

BUREAU OF ECONOMIC RESEARCH  
OFFICE OF THE GOVERNOR  
TESTIMONY ON THE IMPACT THE RE-OPENING OF CUBA  
WILL HAVE ON THE VIRGIN ISLANDS ECONOMY  
BEFORE THE  
COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & PLANNING  
31<sup>ST</sup> LEGISLATURE OF THE UNITED STATES VIRGIN ISLANDS  
SEPTEMBER 28, 2015

GOOD DAY HONORABLE CHAIRPERSON JANETTE MILLIN YOUNG, MEMBERS OF THE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE AND PLANNING AND OTHER MEMBERS OF THE 31<sup>ST</sup> LEGISLATURE PRESENT, LEGISLATIVE STAFF, MEMBERS OF THE MEDIA, LISTENING AND VIEWING AUDIENCE. I AM BERNADETTE V. M. MELENDEZ, THE DIRECTOR OF THE BUREAU OF ECONOMIC RESEARCH, OFFICE OF THE GOVERNOR. I APPEAR BEFORE YOU TO PRESENT TESTIMONY ON THE INITIATIVES THE BUREAU OF ECONOMIC RESEARCH (BER) IS UNDERTAKING TO MITIGATE THE IMPACT THE RE-OPENING OF CUBA WILL HAVE ON THE US VIRGIN ISLANDS ECONOMY.

IMPLICATIONS OF CUBA RE-OPENING

THERE IS CONSIDERABLE CONCERN AMONG CARIBBEAN TOURISM OFFICIALS THAT THE RE-OPENING OF CUBA WILL HAVE A DISRUPTIVE IMPACT ON OUR ECONOMIES. IN A POSITION PAPER RELEASE IN JUNE, 2015 THE CARIBBEAN HOTEL & TOURISM ASSOCIATION (CHTA) SAID THAT “THE BIGGEST AND MOST DISRUPTIVE PEBBLE TO BE DROPPED INTO THE CARIBBEAN POOL IN 50 YEARS WILL ARRIVE WITH THE OPENING OF TRAVEL TO CUBA FOR UNITED STATES CITIZENS.” CHTA EXPECTS THAT THE COUNTRIES NEAREST TO CUBA WILL FEEL THE GREATEST EFFECTS.

WHILE CURRENTLY THERE IS NO EMPIRICAL EVIDENCE TO ESTIMATE THE IMPACT OF LIFTING THE U.S. TRADE AND TRAVEL EMBARGO WITH CUBA ON THE U.S. VIRGIN ISLANDS (USVI) TOURISM INDUSTRY, IN PARTICULAR, WE RECOGNIZE THAT OUR TOURISM-DEPENDENT ECONOMY MAY BE IMPACTED IN A NUMBER OF WAYS. POTENTIALLY, THERE MAY BE SHORT-TERM DISLOCATION ON TOURIST ARRIVALS AS CUBA GAINS MARKET SHARE, VISITOR EXPENDITURES, HOTEL ROOMS, AND PRIVATE INVESTMENTS IN TOURISM INFRASTRUCTURE.

THE USVI TOURISM INDUSTRY ATTRACTED 2.8 MILLION AIR AND CRUISE SHIP PASSENGERS IN 2014 AND GENERATED MORE THAN \$1 BILLION IN VISITOR EXPENDITURES. USVI TOURISM ACCOUNTS FOR MORE THAN 8,000 DIRECT JOBS OR 20 PERCENT OF TOTAL WAGE AND SALARY EMPLOYMENT. THE INDUSTRY INCLUDES ACCOMODATIONS AND FOOD, GAMING, RECREATION AND SPORTS, ARTS AND ENTERTAINMENT SERVICES.

THE GOVERNMENT AND PRIVATE SECTOR THROUGH THE COMPREHENSIVE ECONOMIC DEVELOPMENT STRATEGY (CEDs) HAVE BEGUN TO DEVELOP MEDIUM-TERM STRATEGIES TO DIVERSIFY OUR ECONOMY, REDUCE UNEMPLOYMENT, UPGRADE OUR TOURISM PRODUCT, INCREASE TOURISM ARRIVALS INVESTMENTS, AND STIMULATE TRADE IN GOODS AND SERVICES.

BER OVERSEES THE ACTIVITIES OF THE COMPREHENSIVE ECONOMIC DEVELOPMENT STRATEGY (CEDs) COMMITTEE WHICH IS CHAIRED BY GOVERNOR KENNETH E. MAPP. THE CEDs INTERGRATES A REGION'S HUMAN

AND PHYSICAL CAPITAL PLANNING IN THE SERVICE OF ECONOMIC DEVELOPMENT. INTEGRATED ECONOMIC DEVELOPMENT PLANNING PROVIDES THE FLEXIBILITY TO ADAPT TO GLOBAL ECONOMIC CONDITIONS AND FULLY UTILIZE THE REGION'S UNIQUE ADVANTAGES TO MAXIMIZE ECONOMIC OPPORTUNITY FOR ITS RESIDENTS BY ATTRACTING THE PRIVATE INVESTMENT THAT CREATE JOBS FOR THE REGION'S RESIDENTS.

THROUGH THE CEDS IN ITS PLANNING EFFORTS TO MITIGATE IMPACTS OF SHOCKS ON THE LOCAL ECONOMY AND TO MAKE THE TERRITORY MORE RESILIENT BER HAS ACTED DELIBERATELY TO SUPPORT OTHER LOCAL ECONOMIC DEVELOPMENT EFFORTS AND INITIATE THREE PROJECTS WHICH INCLUDES THE 2015 BUSINESS NEEDS SURVEY, THE TOURISM MASTER PLAN, AND THE UPDATE OF THE 2016 CEDS.

FIRSTLY, IN RESPONSE TO THE NEED TO ADDRESS LOCAL ECONOMIC AND WORKFORCE RELATED CHALLENGES AND IDENTIFY OPPORTUNITIES, THE 2015 BUSINESS NEEDS SURVEY HAS BEEN INITIATED TO RESPOND TO THE CONCERN THAT THE LABOR POOL IS INCREASINGLY NOT MATCHING GROWING DEMANDS FOR JOBS IN THE ECONOMY. THIS SCIENTIFIC SURVEY WILL PROVIDE EMPIRICAL EVIDENCE OF THE NEEDS OF LOCAL INDUSTRY AND HELP DEFINE AND QUANTIFY THE EXTENT OF WORKFORCE ISSUES RELATED TO SKILLS, TRAINING AND EDUCATION. THIS RESEARCH WILL PROVIDE BUSINESS AND POLICY MAKERS WITH DATA AND INFORMATION NECESSARY TO RESPOND TO CHANGING LABOR MARKET CONDITIONS AND GRASP OPPORTUNITIES TO

RETAIN AND ATTRACT NEW INDUSTRIES THAT WILL HELP MAKE THE TERRITORY MORE COMPETITIVE.

SECONDLY, BER IN COLLABORATION WITH KEY STAKEHOLDERS IN THE TOURISM INDUSTRY WILL CREATE A TOURISM MASTER PLAN FOR THE TERRITORY. THIS IS CRITICAL IN ORDER TO KEEP THE TOURISM INDUSTRY COMPETITIVE AND TO STAY AHEAD OF TRENDS IN THE TOURISM INDUSTRY

TOURISM, A PRIMARY DRIVER OF THE USVI ECONOMY HAS FACED NUMEROUS CHALLENGES IN RECENT YEARS, INCLUDING INCREASED COMPETITION FROM REGIONAL DESTINATIONS, INSUFFICIENT INVESTMENT IN TOURISM INFRASTRUCTURE, AND LACK OF DIVERSITY IN TOURIST OFFERINGS. THESE HAVE LED TO THE OVERALL ASSESSMENT THAT THE USVI IS UNDERPERFORMING ITS POTENTIAL; HENCE THERE IS A NEED TO REAPPRAISE AND PRESERVE ITS ASSETS, AND IMPORTANTLY CREATE A MASTER PLAN THAT WOULD SECURE THE FUTURE OF THE USVI TOURISM PRODUCT.

THE TOURISM MASTER PLAN WILL SERVE AS A STRATEGIC FRAMEWORK FOR NEAR-TERM, MEDIUM TERM AND LONG-TERM POLICY INITIATIVES THAT WILL ENHANCE THE VISITOR EXPERIENCE, STIMULTE PRIVATE INVESTMENT, AND MAXIMIZE THE FINANCIAL VIABILITY OF THE TOURISM INDUSTRY. THE PLAN WILL EXAMINE ALL ASPECTS OF THE TERRITORY'S RICH HISTORY AND CULTURE, TAKING INTO ACCOUNT OF ITS PEOPLE, RESOURCES AND NATURAL ASSETS. THE MASTER PLAN WILL LEVERAGE THESE ELEMENTS TO CHART A COURSE TOWARD BROAD-BASED ECONOMIC DEVELOPMENT AND

SUSTAINABILITY. THE CREATION OF THE PLAN IS INTENDED TO REHABILITATE THE INDUSTRY WHICH WILL ALLOW THE TERRITORY TO RETURN TO ITS FORMER STANDING AS AN EXCEPTIONAL PREMIER TOURISM DESTINATION.

THIRDLY, THE CEDS PLANNING PROCESS RESULTS IN A FIVE YEAR STRATEGIC PLAN THAT IS UPDATED PERIODICALLY TO REFLECT CHANGES IN A REGION. THE PLAN PROVIDES AN OVERVIEW OF THE REGION, INCLUDING SOCIOECONOMIC AND OTHER CHARACTERISTICS. IT ALSO PROVIDES AN ASSESSMENT OF PROGRESS ON ECONOMIC DEVELOPMENT, DISCUSSES STRENGTHS AND CHALLENGES THAT CAN IMPACT FUTURE DEVELOPMENT, AND OUTLINES A SET OF GOALS, OBJECTIVES AND ACTIVITIES AS PART OF A PLAN TO ADDRESS LOCAL DEVELOPMENT ISSUES. THE PLAN WAS ADOPTED IN 2015 AND AN UPDATE IS INTENDED TO SERVE AS A POLICY GUIDE DURING THE INTERIM PERIOD BETWEEN A FULL UPDATE OF THE CEDS AS IT HELPS THE COMMUNITY TO IDENTIFY CRITICAL ISSUES AND OPPORTUNITIES WHICH CONTINUE OR AROSE DURING 2015.

THE 2016 CEDS UPDATE WILL ENHANCE THE CAPACITY OF EACH ISLAND DISTRICT TO EFFECT ECONOMIC DEVELOPMENT BY INCORPORATING NATIONAL DATA AND TRENDS, UTILIZING BEST PRACTICES, AND DRAWING ON EXPERIENCES AT THE REGIONAL LEVEL. UNDERSTANDING REGIONAL AND NATIONAL TRENDS WILL HELP TO TARGET AND EXPAND OPPORTUNITIES FOR ECONOMIC DEVELOPMENT, IDENTIFY FINANCIAL AND HUMAN RESOURCES TO BEST ATTRACT, RETAIN, AND EXPAND HIGH DEMAND, HIGH WAGE BUSINESSES.

IN SUMMARY, WHILE BER RECOGNIZES THAT THE RE-OPENING OF CUBA WILL PRESENT OUR TOURISM INDUSTRY WITH CHALLENGES, THIS EVENT PRESENTS TREMENDOUS OPPORTUNITIES TO ENHANCE OUR TOURISM PRODUCT AND IMPROVE OUR ECONOMY, WHICH CAN RESULT IN OVERALL BENEFITS FOR OUR BUSINESSES AND RESIDENTS. BER WILL SEEK TO ESTIMATE THE IMPACT ON THE USVI OF THE US/CUBA TOURISM TRADE NORMALIZATION AND CONTINUE TO DEVELOP STRATEGIES TO CUSHION NEGATIVE EFFECTS.

THIS CONCLUDES MY PRESENTATION AND I EXTEND MY APPRECIATION TO YOU, MS. CHAIRPERSON, MEMBERS OF THE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE AND PLANNING AND OTHER SENATORS FOR THEIR CONTINUING SUPPORT. TO THE BEST OF MY KNOWLEDGE, I AM PREPARED TO RESPOND TO ANY QUESTIONS YOU MAY HAVE AT THIS TIME.