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Anthony Weeks, Special Economic Envoy to Taiwan & Asia-Pacific Region Testimony in support of the Proposed Legislative Bill No. 33-0299, to create the South Shore Enterprise Zone

A SEDI Research Data & Recommendation for an Economic Development Strategy Outlook for the USVI 2020 and Beyond. “Making the C.A.S.E”

Good Day Honorable Senator Kurt Violet, Chair of the Finance Committee and your distinguished Senate colleagues. My name is Anthony Weeks, I am here in my capacity as the Special Economic Envoy to Taiwan & Asia-Pacific Region appointed by Governor Albert Bryan, Jr. I also serve as the Managing Director of the St. Croix Economic Development Initiative (better known as SEDI). SEDI is a macroeconomic and public policy think tank, and I am here today to testify in support of the proposed Legislative Bill No. 33-0299, to create the South Shore Enterprise Zone, sponsored by the Senate President Novelle Francis and other Senators co-sponsoring the bill.

The COVID-19 pandemic has had far-reaching consequences beyond the spread of the disease itself and efforts to quarantine it. As the SARS-CoV-2 virus has spread around the globe, concerns have shifted from supply-side manufacturing issues to decreased business in the services sector. The pandemic caused the largest global recession in history, with more than a third of the global population at the time being placed on lockdown.

Supply shortages have affected a number of sectors due to panic buying, increased usage of goods to fight the pandemic, and disruption to factories and logistics in mainland China. There have been instances of price gouging. There have been widespread reports of shortages of pharmaceuticals, with many areas seeing panic buying and consequent shortages of food and other essential grocery items. The technology industry, in particular, has been warning about delays to shipments of electronic goods.

As the pandemic spreads, global conferences and events across technology, fashion, and sports are being canceled or postponed. While the monetary impact on the travel and trade industry is yet to be estimated, it is likely to be in the billions and increasing. This global economic recession has severely impacted the US Virgin, and the wider Caribbean region. Consequently, it has devastated the USVI economy. The USVI Tourism Industry has been decimated, which does not bode well for an industry that accounts for 60% of the USVI economic GDP.

The Federal Reserve painted a grim view for the US economy in its June Report: Unemployment will stay elevated for years, after ending 2020 at 9.3 percent. Overall retail sales, including food services such as restaurants, fell from \$529.3 billion in February to \$483.1 billion in March. The economic impact of the pandemic and the travel restrictions associated with it varied by the type of retail business. Sales for motor vehicles and parts dropped by 25.6% from \$106.6 billion in February to \$79.3 billion in March. Clothing sales plummeted 50.5% from \$22.4 billion to \$11.1 billion. Meanwhile, sales at grocery stores increased by 27% from \$58.4 billion to \$74.2 billion.

The coronavirus crisis has revealed the fragility of the modern supply chain.

- **Recent data shows the devastating economic impact as week-on-week trade in China, the US, and Europe halved because of the crisis.**
- **Diverse sourcing and digitization will be the key to building stronger, smarter supply chains and ensuring a lasting recovery.**

The COVID-19 pandemic has hit global trade and investment at an unprecedented speed and scale. Multinational companies faced an initial supply shock, then a demand shock as more and more countries ordered people to stay at home. Governments, businesses and individual consumers suddenly struggled to procure basic products and materials and were forced to confront the fragility of the modern supply chain. The urgent need to design smarter, stronger and more diverse supply chains have been one of the main lessons of this crisis.

As the post-pandemic economic crisis deepens, governments around the world are putting together national rescue plans. In some cases, these include taking equity stakes in large industrial and other systemically important companies. The beneficiaries of these bailouts will

likely face demands to re-focus their business strategies from deriving global cost effectiveness towards creating jobs and delivering technological innovation at home.

This trend towards rising economic nationalism – by re-shoring or on-shoring manufacturing supply chains – was evident long before the crisis. The pandemic has accelerated and mainstreamed these ideas across the majority of developed market economies.

Excerpts from McKinsey & Company Report Supporting Data:
Unlocking the economic potential of Central America and the Caribbean

Public Sector Practice

The region has seen rapid growth over the past 15 years, but a number of trends could affect whether the economies continue to grow. Learning from regional successes could boost the Central American and Caribbean (CAC) region’s non-commodity exports by up to \$140 billion by 2030.

The success of a new economic and social-development model requires both commitment from the public sector and the perspective of the private sector.

Apart from strengthening its export portfolio, the region should focus on expanding its access to the main markets in Asia, as well as increasing its penetration to the European Union. It should be noted that no CAC country has free-trade agreements with Japan, and very few have signed a trade agreement with China or other main countries across the Asia–Pacific region—high-growth markets that would offer new opportunities for diversification and foster competition and innovation in the region.

“The Creation of a South Shore Enterprise Zone will help to facilitate and benefit from a change in the global supply chain landscape, being Mainland China manufacturing centric, realigning alternatively domestically and to the other Asian Countries Tiger Economies like Singapore, South Korea, and Taiwan. Taiwan is a noteworthy exporter with a GDP of over \$ 1.1 trillion, establishing the 23.4 million people nation as an Asian economic giant.” (SEDI Research)

Boosting competitiveness to capture the value at stake To remain competitive, there are five key factors that the region must strengthen to respond to global trends: human capital, infrastructure, access to credit, innovation and technology, and the government and business climate.

Regarding infrastructure, CAC could enable growth by strategically prioritizing and executing key projects in transportation and trade-related infrastructure and in basic infrastructure, and by strengthening urban planning.

Regarding the government and business climate, efforts should focus on facilitating business development (particularly focused on SMEs) and modernizing public institutions—by tackling high informality levels; addressing security and corruption outbursts; eliminating unnecessary bureaucracy; pursuing fiscal, customs, and labor reforms; and modernizing and strengthening government capacity building.

Regarding the public sector, the region should adjust the legal and regulatory framework to improve the business environment, link budgets with the development strategy, provide support, and focus on eliminating obstacles to implementation.

The private sector should bring its perspective to develop and deploy market-driven initiatives and investments, focus strategic priorities, and generate productive and sustainable jobs. By promoting vocational education programs, and with public-private training that leverages the capacities of formal training, the region could address human capital and thus benefit from greater cooperation. Technical on-the-job training via the private sector would help to close the gap between supply and demand of talent.

Boosting intra regional connectivity—improving transportation infrastructure, enhancing trade facilitation, and strengthening commercial agreements among different countries—and intergovernmental coordination would allow CAC to leverage its economic and demographic potential. Companies should promote greater collaboration within the region to strengthen local value chains, work with governments to define national and regional economic development strategies, and, in general, adopt a longer-term vision of policies and growth initiatives.

Free, Foreign trade Zones (FTZs) can have a significant impact on a country's trade and economic outlook.

Designating FTZs within a nation can boost imports and exports and wider growth. FTZs lower the barriers to economic development by removing bureaucratic red tape and tariffs, making countries more attractive to new businesses and foreign investors alike. They can have a substantial knock-on effect in other areas too, such as job creation.

For the economies of developing countries, FTZs can be a particular boon as they play catch-up with the developed world. Accordingly, we have seen the increased use of FTZs in recent years,

with more than 3500 up to and running globally. The various zones account for approximately 68 million jobs and generate around \$500bn worth of annual trade. In the US there are 195 active FTZ programs, employ approximately 440,000 people across 3,300 businesses, and have imported over \$793 billion in shipments. Undoubtedly, FTZs are here to stay.

This Bill can be the genesis to position the USVI to emerge as an industrial renaissance, a formidable regional trade and major transportation freight and ecommerce warehousing hub. A South Shore Enterprise Zone will enable the USVI to be a more robust and integrated commerce partner in the region, contributing to fostering an agenda for a more inclusive Caribbean-Americas Single Economy (CASE).

Senators thanks a million for affording this opportunity to testify in support of Bill No. 33-0299. Please visit www.InvestUSVIFund.com for the more details and supporting economic data and content as exhibited on SEDI's website.

Economic Data Research Reference Sources: (USA Facts Org and McKinsey & Company)