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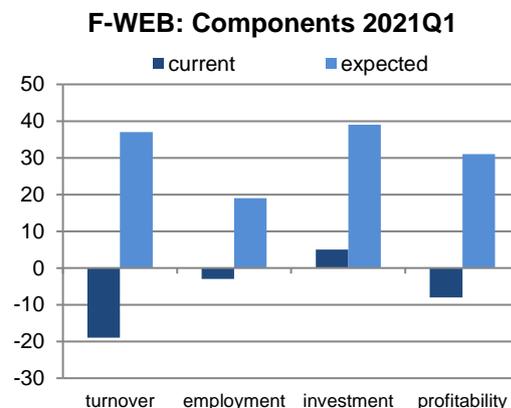
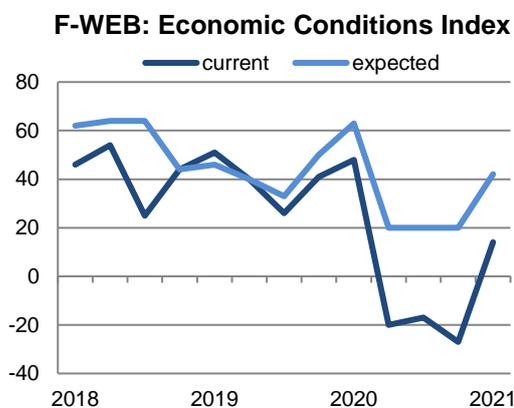
Free Zones World Economic Barometer

F-WEB NOTE 2021Q1

Executive Summary

In the first quarter of 2021, Free Zones around the globe have started to recover from the COVID-19 shock. This is the result of the 2020Q1 F-WEB survey conducted in March 2021. The share of Free Zones reporting a good current economic situation climbed to 30 percent, after having reached a new minimum at 10 percent in the final quarter of 2020. One year ago, i.e. before the effects of the COVID-19 pandemic were reflected in the results of the F-WEB, 56 percent of the participating Free Zones had reported a good current situation. About every other participant reports a normal situation in their Free Zone, remaining unchanged from the previous quarter. At the same time, the share of Free Zones reporting poor conditions dropped significantly from 37 percent to only 16 percent. As a result of these changes, the corresponding F-WEB Economic Conditions Index increased substantially from -27 in the previous quarter to +14 now. However, it is still well below its pre-pandemic reading of 48.

A look at more detailed dimensions of economic activity reveals that the recovery of economic activity is broad-based and reflected in investment, employment, profitability, and turnover. The situation regarding the latter, however, has only improved relatively moderately.



The outlook of the Free Zones has become significantly more optimistic. The share of F-WEB participants expecting a deteriorated economic situation decreased dramatically from 20 percent in the previous quarter to only 3 percent in this survey. 44 percent of the participants have a positive outlook, up 4 percentage points compared with the last quarter of 2020. More than 50 percent expect that their economic situation will not change in the next three months. As a result, the F-WEB indicator left behind its plateau of the preceding three quarters at indicator values of 20 and more than doubled to a value of 42. Expectations have improved substantially across all dimensions of economic activity and are now more optimistic than in any F-WEB survey since the outbreak of the pandemic.

The Special Questions asked in the F-WEB 2021Q1 provide additional information on the current and expected economic situation in Free Zones. The results show that (1) 69 percent of the Free Zones are currently negatively affected (down from 83 in 2020Q4) and (2) 47 percent expect to be negatively affected also in the coming months (down from 73 in 2020Q4); (3) with 58 percent, substantially more Free Zones see first signs of improvement than three months ago (2020Q4: 47 percent); (4) half of the Free Zones experienced a decline between 0 and 25 percent of economic activity in 2020, while 33 percent saw an even stronger decline. Only 16 percent saw an increase in activity in 2020; and (5) the majority of Free Zones expects the recovery from the COVID-19 crisis to take more than one year.

The next F-WEB survey scheduled for May 2021. 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 (increasing, improving, good), negative (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.

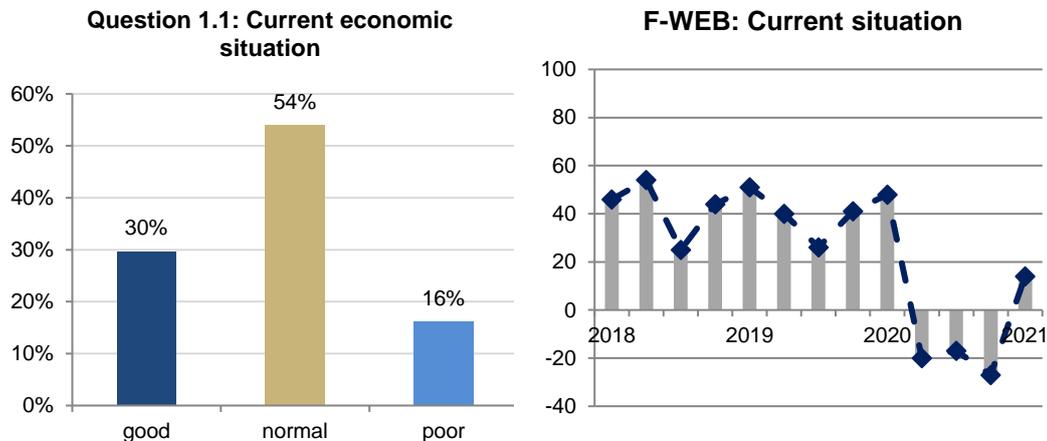
F-WEB 2021Q1 DETAILED RESULTS

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?”

Around one year after the outbreak of COVID-19 reached a global scale, Free Zones have started to recover from the economic consequences of the pandemic. In the first quarter of 2021, 30 percent of respondents evaluate their situation as good, up from 10 percent at the end of 2020. At the same time, the share of Free Zones reporting poor conditions dropped significantly from 37 percent to only 16 percent. About every other participant reports a normal situation in their Free Zone, unchanged from the previous quarter. The corresponding F-WEB indicator bounced back into positive territory after three consecutive quarters with negative values. It now reads 14, up from -27 in 2020Q4.



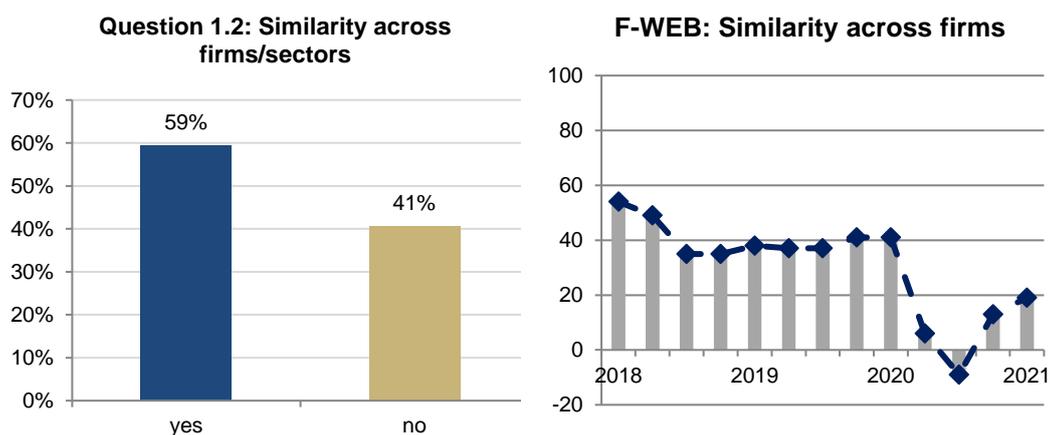
In line with the overall improvement in economic sentiment, the more detailed dimensions of economic activity have also seen significant improvements. The F-WEB indicator for current **investment** increased from -17 in 2020's final quarter to +5 now, reflecting a rise from 23 to 43 percent in the share of Free Zones reporting an increase in investment and reaching a level significantly above its all-time low of -45 recorded in the second quarter of 2020. The percentage of Free Zones reporting a decrease in investment, however, remained roughly unchanged compared with the previous quarter at almost 40 percent. **Profitability** also continued its recovery. The share of Free Zones reporting an increase in profitability is now at 28 percent, up from 14 percent in 2020Q4, while the share of respondents reporting a decrease fell from 52 to 36 percent. The F-WEB indicator for current profitability thus improved strongly since reaching its all-time low of -60 in the second quarter of 2020, while remaining in negative territory (2021Q1: -8, 2020Q4: -38). The situation

regarding **employment** has also eased further. While the share of Free Zones reporting an increase in employment only rose slightly to 24 percent, the percentage of Free Zones reporting to have reduced employment dropped by 10 percentage points to 27 percent. The corresponding F-WEB indicator reads -3 now, up from -17 in 2020Q4 and -42 in 2020Q3, when the employment situation was the worst on the record. Only relatively small improvements were reported on the situation regarding **turnover**. The share of Free Zones that have seen an increase in turnover rose from 17 to 22 percent, while the share reporting a decrease in turnover decreased only slightly to 41 percent. As a result, the F-WEB indicator for current turnover rose from -27 in the last quarter of 2020 to -19 now, after having seen its lowest level at -52 in 2020Q2. 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)?”

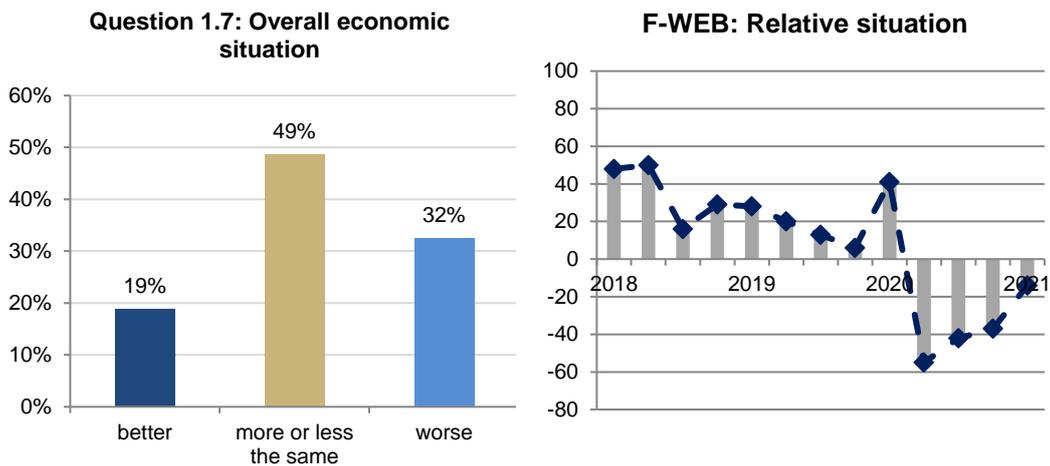
59 percent of the participants report that all sectors or most companies in their Free Zone face a similar current economic situation, slightly up from 57 percent in 2020Q4. Correspondingly, the F-WEB indicator for similarity across firms increased from 13 to 19 this quarter.



Relative assessment

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

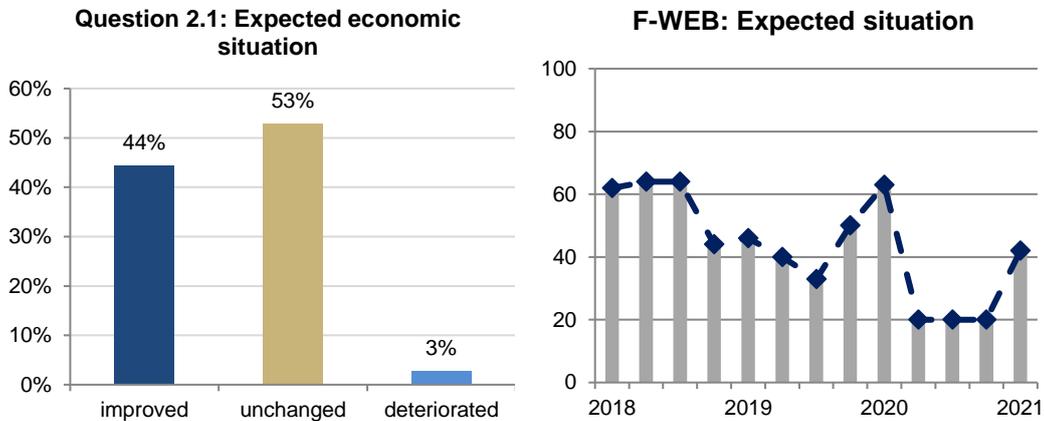
On balance, Free Zones continue to assess their situation as worse than the general situation in the respective host country. In the current round of the F-WEB, about every fifth Free Zone assesses its situation as better than the situation in the country it is located in, up from every tenth in the previous quarter. Every second Free Zone reports a similar relative situation (2020Q4: 43 percent). The share of Free Zones assessing their situation as worse than in the host country dropped from 47 percent in 2020Q4 to 32 percent now. Consequently, the F-WEB indicator rose from -37 in 2020Q4 to -14, implying that the economic situation of the Free Zones and of the host countries in general is converging.



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?”

Free Zones have become substantially more optimistic about the near future, on average. The share of F-WEB participants expecting a deteriorated economic situation decreased dramatically from 20 percent in the previous quarter to only 3 percent in this survey. 44 percent of the participants have a positive outlook, up 4 percentage points compared with the last quarter of 2020. More than 50 percent expect that their economic situation will not change in the next three months (2020Q4: 40 percent). As a result, the F-WEB indicator leaves behind its plateau of the preceding three quarters at indicator values of 20 and more than doubles to a value of 42.



The increased optimism is also reflected in the more detailed dimensions of economic activity. All four F-WEB indicators saw substantial increases for the first time since the outbreak of the pandemic. The F-WEB indicator for **expected turnover** increased from a value of 3 in 2020Q4 to 37 in the current F-WEB survey. The F-WEB indicator for **expected employment** rose more moderately by 9 points to a value of 19, while the **expected investment** indicator saw an even larger upward jump than expected turnover, increasing from a value of 3 in 2020Q4 to 39 now. The F-WEB indicator for **expected profitability** increased similarly strongly from 0 to 31 in the current F-WEB survey. Overall, expectations have improved substantially and are now more optimistic than in all previous F-WEB surveys since the outbreak of the pandemic. However, both the F-WEB indicator for expected situation and the indicators for all four dimensions have not yet reached their pre-pandemic scores. Graphs on the detailed dimensions can be found in the [Data annex](#).

SPECIAL QUESTIONS

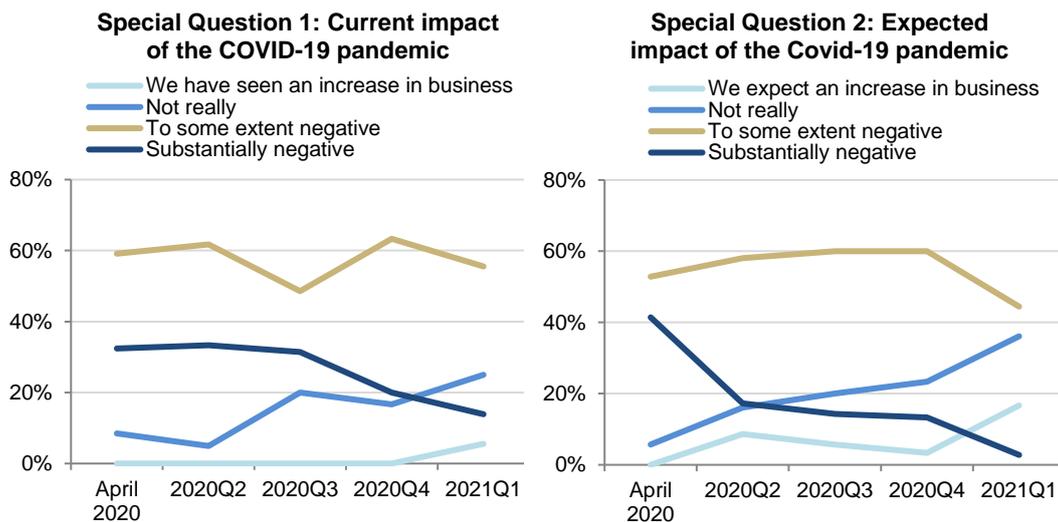
The standard F-WEB questions are already well-equipped to capture the impact of the COVID-19 pandemic on Free Zones. To gain an even better understanding of the effects of the current crisis, a set of COVID-19 related special questions were asked in April 2020, when the [F-WEB Special Survey](#) on the COVID-19 pandemic was conducted. To analyze the developments over time, several special questions were repeated since then in all subsequent surveys. In addition, we report the answers to two special questions that were asked both in the current F-WEB survey and in a World FZO Webinar series held in late March 2021. Thus, the results to special questions 4 and 5 include roughly 70 answers each from the World FZO Webinars in addition to the F-WEB answers.

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

Despite a third wave of high case numbers in several countries, the share of Free Zones impacted by the pandemic has been declining. While most Free Zones still report some (56 percent; 2020Q4: 53 percent) or substantial (14 percent; 2020Q4: 20 percent) negative impacts of the COVID-19 pandemic on economic activity in their Free Zone, the situation has improved compared with the previous round of the F-WEB. Meanwhile, the share of Free Zones not really impacted increased from 20 to 25 percent in this survey, and 6 percent report an increase in business, the first positive share on the record. In sum, the results point towards a starting recovery process for Free Zones.

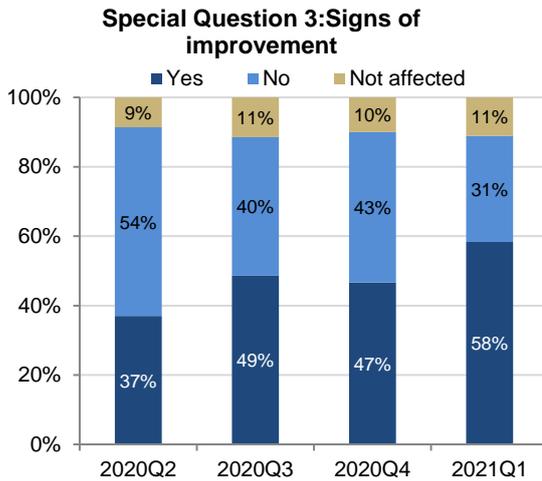
Special Question 2: Do you expect activity in your Free Zone to be affected by the coronavirus pandemic in the coming months?

The expectations of Free Zones regarding the future impact of the COVID-19 pandemic have become more optimistic. 44 percent of the F-WEB participants anticipate some negative impact on economic activity in the next three months, down from 60 percent in the previous quarter. The share of Free Zones expecting a substantially negative impact also went down further and is now at only 3 percent. In April 2020 this share had been over 40 percent and had been decreasing since then. At the same time, the share of Free Zones expecting no impact or a somewhat positive impact increased to 36 percent (2020Q4: 23 percent) and 17 percent (2020Q4: 3 percent), respectively.



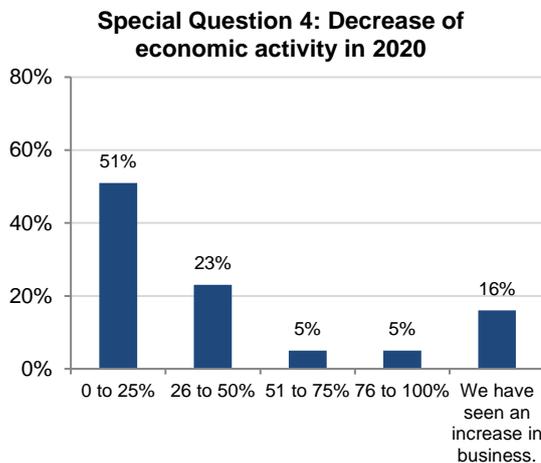
¹ Please note that the answering option "We have seen an increase in business." had not been given in the Special Survey conducted in April and the results can therefore not be compared perfectly. It was added to account for the possibility that some Free Zones, for example those specializing in health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

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



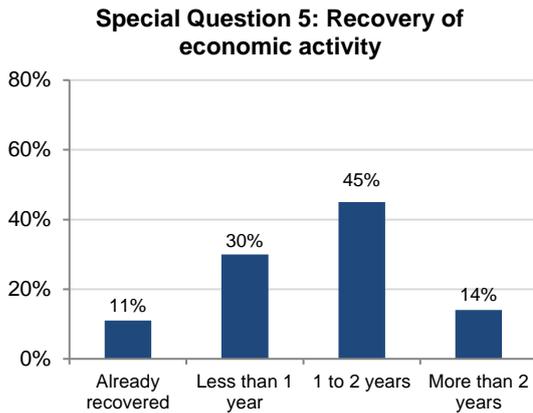
More and more Free Zones see first signs of improvement after the COVID-19 shock. The majority of Free Zones – 58 percent – see first signs of improvement, up from 47 percent in the previous F-WEB survey. At the same time, the share of Free Zones reporting no signs of recovery yet has dropped from 43 to 31 percent. 11 percent, a similar share as in the previous surveys, report not to be affected.

Special Question 4: How much has economic activity in your Free Zone decreased in 2020 due to the consequences of the COVID-19 pandemic?



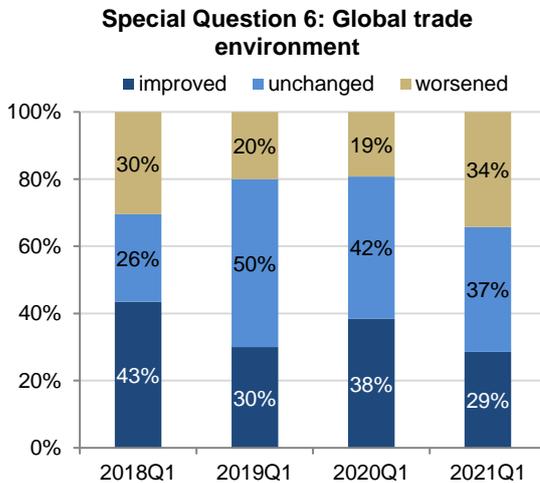
The large majority of Free Zones experienced a decrease in economic activity in 2020. This special question was asked to evaluate the overall impact of the COVID-19 crisis on economic activity in Free Zones during the past year. Half of the Free Zones report a decrease in economic activity of 0 to 25 percent. 33 percent saw economic activity drop even more severely, with 23 percent reporting a decline of 26 to 50 percent, and 10 percent reporting a decline of more than 50 percent. Only 16 percent of the Free Zones saw an increase in activity in 2020.

Special Question 5: When do you expect economic activity in your Free Zone to have fully recovered from the COVID-19 crisis?



The majority of Free Zones expects the recovery from the COVID-19 crisis to take more than one year. 11 percent of the participants report that their Free Zone has already fully recovered from the COVID-19 crisis. 30 percent expect the recovery process to take less than one year, while 45 percent expect it to take between one and two years. 14 percent report an expected recovery period of more than two years.

Special Question 6: In your view, over the last few months the global trade environment has improved, stayed the same, or worsened?

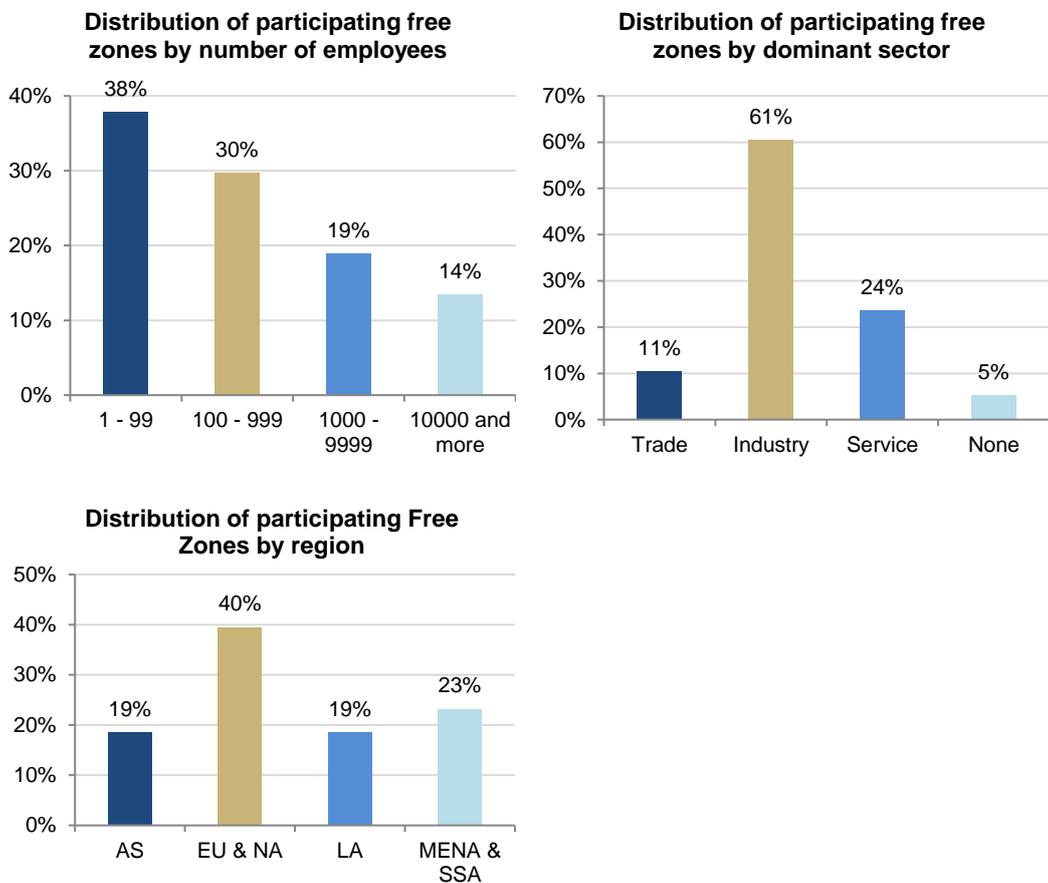


The assessment on the global trade environment continues to be diverse. In 2020Q1, participants split almost evenly among the response options, with most participants reporting an unchanged environment (37 percent). 34 percent of the Free Zones – a substantially larger share than in the past two years – assess the global trade environment to have deteriorated over the last few months. At the same time, with 29 percent, the share of Free Zones evaluating the development of the trade environment positively has declined markedly compared with last year.

DATA ANNEX

General information

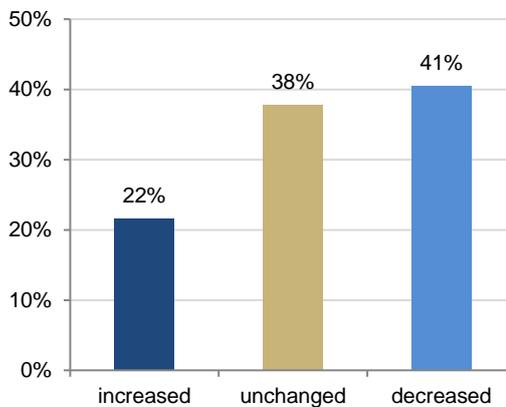
The 2021Q1 survey is the thirteenth round of the F-WEB. It was conducted between March 8 and March 26, 2021. Overall, 43 Free Zones representatives from 31 countries worldwide participated in the survey.



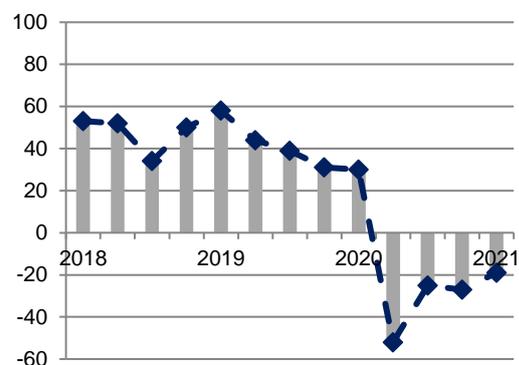
Current economic situation: Detailed dimensions

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?

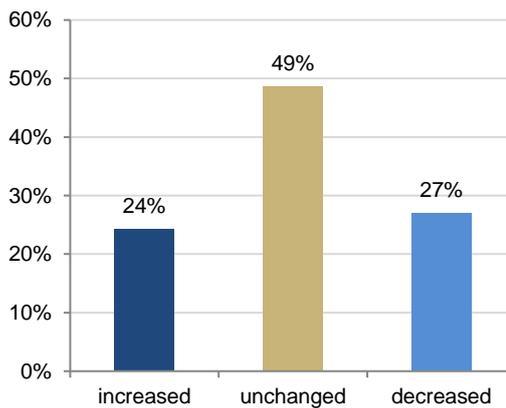
Question 1.3: Current turnover



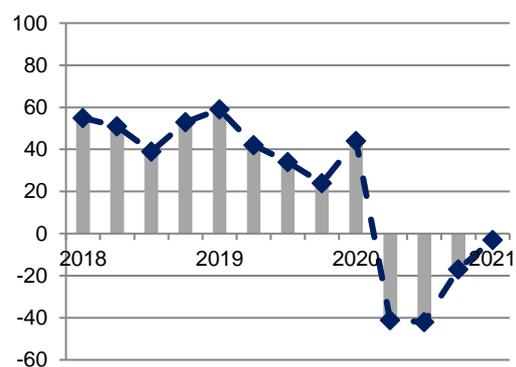
F-WEB: Current turnover



Question 1.4: Current employment



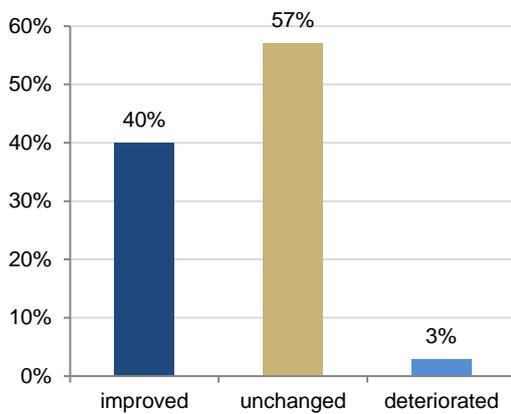
F-WEB: Current employment



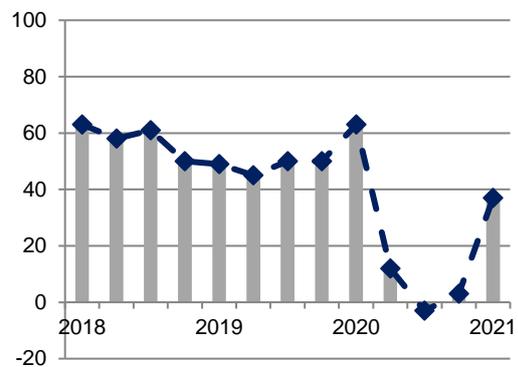
Expected economic situation: Detailed dimensions

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?

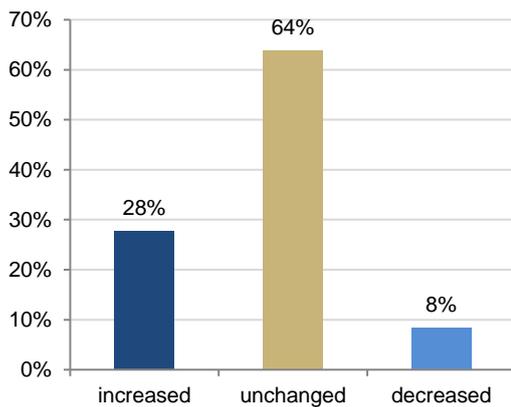
Question 2.2: Expected turnover



F-WEB: Expected turnover



Question 2.3: Expected employment



F-WEB: Expected employment

