover has been rising for three continuing months and is at its highest level since the launch of the survey in the beginning of 2018.



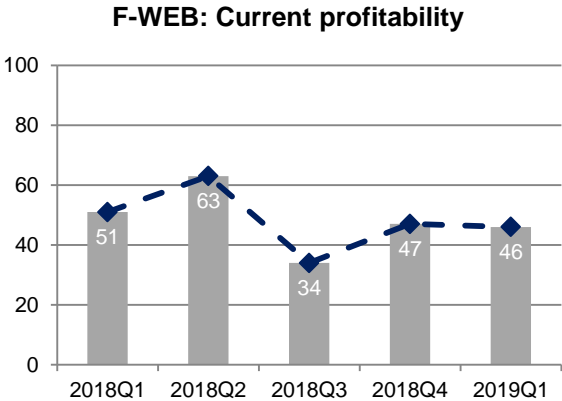
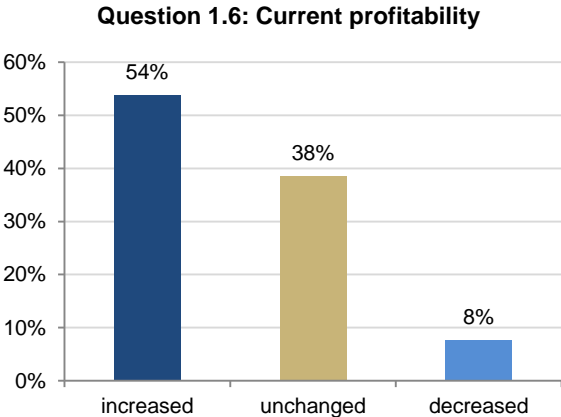
The F-WEB for current **employment** has developed in line with the F-WEB for current turnover. 63 free zones report an increase in employment compared to the last quarter, up from 59 percent in the 2018Q4 survey. Only 5 percent of respondents observed a fall in the number of employees within their zone relative to the previous quarter. As a result, the F-WEB indicator for current employment is at 59 and has reached, similar to the F-WEB indicator for turnover, its highest level since the start of the survey.



The recent evolution of **investment** remains somewhat more subdued compared to turnover and employment. 56 percent of free zones report an increase in investment, down from 62 percent in 2018Q4. The share of respondents having experienced a decrease in investment compared with the previous three months is unchanged at 3 percent. In sum, these results lead to an F-WEB indicator value for current investment of 54, down from 59 in 2018Q4 to a level very similar to the 2018Q3 value.

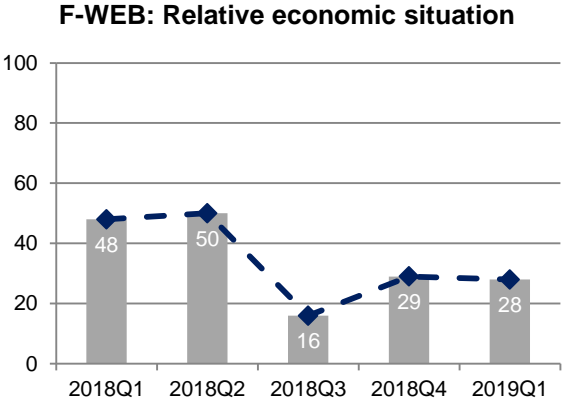
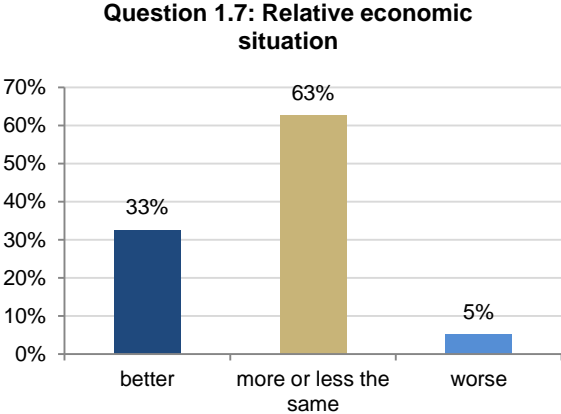


The F-WEB indicator value for current **profitability** is almost unchanged at 46 and thus remains below its level reported in the first half of 2018. More than half of the survey participants (54 percent) observed a rise in profitability over the last three months. The share of negative answers has increased from 3 percent in 2018Q4 to 8 percent now. However, this is still 6 percentage points below the share of free zones having reported a decrease in profitability in 2018Q3.



**Relative assessment**

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

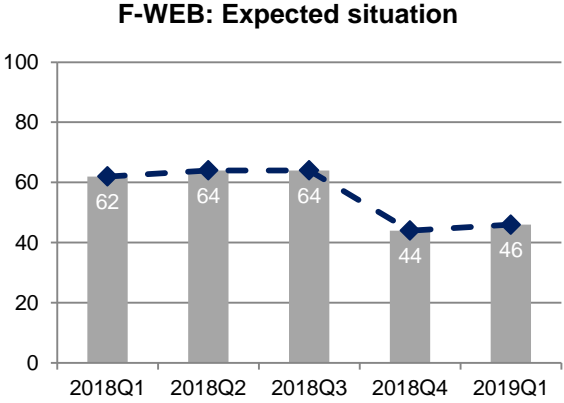
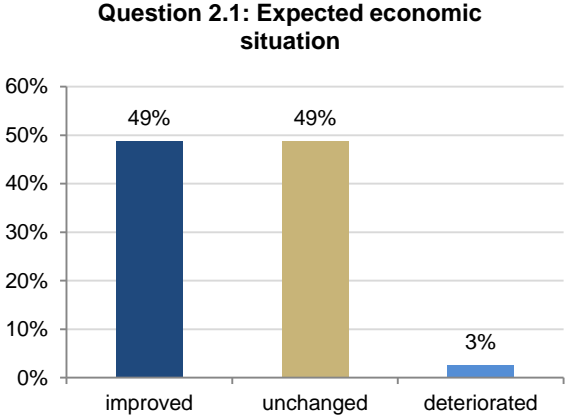


Most participating free zones (63 percent) have faced a similar economic situation in the past three months as their host countries in general. One third of free zones assess their situation to be considerably better than in the rest of the country. Only 5 percent report underperformance of their free zone compared to the rest of the economy. The resulting F-WEB indicator for relative performance of free zones is at 28 and thus almost unchanged compared to the previous quarter.

**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?”**



Expectations regarding future economic conditions remained largely unchanged compared to the previous quarter. While half of the free zones participating in the F-WEB report a positive outlook, the other half does not expect any major changes in business activity in the near future. Only 3 percent expect a deterioration of performance. The corresponding F-WEB indicator value for expected situation is slightly up from 44 at the end of 2018 to 46 now. It is thus still well below the level of the first three quarters of 2018 where more free zones had a positive outlook for the near future. The four dimensions of expected economic performance, i.e. expected turnover, employment, investment, and profitability, are described in greater detail below.

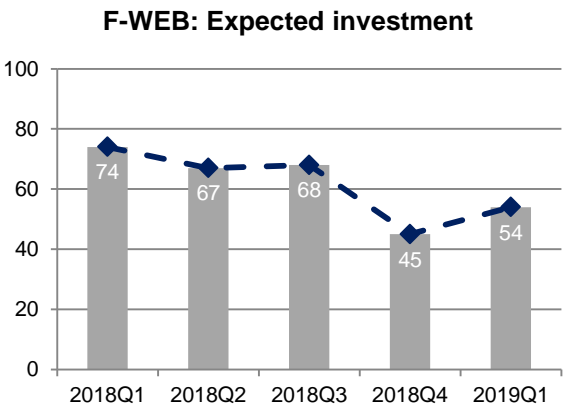
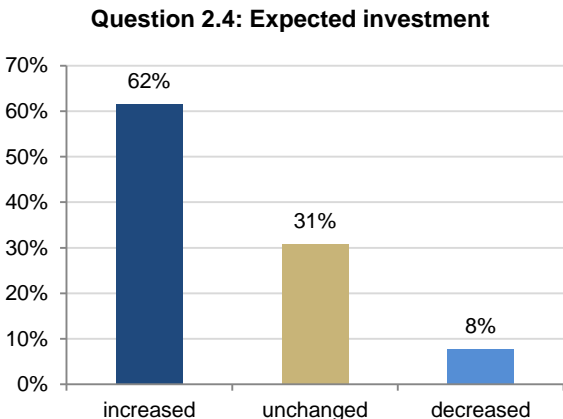
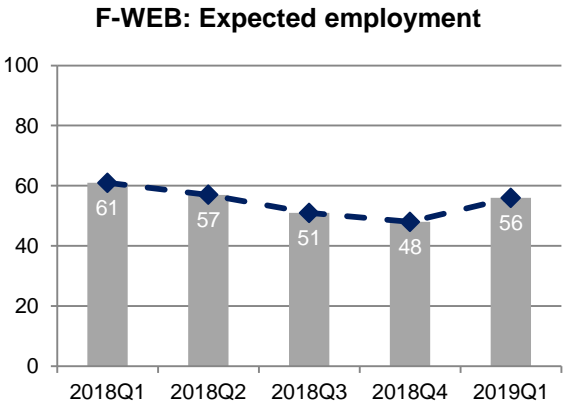
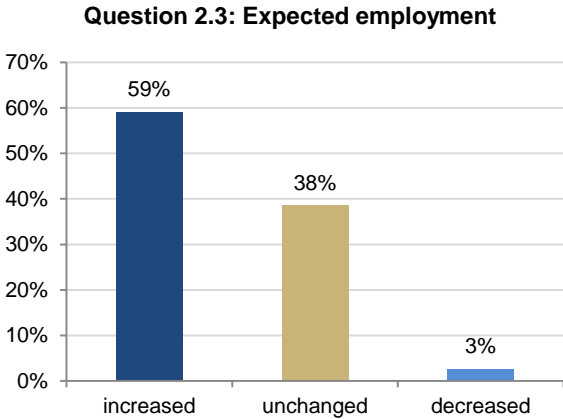
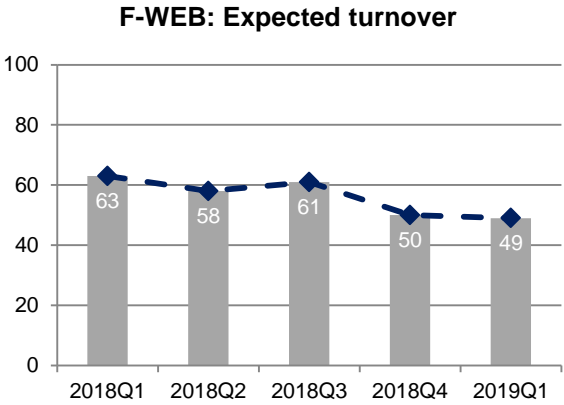
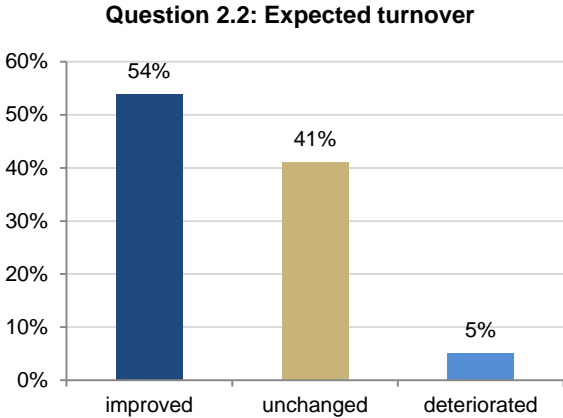
**Detailed dimensions**

**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?**

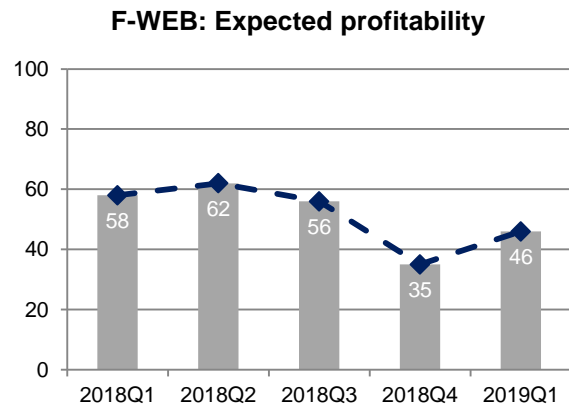
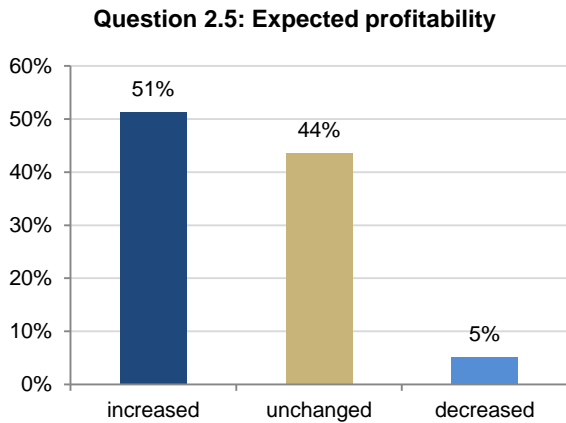
The outlook of respondents with respect to employment, investment and profitability over the next three months has become more optimistic. At the same time, the outlook for turnover is largely unchanged compared to the previous round of F-WEB. Across all four dimensions of economic performance, more than half of the free zones expect an improvement over the next three months. The share of free zones reporting a positive outlook is highest for expected investment (62 percent), followed by expected employment (59 percent). 54 percent of respondents expect turnover to increase in the next quarter and 51 percent have a positive view on future profits. The share of free zones expecting deteriorating business activity and economic performance remains low at between 3 regarding the outlook for employment and 8 percent regarding future investment.

This development is reflected in the corresponding F-WEB values. The F-WEB indicators for expected employment, investment and profitability experienced an increase compared to the previous quarter. It was most pronounced for expected profitability, where the F-WEB indicator increased by 11 points to 46 from its lowest level since the launch of the survey in 2018Q4 at 35. The F-WEB indicator for ex-

pected investment increased from 45 to 54. The indicator for expected employment is at 56, up from 48 in the previous quarter while the F-WEB for expected turnover is almost unchanged at 49 (down from 50 in 2018Q4).





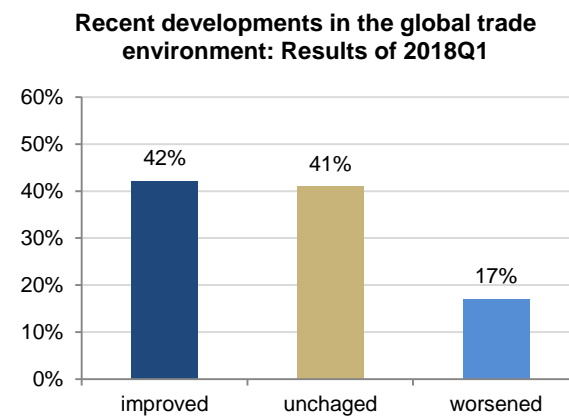
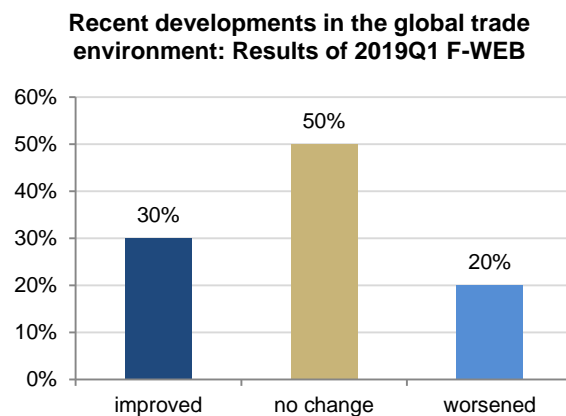


**SPECIAL FOCUS QUESTIONS**

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 2019Q1 F-WEB survey, 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 continuing trade tensions and uncertainty evolving around the trade policy of the US government, mainly directed and China and the European Union. The same question was also asked one year ago, in the 2018Q1 edition of the F-WEB. So far, the impact of the trade conflicts on free zones seems to be limited but deteriorating over time. One fifth of F-WEB participants think that the global trade environment has deteriorated over the last few months which is a slight increase compared to last year. By contrast, now only 30 percent think that the global trade environment has improved, down from 42 percent last year. With a share of 50 percent, the majority of free zones consider the trade environment unchanged, up from 41 percent last year.



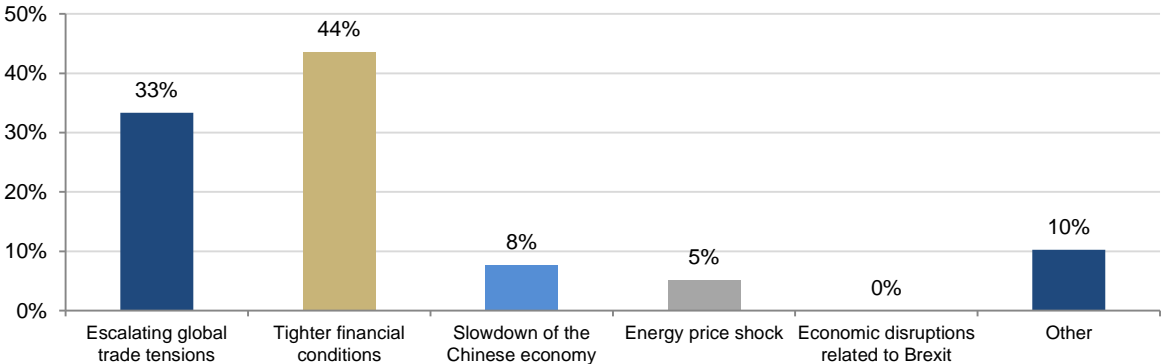
**Special Question 2: In your opinion, which of these risks to the global economy pose the highest risk to the economic activity in your free zone?**

This question was asked to find out which risk to the global economy is of most relevance for free zones. The following choices were provided to free zones' representatives in the survey: a) escalating global trade tensions; b) tighter financial condition; c) the slowdown of the Chinese economy; d) an energy price shock; e) economic disruptions related to Brexit. If none of these options were considered the highest risk, free zones had the opportunity to provide their individual answers. The risk of escalating global trade tensions is closely related to Special Question 1 and the uncertainty evolving around the trade policy of the United States.

The results show that with 44 percent the majority of participants consider tighter financial conditions the most pressing global risk to the economic activity in their free zones, followed by escalating global trade tensions with a share of 33 percent. Over the last year, interest rates in the US have increased faster than expected due to favorable US economic conditions and additional fiscal stimulus. This has also put emerging markets under pressure. The higher cost of financing has the potential to dampen investment in free zones and is thus perceived as a major risk to economic activity.

Only few free zones regard the slowdown of the Chinese economy (8 percent) or an energy price shock (5 percent) the biggest global risk to their free zone, and no respondent thinks that economic disruptions related to Brexit pose the most substantial threat to economic activity. 10 percent of participants report other risks as their main worry and name issues including sanctions, political instability and an increase in container shipping costs as most relevant risks to their free zones.

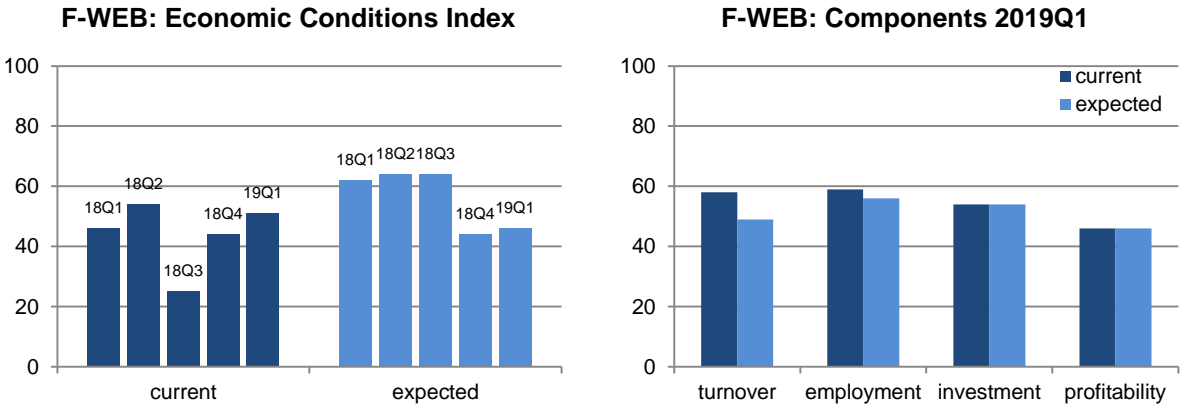
**Global risks for Free Zones**



**SUMMARY**

In 2019Q1, the F-WEB survey indicates that economic conditions in free zones worldwide have improved compared to the previous quarter suggesting that the upward trend continues. With 56 percent, more than half of the free zones participating regard their current economic performance as good, up from 50 percent at the end of 2018. 39 percent evaluate the current situation as normal, while only 5 percent experience poor conditions. These results are reflected in the corresponding F-WEB Economic Conditions Index of 51, up from 44 in 2018Q4 and substantially above the value of 25 observed in 2018Q3, reaching again a similar level as seen in the first half of 2018.

At the same time, expectations regarding future economic conditions remained largely unchanged compared to the previous quarter and below the expectations seen in the first three rounds of F-WEB. Half of the free zones continue to have a positive outlook while the other half does not expect any major changes in business activity over the next three months. Only very few respondents have a negative outlook. The F-WEB Expected Economic Conditions Index increased slightly from 44 in the previous quarter to 46 in 2019Q1.



A closer look at the various elements of business activity – i.e. turnover, employment, investment, and profitability – reveals that economic performance has improved across all dimensions but investment. While the development in investment is in line with the drop in the F-WEB indicator for expected investment observed in the last quarter, actual developments regarding the other dimensions of economic performance turned out to be more positive than expected at the end of last year. This quarter, the outlook has again become more positive than in the previous quarter for employment, investment and profitability, while the expectations for turnover remained stable.