

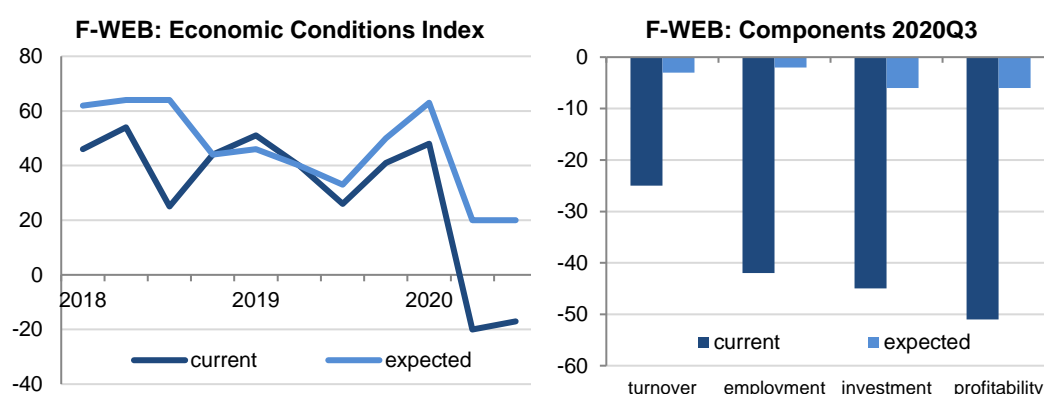
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Free Zones World Economic Barometer

F-WEB NOTE 2020Q3

Executive Summary

In the third quarter of 2020, Free Zones around the globe continue to be severely affected by the COVID-19 pandemic. This is the result of the 2020Q3 F-WEB survey conducted in September and October 2020. At 17 percent, the share of Free Zones reporting a good current economic situation is almost as low as in the previous quarter. Before, it had plunged from 56 percent in the first quarter to 15 percent in the second quarter due to the coronavirus crisis. The share of Free Zones evaluating their situation as normal remains unchanged at 49 percent, while 34 percent of Free Zones describe their situation as poor (2020Q2: 36 percent). As a result, the corresponding F-WEB Economic Conditions Index increased only slightly from -20 in the previous quarter to -17 in 2020Q3. Its pre-pandemic reading had been 48. A look at more detailed dimensions of economic activity reveals that turnover and profitability saw first signs of improvement in the third quarter compared with the previous three months, but employment and investment in Free Zones stayed unchanged at their low levels. Moreover, the survey results suggest that Free Zones are hit particularly hard in comparison with their host economies and that the pandemic affects sectors and firms within Free Zones to a different extent.



The outlook is more optimistic than the assessment of the current situation. However, average expectations of Free Zones regarding future business conditions have not seen any recovery after having deteriorated substantially in the second quarter due to the COVID-19 pandemic. Only 29 percent of respondents have a positive outlook, the majority expects

the situation to remain largely unchanged over the next three months. Few Free Zones (9 percent) expect (further) deteriorating business. Overall, the F-WEB Expected Economic Conditions Index remained unchanged at a value of 20, its lowest level on the record and substantially below its pre-crisis level of 63. For turnover and investment, expectations have even worsened compared with the previous round of the F-WEB, while the outlook for employment and profitability has become slightly more optimistic.

The Special Questions asked in the F-WEB 2020Q3 provide additional information on the current and expected economic situation in Free Zones. The results show that (1) 80 percent of the Free Zones are currently negatively affected and 74 percent expect to be negatively affected also in the coming months; (2) with almost 50 percent, more Free Zones see first signs of improvement now than three months ago (2020Q2: 37 percent); (3) governments have implemented support measures for economic activity but one in four Free Zones assess the measures to be negligible; (4) financing conditions for business in Free Zones has tightened amid the COVID-19 pandemic with 44 percent of Free Zones reporting tighter financial conditions than six months ago; and (5) another substantial risk Free Zones face stems from global trade tensions with one in two Free Zones expecting a negative impact of the protectionist trade policy stance of the United States.

The next F-WEB survey is scheduled for December. 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.

Background information

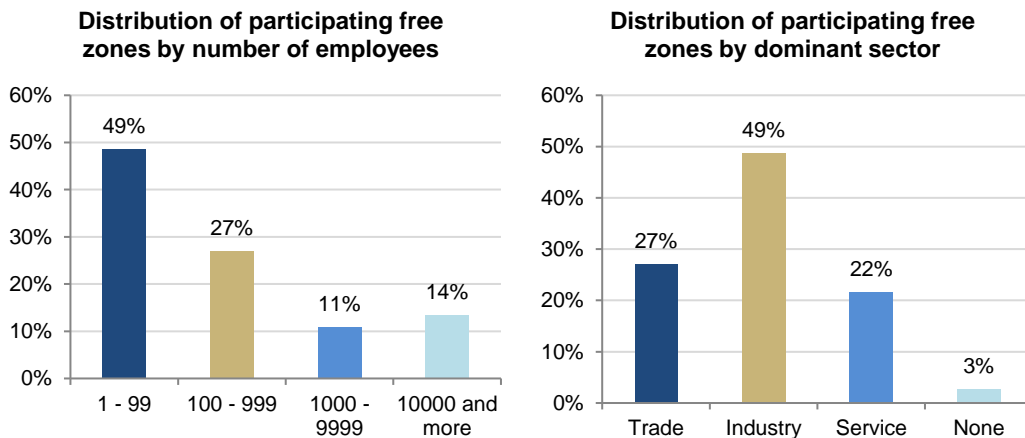
The World Free Zones Organization, in cooperation with the Kiel Institute for the World Economy, launched the Free Zones World Economic Barometer (F-WEB) in 2018. The F-WEB is a quarterly, survey-based sentiment indicator designed to gauge current momentum and future trends of economic activity in Free 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.

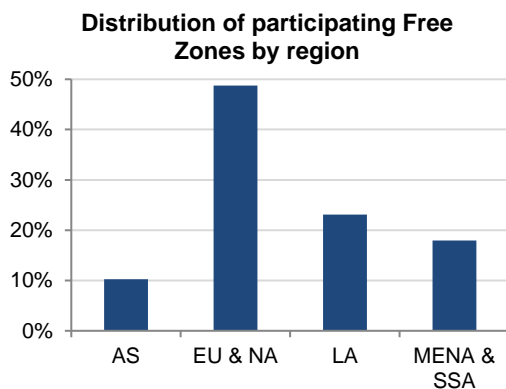
F-WEB 2020Q3 DETAILED RESULTS

General information

The 2020Q3 survey is the eleventh round of the F-WEB. It was conducted between September 21 and October 9, 2020. Overall, 43 Free Zones representatives from 29 countries worldwide participated in the survey. Nearly half of the participating Free Zones have less than 100 employees, while 27 percent have between 100 and 999 employees. In the previous round of the F-WEB, these shares were roughly reversed. The shares of Free Zones with 1,000 to 9,999 employees and over 10,000 employees, respectively, are similar to the ones seen in the previous quarter, at 11 percent and 14 percent.



Nearly half of the Free Zones specialize in industry, while 27 percent specialize in trade and 22 percent in the service sector. Only a very small number of Free Zones report no special focus. The distribution of the dominant sector approximately follows earlier rounds of F-WEB.



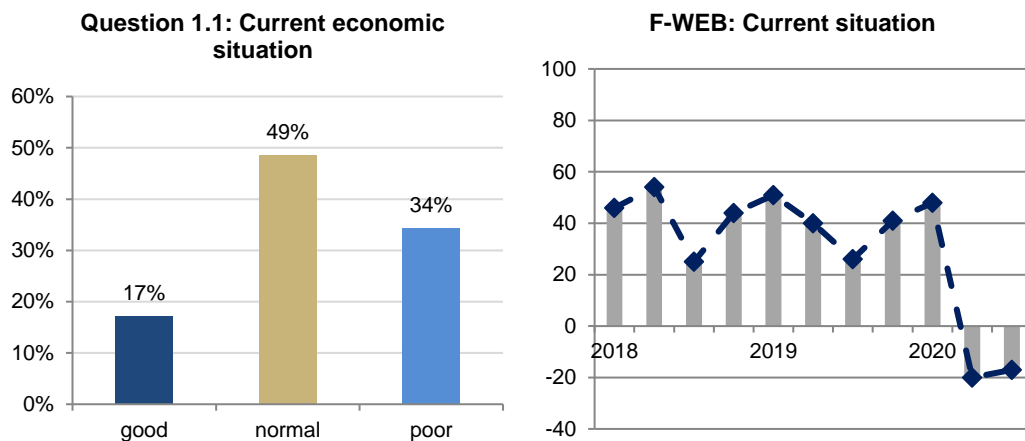
Regarding the regional distribution of participants, about every other Free Zone is located in Europe and North America (EU & NA). 10 percent come from Asia (AS), 23 percent from Latin America (LA) and 18 percent are located in the Middle East and North Africa and sub-Saharan Africa (MENA & SSA).

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?”

The COVID-19 pandemic continues to weigh on economic activity in Free Zones around the globe. At 17 percent, the share of Free Zones reporting a good current economic situation is almost as low as in the previous F-WEB survey. Before, it had plunged from 56 percent in the first quarter to 15 percent in the second quarter due to the coronavirus outbreak. The share of Free Zones evaluating their situation as normal remains unchanged at 49 percent, while 34 percent of Free Zones describe their situation as poor (2020Q2: 36 percent). As a result, the corresponding F-WEB indicator increased only slightly from -20 in the previous quarter to -17 in 2020Q3.

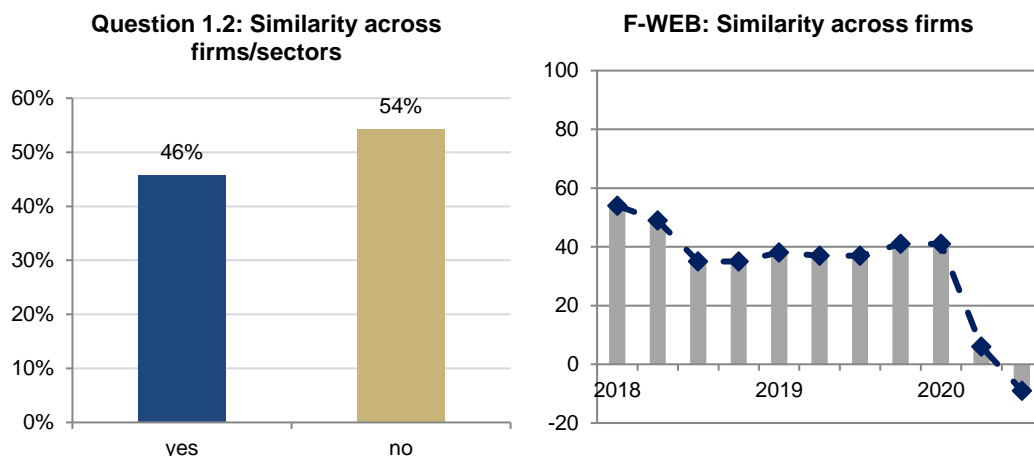


A look at more detailed dimensions of economic activity reveals that turnover and – to a lesser extent – profitability has improved, while the dismal situation regarding investment and employment remains unchanged. More specifically, the share of Free Zones reporting an increase in **turnover** rose from 9 percent in 2020Q2 to 22 percent now, leading to an improvement of the F-WEB indicator for current turnover from -52 to -25. **Profitability** continues to be the economic dimension with the poorest performance, with an F-WEB indicator value of -51. Still, this reflects an improvement compared with the second quarter where an F-WEB indicator of -60 was recorded. Thus, the share of Free Zones reporting an increase in profitability rose from 4 percent in 2020Q2 to 9 percent in 2020Q3. Over 60 percent of Free Zones still report a decrease in profitability compared with the previous quarter. At the same time, the situation regarding **employment** and **investment** has not improved so far. The corresponding F-WEB indicators stayed nearly unchanged at -42 for employment (2020Q2: -41) and -44 for investment (2020Q2: -45). 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 situation of firms and sectors, respectively, continues to become more diverse, on average. More than half of the respondents report that the current economic situation is not similar for all sectors and companies in their Free Zone, up from 47 percent in 2020Q2. As result, the F-WEB indicator for similarity of economic conditions across firms and sectors dropped further from 6 in the previous F-WEB to -9, its lowest level on the record so far. The indicator had started at a value of 41 in 2020Q1. Its development suggests that the COVID-19 pandemic has heterogeneous effects on economic activity across sectors.

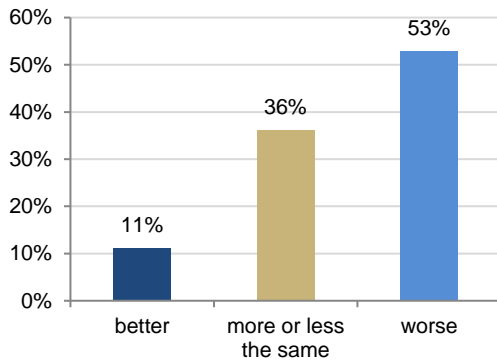


Relative assessment

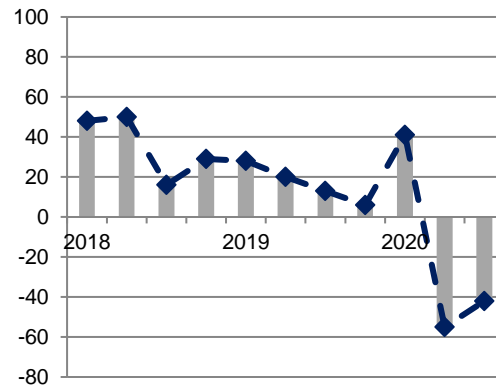
Questions 1.7: “Compared to the economic situation in your host country how do you assess the overall economic situation?”

More than half of the Free Zones assess their overall economic situation as worse than in their host country in general, indicating that they are disproportionately affected by the COVID-19 crisis. The overall picture is similar to the previous round of the F-WEB. The share of Free Zones reporting a comparatively better situation rose from 5 to 11 percent, and the share of Free Zones reporting a comparatively worse situation declined from 60 to 53 percent. At the same time, the share of participants assessing their economic situation to be similar to the rest of the country remained almost constant. Overall, this translates into an F-WEB indicator of -42, up from -55 in 2020Q2 but still substantially below its pre-crisis level of 41.

Question 1.7: Relative economic situation



F-WEB: Relative situation

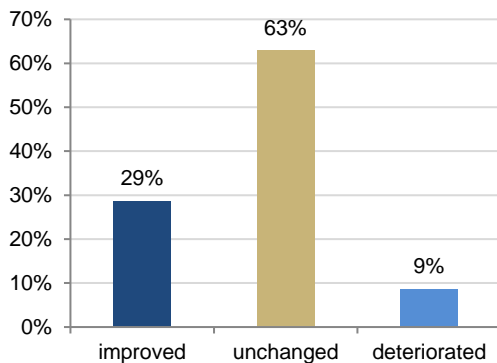


General expected situation

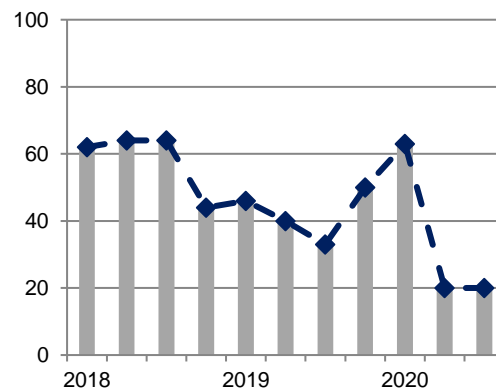
Question 2.1: “Overall, compared to the current situation, how do you expect economic conditions to develop in your Free Zone over the next 3 months?”

Average expectations of Free Zones regarding future business conditions have not yet improved after having deteriorated substantially due to the COVID-19 pandemic. Two in three Free Zones expect the situation to remain unchanged over the next three months, up from 33 percent in 2020Q2. Only 29 percent have a positive outlook, down from 43 percent in the previous survey. The share of Free Zones with a negative outlook is also much lower at 9 percent, down from 23 percent in 2020Q2. Overall, this translates into an F-WEB expectations indicator of 20, which is the same as in the previous quarter, despite the change in the distribution of answers.

Question 2.1: Expected economic situation



F-WEB: Expected situation



The unchanged F-WEB indicator for expectations hides some heterogeneity across more detailed dimensions of economic activity. The F-WEB indicators for **expected turnover** and **expected investment**, respectively, deteriorated even further after having plummeted in 2020Q2 amid the COVID-19 outbreak. They both reached their lowest levels on the record, at -3 for expected turnover (2020Q2: 12), and -6 for expected investment (2020Q2: -5). At the same time, the F-WEB indicators for **expected employment** and **expected profitability** show first cautious signs of improvement. The F-WEB indicator for expected employment reached positive territory again, increasing from -2 in 2020Q2 to 6 now; the F-WEB indicator for expected profitability increased from -15 to -6. 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, when the [F-WEB Special Survey](#) on the COVID-19 pandemic was conducted, and in the [2020Q2 round of the F-WEB](#). To analyze the developments over time, several special questions were repeated in the 2020Q3 survey. In addition, two special questions not directly related to COVID-19 were included. The results are reported in the following.

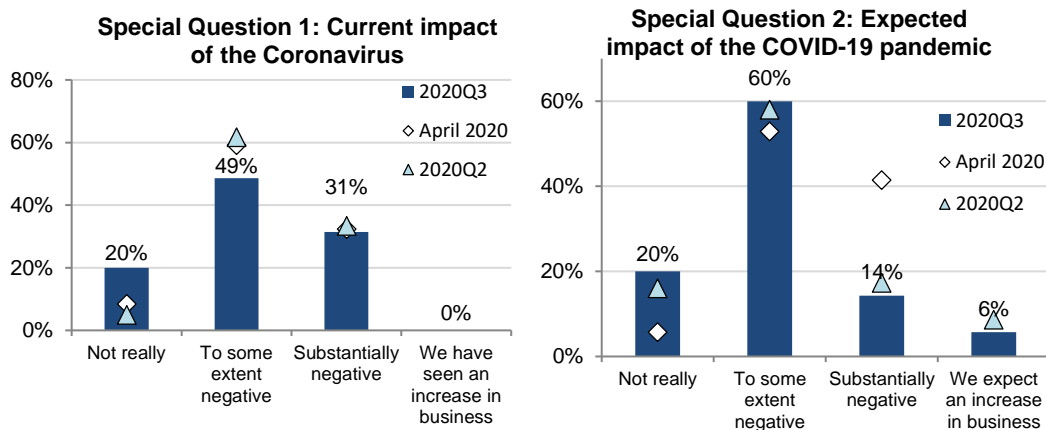
Special Question 1: Is activity in your Free Zone currently affected by the economic impact of coronavirus pandemic?

Most Free Zones worldwide are currently affected by the pandemic but there are some signs of improvement. As of 2020Q3, 80 percent of the participants report that economic activity in their Free Zone is currently hampered due to the coronavirus pandemic. This reflects an improvement compared with the previous round of the F-WEB where this share was over 90 percent. This is driven by the Free Zones reporting negative but less severe effects – their share dropped to 50 percent, from roughly 60 percent in April and in 2020Q2. 20 percent of respondents indicate that their Free Zone is currently not really affected, up from only 5 percent in the previous quarter. However, the share of Free Zones reporting substantial effects stayed largely stable since April and no Free Zone has seen an increase in business due to the pandemic.¹ Overall, the results suggest that the negative impact of the pandemic is still severe, despite some improvement since the previous quarter.

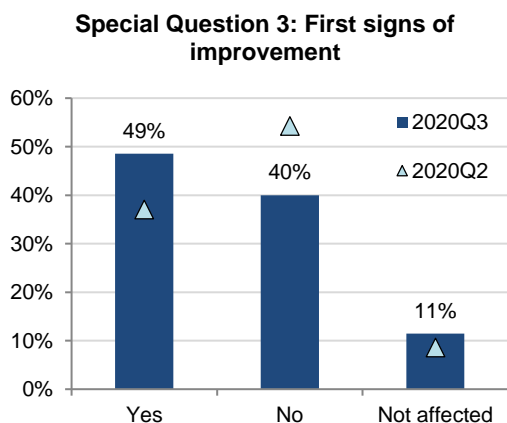
¹ Please note that the answering option “We have seen an increase in business.” had not been given in the Special Survey conducted in April and the results can therefore not be compared perfectly. It was added to account for the possibility that some Free Zones, for example those specializing in health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

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

A majority of Free Zones continues to expect economic activity to be hampered in the coming months and the improvement in sentiment compared with the previous quarter is small. In the coming months, three in four Free Zones expect to be negatively affected in the near future, compared with 80 percent experiencing negative effects at the moment (see Special Question 1). The overall share of Free Zones expecting negative effects in the coming months is almost unchanged compared with the previous round of the F-WEB. However, the share of Free Zones expecting substantial effects decreased somewhat to 14 percent while the share of Free Zones expecting moderate effects increased slightly to 60 percent. 20 percent of respondents do not expect any effects in the near future and 6 percent even expect an increase in business due to the pandemic.

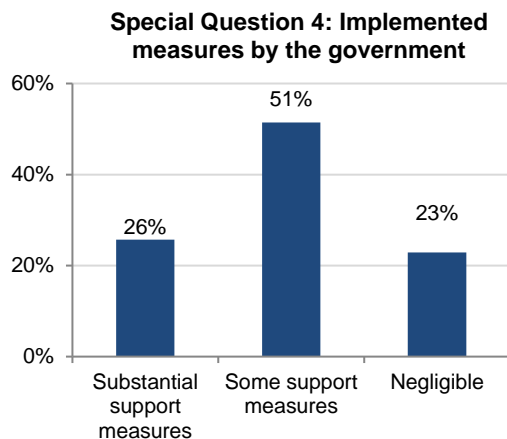


Special Question 3: Do you already see first signs of improvement at the moment?



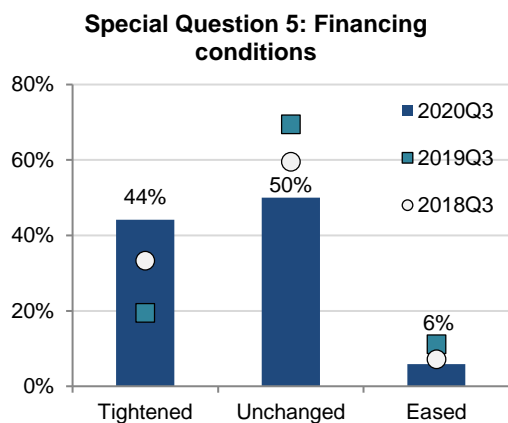
More and more Free Zones see first signs of improvement. Almost half of the participating Free Zones report some signs of recovery, up from 37 percent in 2020Q2. At the same time, 40 percent of respondents indicate to not yet see any signs of improvement (2020Q2: 54 percent), and 11 percent report to not be affected.

Special Question 4: Has the government implemented measures to support economic activity in your Free Zone / Free Zones in your country?



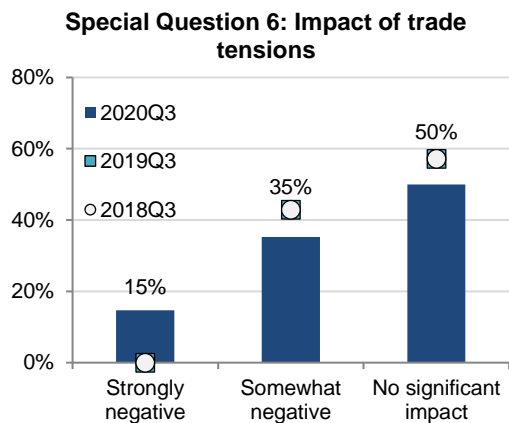
Governments have implemented support measures for economic activity but one in four Free Zones evaluate support to be negligible. Over three in four Free Zones report that the government in their country has implemented support measures. 26 percent of respondents report substantial measures, while half of the respondents assess support measures to be moderate. At the same time, one in four Free Zones indicate that government support has been negligible.

Special Question 5: How have financing conditions for businesses in your Free Zone developed over the past six months?



Financing conditions for business in Free Zones has tightened amid the COVID-19 pandemic. 44 percent of Free Zones report tighter financial conditions than six months ago. One year ago, this share was 33 percent. 50 percent of Free Zones saw no change in financing conditions over the past half year. Similar to the past two years, only few Free Zones experienced an easing of financial conditions.

Special Question 6: How do you expect trade tensions between several countries and the United States to affect business in your Free Zone?



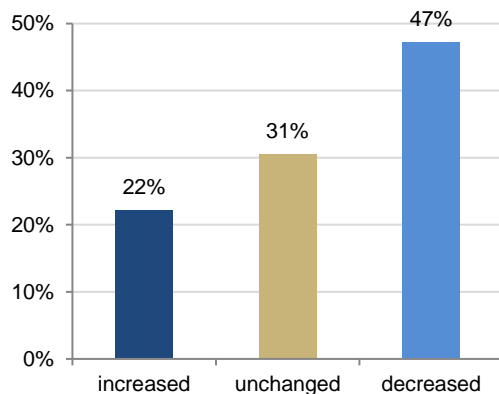
One in two Free Zones face a negative impact of the trade tensions originating from the protectionist stance of the United States. 15 percent of respondents expect a strongly negative effect; both in 2018 and 2019 no Free Zone reported strong detrimental effects. 35 percent expect moderate negative effects (down from 43 percent in 2018 and 2019) and 50 percent do not expect a negative impact (down from 57 percent in the previous two years).

DATA ANNEX

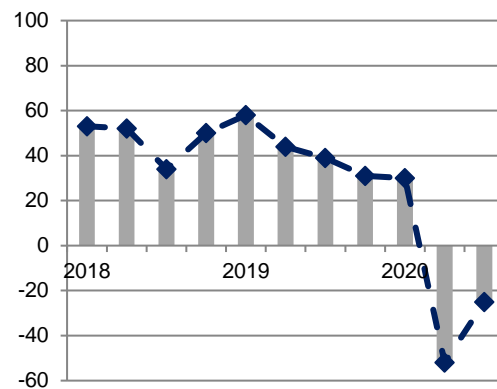
Current economic situation: Detailed dimensions

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?

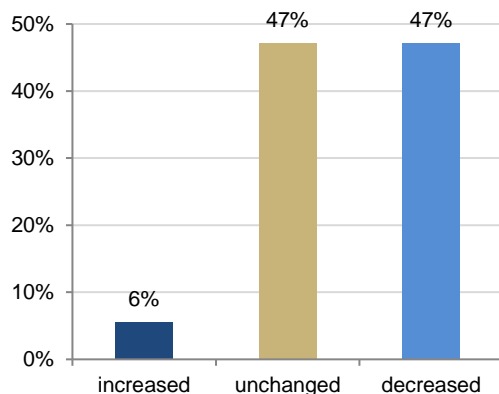
Question 1.3: Current turnover



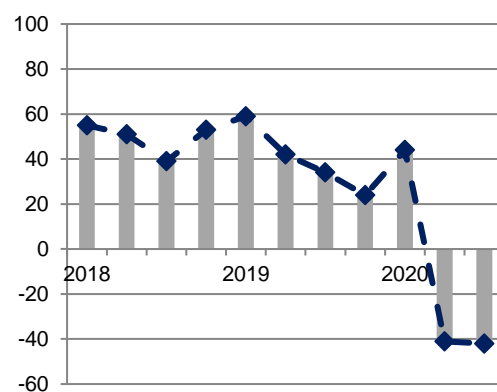
F-WEB: Current turnover



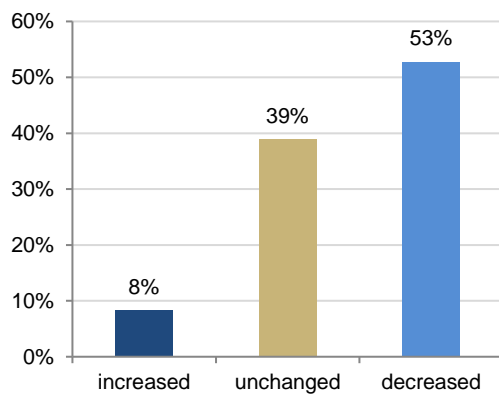
Question 1.4: Current employment



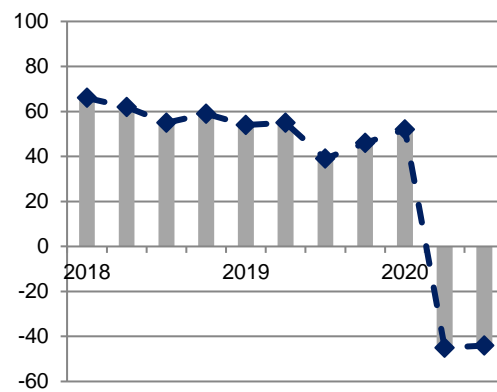
F-WEB: Current employment



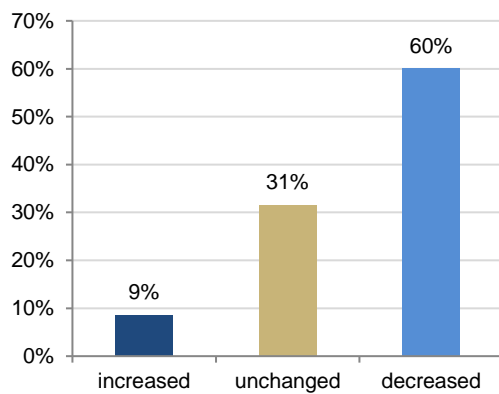
Question 1.5: Current investment



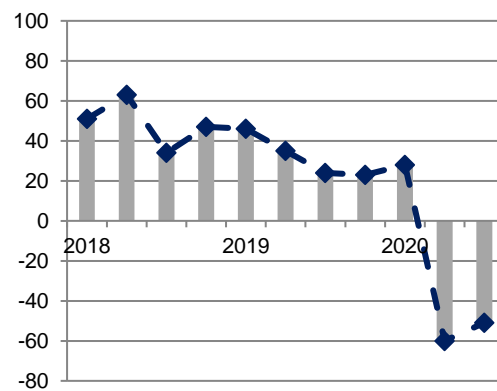
F-WEB: Current investment



Question 1.6: Current profitability



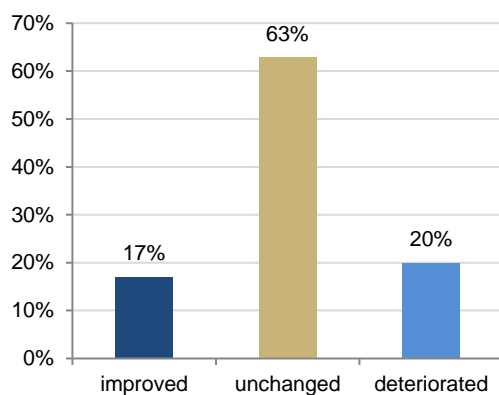
F-WEB: Current profitability



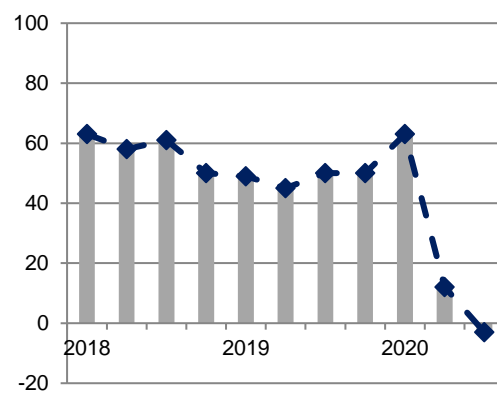
Expected economic situation: Detailed dimensions

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?

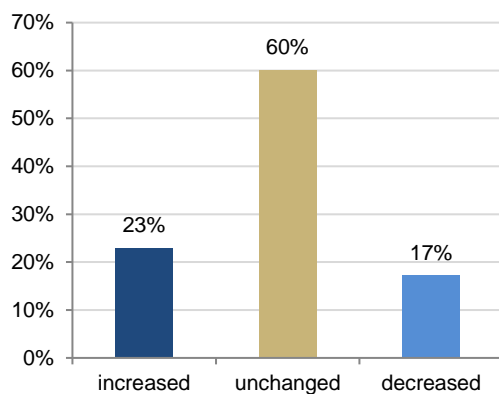
Question 2.2: Expected turnover



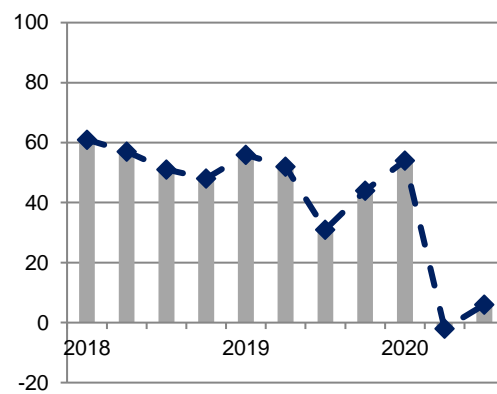
F-WEB: Expected turnover



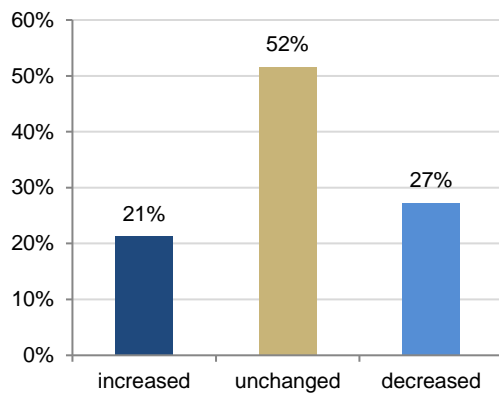
Question 2.3: Expected employment



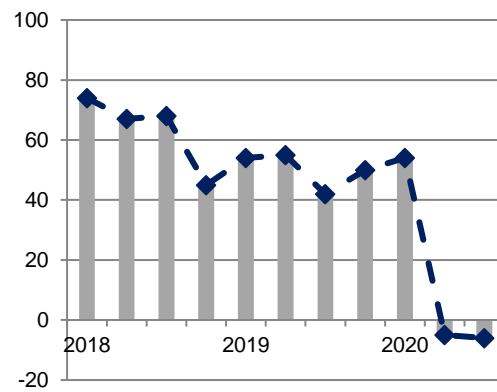
F-WEB: Expected employment



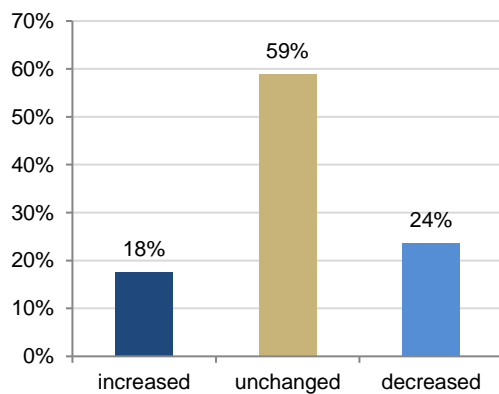
Question 2.4: Expected investment



F-WEB: Expected investment



Question 2.5: Expected profitability



F-WEB: Expected profitability

