

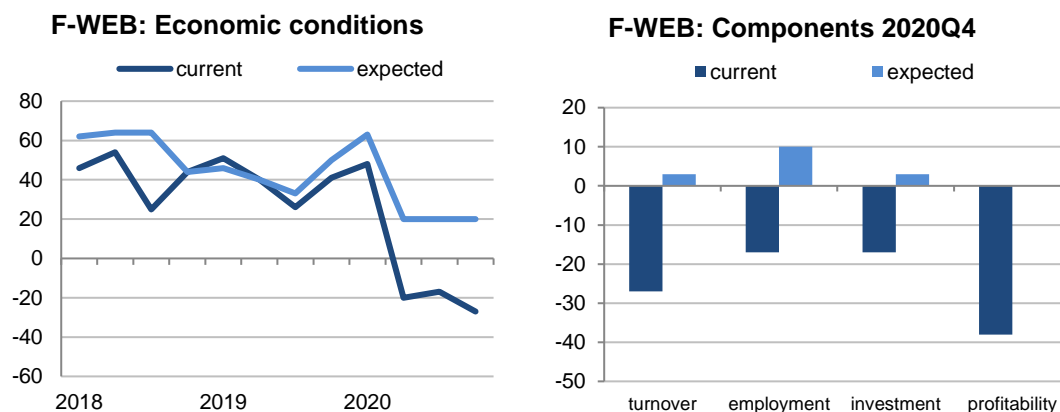
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## Free Zones World Economic Barometer

### F-WEB NOTE 2020Q4

#### Executive Summary

**In the last quarter of 2020, Free Zones around the globe are still struggling to recover from the COVID-19 pandemic.** This is the result of the 2020Q4 F-WEB survey conducted in December 2020. At 10 percent, the share of Free Zones reporting a good current economic situation even reached a new low. It decreased by 7 percentage points compared with the previous quarter. 53 percent of the Free Zones reported a normal economic situation, increasing from 49 percent in 2020Q3. Similarly, the share of participants assessing their situation as poor increased by 3 percentage points to 37 percent. As a result of these changes, the corresponding F-WEB Economic Conditions Index decreased by 10 to -27 in this survey. One year ago, before the outbreak of the pandemic, the index stood at 41, with 46 percent of the respondents reporting a good economic situation and only 5 percent experiencing poor conditions. On a more positive note, investment, employment and profitability showed some signs of improvement in the fourth quarter compared with the previous three months. Turnover, however, decreased slightly.



While the outlook continues to be more optimistic than the assessment of the current situation, there is no sign of broad-based optimism yet. 40 percent of respondents have a positive outlook with the same percentage expecting an unchanged situation in the next three months. Every fifth Free Zone has a negative outlook. Overall, the F-WEB Expected Economic Conditions Index remained unchanged at a value of 20 for the third time in a

row, its lowest level on the record and substantially below its pre-crisis level of 63. At the same time, expectations regarding turnover, employment, investment and profitability showed minor improvements compared with the previous quarter.

The Special Questions asked in the F-WEB 2020Q4 provide additional information on the current and expected economic situation in the Free Zones and their responses to the pandemic. The results show that (1) most Free Zones worldwide (83 percent) continue to be affected by the pandemic but the share experiencing severe negative effects decreased most recently, to 20 percent from more than 30 percent in the previous two quarters; (2) expectations about the impact of the pandemic continue to be gloomy with 73 percent expecting to be negatively affected also in the coming months; (3) with 47 percent, about as many Free Zones see first signs of improvement now as three months ago; (4) Free Zones took various measures in response to the pandemic, such as boosting digital services and their online presence; at the same time, one in four Free Zones had to postpone or even cancel plans to expand and/or modernize the Free Zone, and ten percent had to cut their management staff; (5) only one in four Free Zones received financial support by the government.

**The next F-WEB survey is scheduled for February.** 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](mailto:FWEB.worldfzo@ifw-kiel.de).

## Background information

The World Free Zones Organization, in cooperation with the Kiel Institute for the World Economy, 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 and (Special) Economic Zones around the globe. 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 survey results 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. The 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. 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](#). In addition, the [World FZO Outlook Report 2020](#) provides an overview of the results of the F-WEB through the first quarter of 2020.

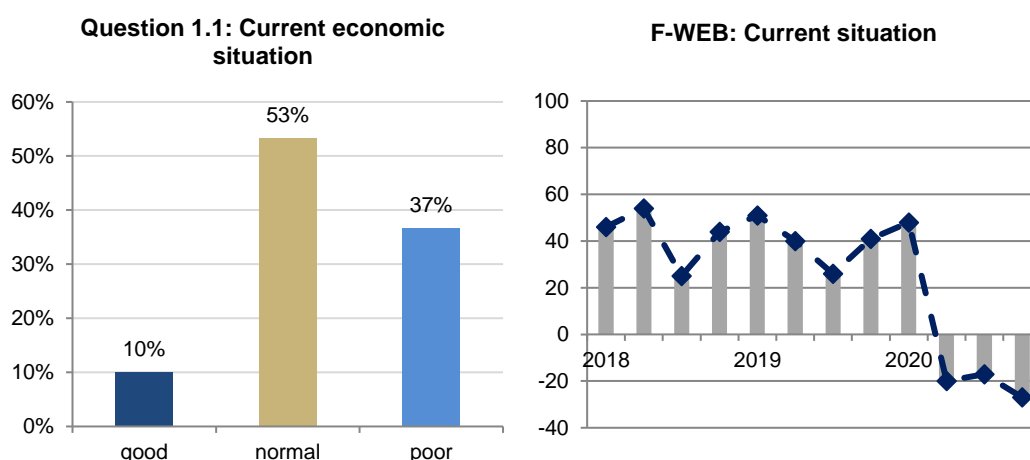
## F-WEB 2020Q4 DETAILED RESULTS

### Current and expected economic situation

#### General current situation

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

Despite the start of vaccination programs in some countries, the COVID-19 pandemic continues to weigh on the global economy, including on the economic activity in Free Zones. In the fourth F-WEB survey of 2020, the share of Free Zones reporting a good current economic situation reached a new minimum at 10 percent. The share of Free Zones considering their situation to be normal increased somewhat from 49 percent in 2020Q3 to 53 percent now. Similarly, the share of Free Zones assessing their situation as poor increased from 34 percent in the previous quarter to 37 percent. Correspondingly, the F-WEB indicator for the current economic situation decreased by 10 points to -27.



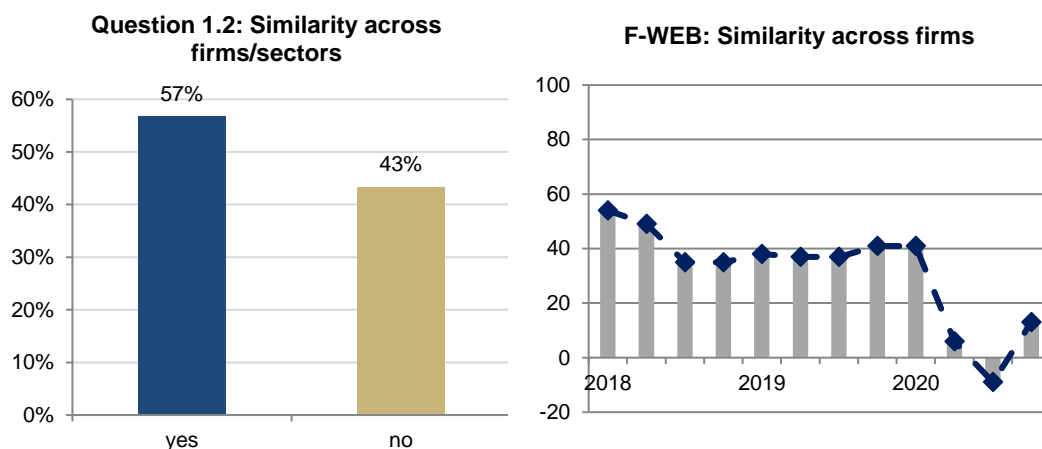
Even though overall economic sentiment has deteriorated, a look at the more detailed dimensions of current economic activity shows that employment, investment and profitability have actually seen an increase compared with the previous quarter, while the indicator for turnover decreased somewhat. Thus, the percentage of Free Zones reporting an increase in **turnover** fell from 22 percent in 2020Q3 to 17 percent, resulting in an F-WEB indicator for turnover of -27 (2020Q3: -25). The indicators for **employment** (2020Q3: -42 to 2020Q4: -17) and **investment** (2020Q3: -44 to 2020Q4: -17) made a big positive jump but remain in negative territory. The share of Free Zones reporting an increase in employment and investment, respectively, rose from the single digits to at least 20 percent for both dimensions. At the same time, despite some improvement, more than one in three Free Zones saw yet another decrease in these dimensions. **Profitability** also improved somewhat but

continues to be the economic dimension with the worst performance. More than half of the Free Zones (52 percent) again experienced a decrease in profitability compared with the previous quarter, while only 14 percent report an increase (2020Q3: 9 percent). Correspondingly, the F-WEB indicator for profitability increased from -51 in 2020Q3 to -38 in 2020Q4. Graphs on the detailed dimensions can be found in the [Data annex](#).

### 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)?”**

The share of Free Zones reporting that the current economic situation is similar in all sectors and companies in their Free Zone increased from 46 percent in the previous quarter to 57 percent in 2020Q4. As a result, the F-WEB indicator increased somewhat from -9 in 2020Q3 to 12 in the current survey. However, the indicator continues to be far below its pre-pandemic values indicating that COVID-19 has affected some firms and sectors more than others.

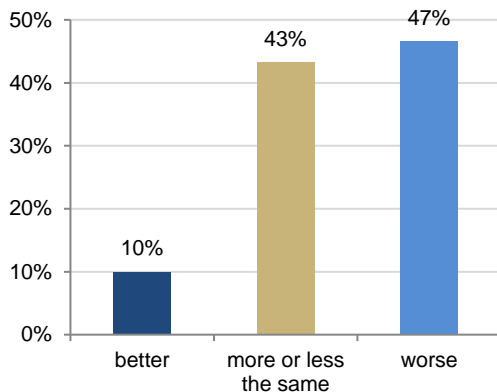


### Relative assessment

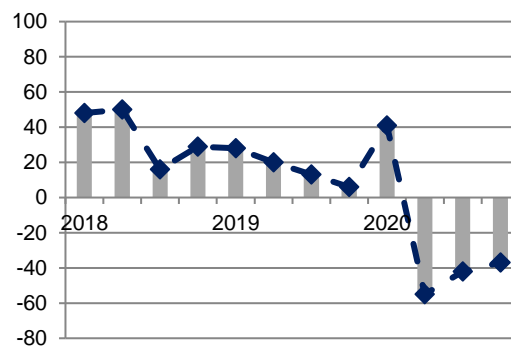
**Questions 1.7: “Compared to the economic situation in your host country how do you assess the overall economic situation?”**

On average, economic activity in Free Zones continues to be disproportionately affected by the pandemic. About every other Free Zone evaluates its overall economic situation as worse than the situation in the host country in general (2020Q3: 53 percent, 2020Q4: 47 percent). Only 10 percent (2020Q3: 11 percent) report a comparatively better situation. All in all, the F-WEB indicator for the relative situation increased from -42 in the previous quarter to -37, leaving the overall picture largely unchanged.

**Question 1.7: Relative economic situation**



**F-WEB: Relative situation**

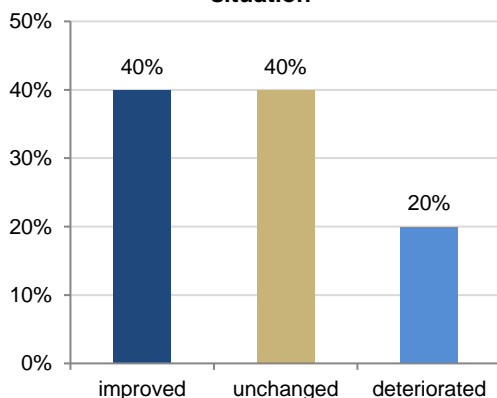


### General expected situation

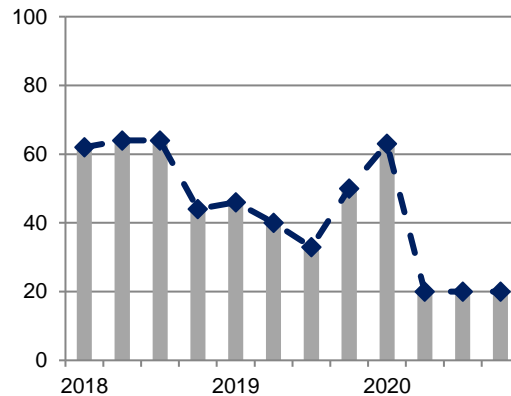
**Question 2.1: “Overall, compared to the current situation, how do you expect economic conditions to develop in your Free Zone over the next 3 months?”**

For the third time in a row, the F-WEB indicator for the expected economic situation stays at 20. However, the distribution of answers has changed compared with the previous quarter. The share of Free Zones with a positive expectation increased from 29 to 40 percent while the share of Free Zones with a negative expectation increased from 9 percent to 20 percent. At the same time, the share of Free Zones expecting an unchanged situation decreased from 63 percent in 2020Q3 to 40 percent in 2020Q4. Thus, the outlook has become more polarized compared with the previous round of the F-WEB.

**Question 2.1: Expected economic situation**



**F-WEB: Expected situation**



The unchanged F-WEB indicator for expectations hides minor improvements across the more detailed dimensions of economic activity. The F-WEB indicator for **expected investment** saw the biggest improvement climbing from a value of -6 in 2020Q3 to 3. The indicators for **expected turnover** (2020Q3: -3; 2020Q4: 3), **expected profitability** (2020Q3: -6; 2020Q4: 0) and **expected employment** (2020Q3: 6; 2020Q4: 10) also show first tentative signs of improvement, all leaving negative territory. Graphs on the detailed dimensions can be found in the [Data annex](#).

## SPECIAL QUESTIONS

The standard F-WEB questions are already well-equipped to capture the impact of the COVID-19 pandemic on Free Zones. To gain an even better understanding of the effects of the current crisis, a set of COVID-19 related special questions were asked in April 2020, when the [F-WEB Special Survey](#) on the COVID-19 pandemic was conducted, and in the [2020Q2](#) and [2020Q3](#) rounds of the F-WEB. To analyze the developments over time, several special questions were repeated also in the 2020Q4 survey. In addition, two special questions that are asked on an annual basis were included. The results are reported in the following.

### Special Question 1: Is activity in your Free Zone currently affected by the economic impact of coronavirus pandemic?

**Most Free Zones worldwide continue to be affected by the pandemic but the share experiencing severe negative effects decreased most recently.** More than four out of five participating Free Zones report an at least somewhat negative impact of COVID-19. However, it is important to note that the share of Free Zones reporting a substantially negative impact decreased from 31 percent in 2020Q3 to 20 percent in this survey. The share of Free Zones impacted to some extent meanwhile increased from 49 percent to 63 percent. At the same time, 20 percent are not really affected, slightly up from 17 percent in the previous quarter. As in the previous quarters, no Free Zone reported an increase in current business due to the pandemic.<sup>1</sup> Overall, the results suggest that the negative impact of the pandemic is still severe.

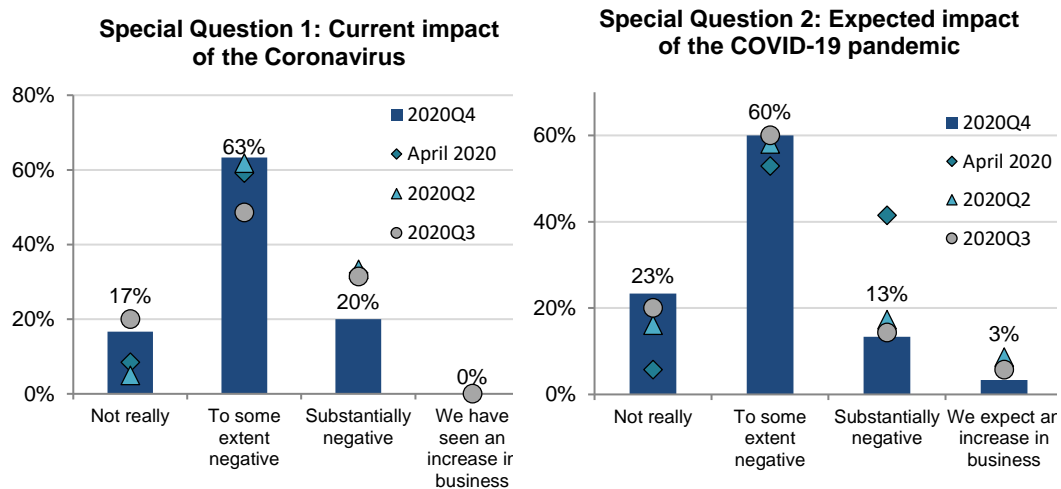
### Special Question 2: Do you expect activity in your Free Zone to be affected by the coronavirus pandemic in the coming months?

**The Free Zones' expectations about the future impact of the pandemic have not lightened up yet.** The distribution of answers regarding the impact of the pandemic on

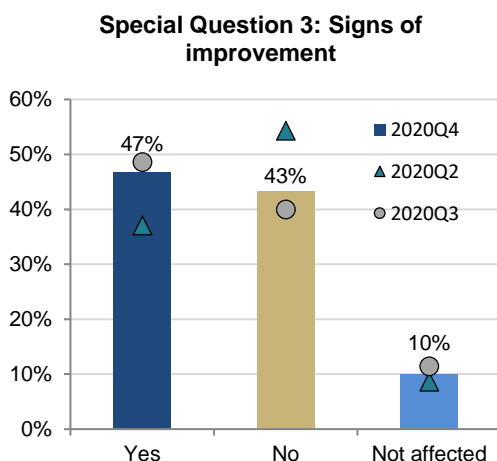
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<sup>1</sup> Please note that the answering option "We have seen an increase in business." had not been given in the Special Survey conducted in April and the results can therefore not be compared perfectly. It was added to account for the possibility that some Free Zones, for example those specializing in health care or digital services, see an increase in business due to the COVID-19 pandemic.

economic activity in the coming months has hardly changed compared with the previous survey, and a large majority of Free Zones expects to remain negatively affected by the pandemic. While 60 percent see some negative effects, 13 percent expect substantially lower economic activity. The share of Free Zones expecting no effects is at 23 percent, and only 3 percent expect an increase in business due to COVID-19.



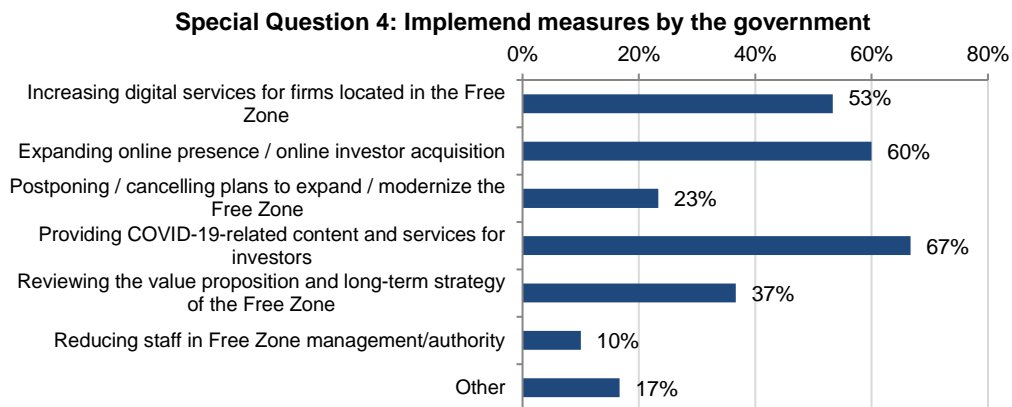
**Special Question 3: Do you already see first signs of improvement at the moment?**



**Similar to the previous quarter, nearly every other Free Zone sees first signs of improvement.** However, 43 percent see no signs of improvement yet and 10 percent report not to be affected. These numbers are roughly the same as in the previous quarter.

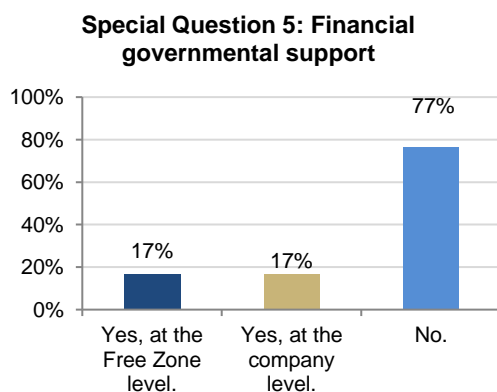


**Special Question 4: Which measures is your Free Zone taking in response to the pandemic?**



**Free Zones took various measures to mitigate the effects of the pandemic.** Two out of three Free Zones provide COVID-19-related content and services for investors, for example hygiene guidelines and support to implement hygiene concepts. In addition, Free Zones took several measures that will likely be beneficial not only during the pandemic. 53 percent increased digital services for firms and 60 percent expanded their online presence and their efforts to attract investors online. Every third Free Zone reviews its value proposition and long-term strategy in response to the pandemic. At the same time, one in four Free Zones had to postpone or even cancel plans to expand and/or modernize the Free Zone due to the pandemic, and ten percent had to cut their management staff. Other measures include reducing the rental fee for Free Zone companies and reviewing the diversification strategy by seeking new partners worldwide.

**Special Question 5: Did your Free Zone receive financial support from the government?**



**Only few Free Zones received financial support from the government.** 77 percent of the participants report not to have received any financial support from the government. 17 percent received financial support at the level of the Free Zone; and in again 17 percent of the Free Zones, the companies received financial support.

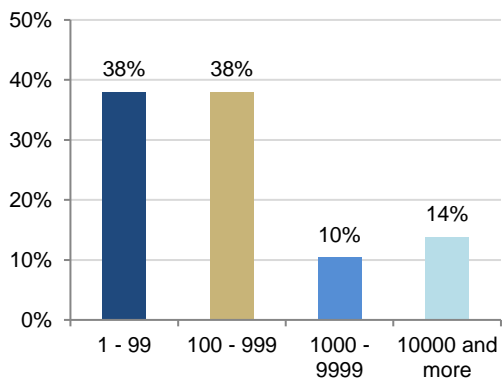


## DATA ANNEX

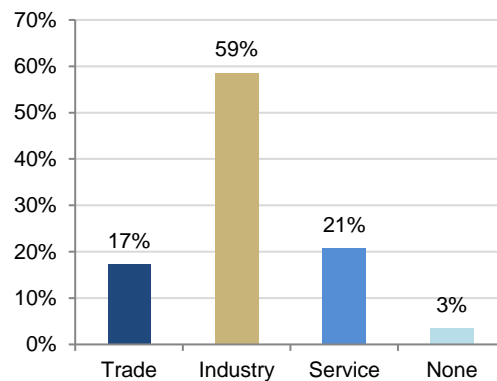
### General information

The 2020Q4 survey is the eleventh round of the F-WEB. It was conducted between December 8 and December 22, 2020. Overall, 35 Free Zones representatives from 20 countries worldwide participated in the survey. Some characteristics of the participants are displayed in the graphs below.

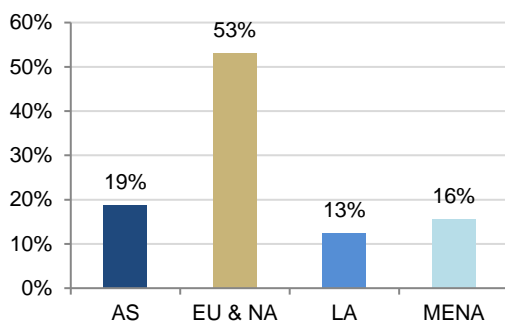
**Distribution of participating free zones by number of employees**



**Distribution of participating free zones by dominant sector**



**Distribution of participating Free Zones by region**

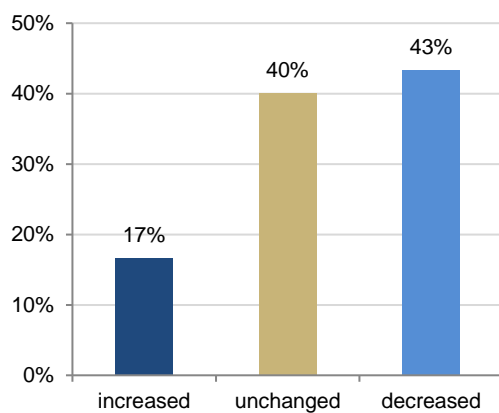


AS: Asia, EU: Europe, NA: North America, LA: Latin America, MENA: Middle East and North Africa. In this survey were no participants from sub-Saharan Africa.

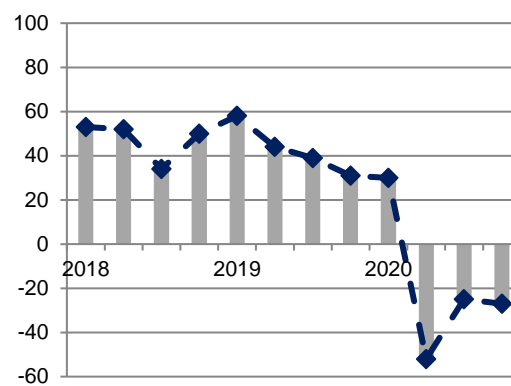
### Current economic situation: Detailed dimensions

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?

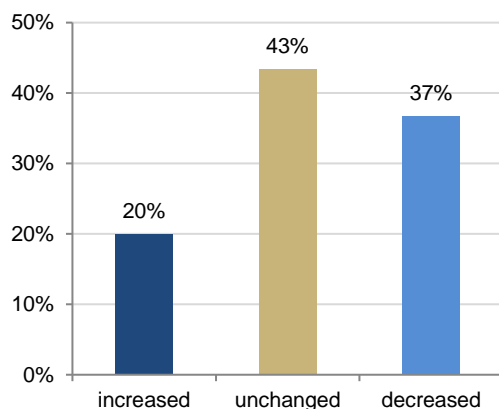
**Question 1.3: Current turnover**



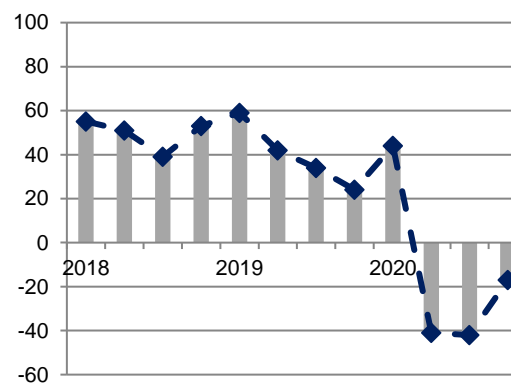
**F-WEB: Current turnover**



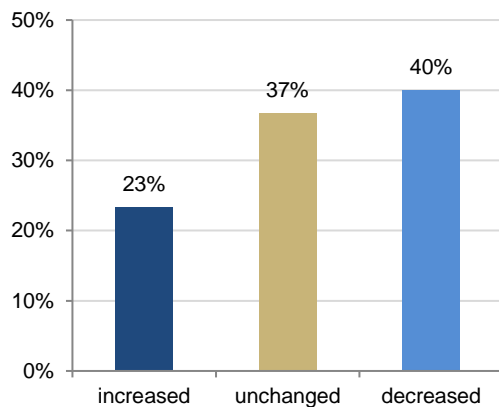
**Question 1.4: Current employment**



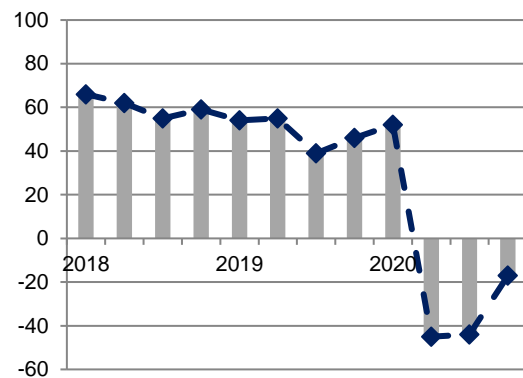
**F-WEB: Current employment**



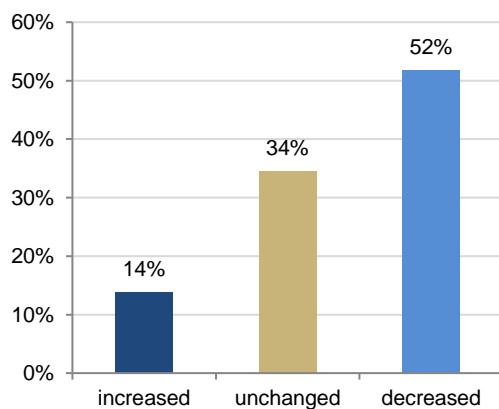
**Question 1.5: Current investment**



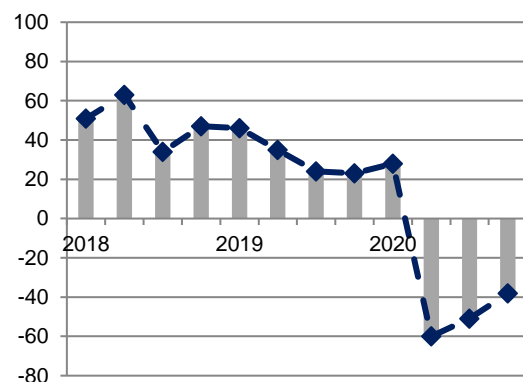
**F-WEB: Current investment**



**Question 1.6: Current profitability**



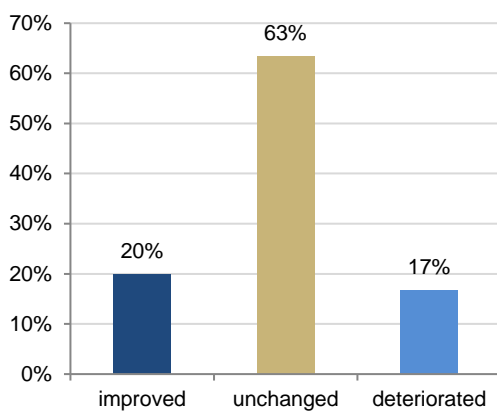
**F-WEB: Current profitability**



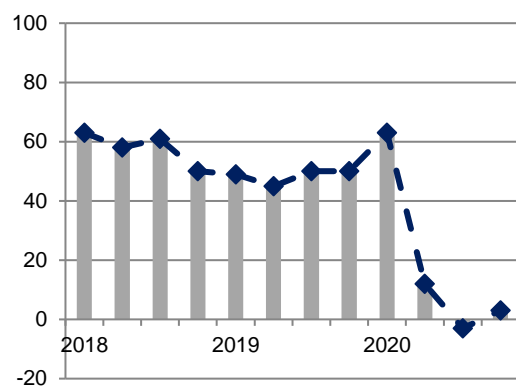
### Expected economic situation: Detailed dimensions

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?

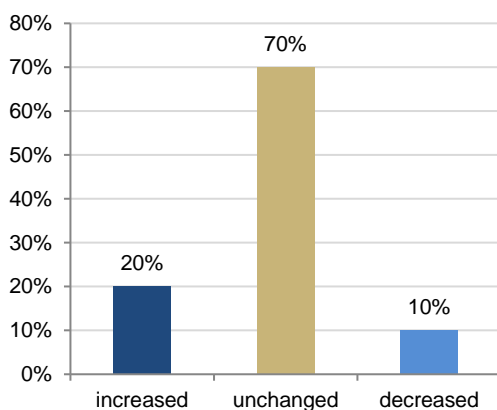
**Question 2.2: Expected turnover**



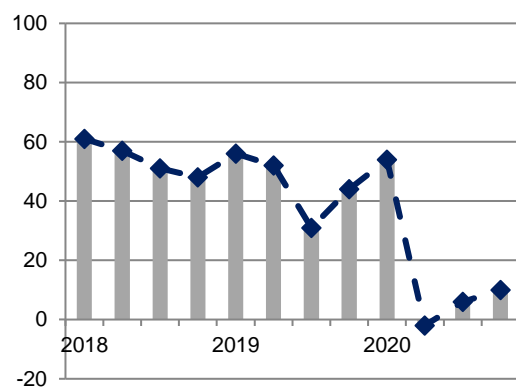
**F-WEB: Expected turnover**



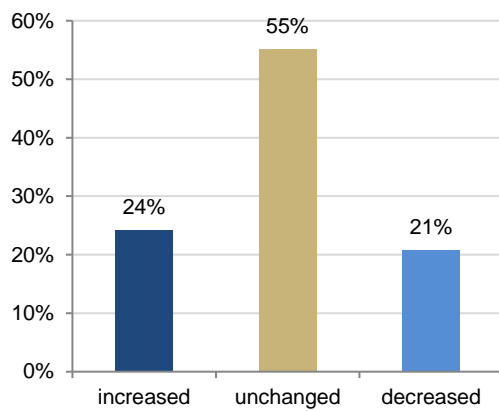
**Question 2.3: Expected employment**



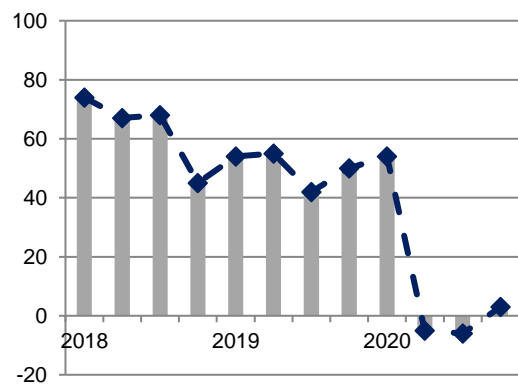
**F-WEB: Expected employment**



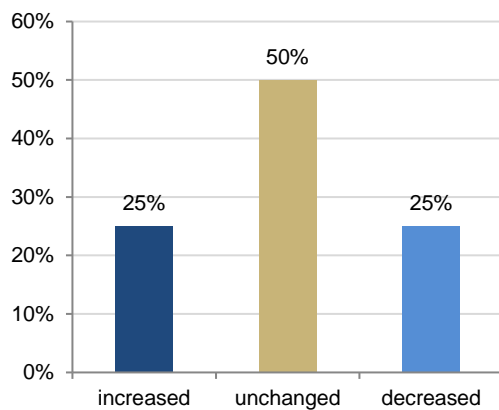
**Question 2.4: Expected investment**



**F-WEB: Expected investment**



**Question 2.5: Expected profitability**



**F-WEB: Expected profitability**

