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BEFORE THE
COMMITTEE ON ECONOMIC
DEVELOPMENT AND AGRICULTURE

36TH LEGISLATURE
OF THE UNITED STATES VIRGIN ISLANDS

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Good morning, to the Honorable Hubert L. Frederick, Chairperson of the United States Virgin Islands 36th Legislature Committee on Economic Development and Agriculture, other Committee members, other members of the Legislature present, legislative staff, fellow testifiers, members of the media, persons in the viewing and listening audience, ladies and gentlemen. My name is Haldane Davies, and I am Director of the Bureau of Economic Research (BER), Government of the United States Virgin Islands. With me today is Ms. Bernesha Liburd, Senior Project Analyst in the Bureau of Economic Research.

I welcome the opportunity to provide testimony on Bill No. 35-0910: An act urging the United States Congress and the Office of the United States Trade Representative to expand and modernize the Caribbean Basin Initiative (CBI) to further support economic growth and development in the Virgin Islands and the wider Caribbean region. The CBI is important to the continued economic and financial stability of the USVI, especially considering the Government Employees Retirement System's dependence on the securitization of the rum cover over proceeds. Other exports including oil, jewelry, watches, alcoholic beverages, and other goods enjoy duty free access to the US Mainland under this initiative.

Circumstances surrounding the safety and security of the western hemisphere including the US invasion of Grenada in 1983, led to the introduction of the United States of America trade preferences programs for the Caribbean and Central American region under the Caribbean Basin Economic Recovery Act (CBERA) also known collectively as the Caribbean Basin Initiative (CBI). As of 2023 and until recently in 2025, the CBI provided 17 countries and dependent territories with duty-free access to the U.S. market for most goods. CBI benefits were expanded through the enactment of the Caribbean Basin Trade Partnership Act (CBTPA) in 2000, relevant provisions in the Trade Act of 2002, the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006 (HOPE Act), the HOPE II Act of 2008,

the Haitian Economic Lift Program Act of 2010 (HELP Act), and the Trade Preferences Extension Act of 2015. Together with economic reform and other actions taken by beneficiary countries to liberalize their trade regimes, the trade benefits of the CBI have both helped beneficiary countries and dependent territories in the region diversify their exports and have contributed to their economic growth, albeit at varying degrees.

The November 2025 National Security Strategy of the United States of America proports to have a strong and stable western hemisphere devoid of threats to national security and ensuring regional stability among nations, states, and territories. While this strategy may be viewed in diverse ways by the world, one key factor in support of the strategy is the importance of revising and expanding trade opportunities among nations, especially those in the Caribbean region. Caribbean nations, states, and territories must be able to thrive economically while maintaining their sovereignty and determination. This could be done through new preferential trade agreements and the easier yet structured movement of goods, services, technology, and human resources across the region and hemisphere. Thus, the renewal and expansion of the CBI or some other collaborative agreement may be seen as central to the growth and stability of the region. Results of the more recent and ongoing regional activities are still being written and whatever the outcome, the safety and economic wellbeing of the region must be maintained.

According to the *Center for a New Economy (CNE)*, both Puerto and USVI have benefited from excise taxes collection on rum and spirits imported to the US from PR and USVI production and non-Puerto Rico and non-USVI sources, in conjunction with the CBI. Over the last thirty years (1994-2023) the USVI received approximately \$4.3 billion in rum cover over funds, an average of \$143 million per year, ranging from \$32.9 million in 1994 to \$224.3 million in 2023. The highest amount received by the USVI was \$285.8 million in 2022. During the same period, Puerto Rico received \$10.6 billion in rum cover over funds, an average of \$355 million per year, ranging from \$202.4 million in 1994 to \$362.4

million in 2023. The highest amount received by Puerto Rico was \$519.7 million in 2021.

In 2022, CBI beneficiary countries supplied \$11.6 billion of U.S. imports, ranking 26th among U.S. import suppliers. U.S. imports from CBI beneficiaries steadily grew from \$5.1 billion in 2020 to \$8.7 billion in 2021 and \$11.6 billion in 2022, which represented an increase of 70.5 percent and 33.7 percent, respectively. This is largely attributed to economic recovery following the height of the COVID19 pandemic (CNE).

U.S. imports under the CBI tariff preferences increased to \$1.9 billion in 2022, from \$1.4 billion in 2021 and \$1.2 billion in 2020. The increase in 2022, 34.0 percent, was preceded by an increase of 16.7 percent in 2021. The rise in 2022 was primarily driven by a higher value of U.S. imports of petroleum products—from Trinidad and Tobago, Guyana, Jamaica, and Curaçao—achieving \$940.2 million in 2022, up from \$547.4 million in 2020 or an increase of 71.7 percent (CNE).

The reauthorization of the CBI is an opportunity to strengthen existing trade preferences and expand and modernize the CBI by transforming it from a unilateral, goods only agreement into a more stable, resilient, inclusive, and collaborative partnership with more benefits and incentives for the US Caribbean territories. Whether it is maritime trade, transportation logistics, port and waterway security, or economic development and expansion, alliances that are balanced and respectful among all parties could significantly advance and secure the economic future of the Caribbean.

There is need for the reauthorized CBI to provide development support and aid for trade to help countries build productive capacity, upgrade infrastructure, and align their economies with the program's requirements. There is also the need to make the rules of origin more flexible by allowing for the use of raw materials and inputs from a wider range of countries, including

current and former CBI beneficiaries. This could enhance the region's competitiveness and boost trade.

The CBI should not be left to the priorities of any one administration but needs stability by means of codifying or making permanent the provisions of the legislation. There is greater potential for collaboration, participation, and compliance when parties are engaged in the conversation as opposed to being recipients of unilateral and discretionary decision making, which creates uncertainty and dissuades long-term investments. It should be noted that although most Caribbean economies are now service oriented, the current CBI programs focus primarily on trade in goods. Admittedly, some opportunities exist where back-office operations (tourism, finance, IT, etc.) like business process outsourcing in call centers are in operation across the Caribbean, more opportunities for duty-free access for service exports are needed in areas like finance, tourism, and information technology, among others.

Other areas of a new CBI focus may include promoting digitization and improving access to finance for small and medium size enterprises (SMEs) to boost productivity and economic impact. Fostering deeper intra-regional trade and policy coordination with the Caribbean Community (CARICOM) to allow small economies to achieve greater scale and bargaining power on the global stage should be considered. Additionally, investments in climate resilience and energy security could promote transition to renewable energy sources and reduce reliance on the more expensive oil imports. This could enhance competitiveness of national economies while allowing the region to maintain its pristine environment. The further development of human capital is critical to addressing skills mismatching and underemployment in the workforce. Educational exchanges to create a more skilled labor pool in emerging sectors like specialized manufacturing and digital technology is yet another possible avenue for human capital development, which could improve the economic wellbeing of individuals and stem the tide of brain drain and migration that so often unfavorably impacts Caribbean nations.

Indeed, a modernized CBI can more effectively support sustainable economic growth and resilience in the Caribbean Basin area by fostering public private partnerships to bridge the infrastructure gap and support economic growth. Consortiums between large multinational and small to medium size local developers and contractors can also provide knowledge and technology transfer and retain more resources in the local economy. The list of eligible goods in the CBI should be expanded to include more value-added commodities and niche products, and simplified administrative and regulatory procedures could potentially increase the all-round utilization rate of the initiative.

Aligning the Caribbean Basin Initiative with Partnership for American-Caribbean Cooperation (PACC) 2030 by focusing on development finance, security, local capacity building, and clean energy is a pivotal point for consideration. Improved approaches to security cooperation and anti-money laundering measures to better address transnational criminal organizations are also needed.

The USVI is uniquely positioned to facilitate trade as it exists outside of the US Customs Zone and not subject to the Jones Act. It can receive and transfer goods to and from the US Mainland while benefiting from the docking and clearance fees for improved financial positioning. The establishment of a USVI International Flag Registry, on approval by Congress, would not only allow more ships to be US registered, but also provide a wider base of carriers that could support the goals of the nation on a global scale. It would also bring additional revenue to the Territory to improve marine and maritime facilities and ensure that more Virgin Islanders are trained and prepared to fill jobs at all levels in this lucrative field.

According to the Center for Ocean Policy and Economics (COPE), U.S. commercial vessels constitute just 0.4% of the total global fleet of commercial

vessels. In five years, the U.S. commercial fleet declined by 12% as the People's Republic of China's increased by 55%. The U.S. is almost entirely reliant on other countries for trade. Less than 2% of U.S. imports are carried on U.S.-owned ships, and less than 1% of U.S. imports are carried on U.S. flagged ships. U.S. maritime operators and government agencies have little control over vessels registered under opaquely operated international flags, which may facilitate unfavorable activity. Additionally, the U.S. ranks 1st in global naval capability, but only 26th in commercial (merchant marine) capacity. The People's Republic of China is ranked 2nd in both. The Department of Defense is heavily reliant on foreign-flagged tankers, which dramatically increases national security risks, especially during prolonged conflicts (COPE). The US 2025 National Security Strategy has offered a few initiatives to help address this challenge.

The renewed CBI can call for the immediate establishment of an open international U.S. Flag Registry in the U.S. Virgin Islands (USVI) to provide responsible and transparent oversight to a commercial fleet of international and domestically owned and operated vessels plying in the region. This would support the establishment of the long-discussed construction of a secure, high-throughput, and technologically advanced transshipment hub in the USVI (and perhaps in initial collaboration with Puerto Rico – together, the US Caribbean), to increase U.S. trade capacity and resiliency, with an emphasis on secure cargo and cruise, and efficient sustainable short sea shipping. It could also require the career and technical education apparatus in the Territory to rapidly deploy modern maritime education and training methods in the USVI— including in-person, online, mixed-reality, and simulator training—to attract new talent and upskill existing maritime workers for water transportation businesses licensed and operating here.

The reauthorized CBI could also require that the US Caribbean territories partner with U.S. interagency counterparts as well as international organizations and collaborators to develop new technologies and a specific set

of measurement and assessment tools to address strategic maritime issues, increase transparency, and enforce legal and ethical standards locally, regionally, nationally, and globally. We applaud the efforts of this “august body” to seek increased and improved benefits and incentives from Congress and the Office of the US Trade Representative through a reauthorized CBI or other congressional means available to the USVI.

The Bureau of Economic Research remains fully committed to doing its part to assist in the economic research, development, and expansion of the Territory, of which the CBI is pertinent. The task ahead is great, and we all have significant work to do to continuously improve the quality of life and living for our residents and visitors alike. The challenges along the path are many but the vision to create a better Virgin Islands is achievable.

Thank you, Senator Frederick and Bill Sponsor Senator Bolques, for your stewardship in holding this Hearing and for keeping the economic wellbeing of our Territory high on the agenda of the 36th Legislature. It is certainly an investment of time and resources that will pay great dividends in the years to come.

I welcome the opportunity to answer any questions regarding this important Hearing. Thank you for your attention.