An export window is not a permanent advantage

Mauritius's export-processing bargain and its adjustment test, 1970-2005

Country decision case | Trade | 14 October 2026 | Independent MacroLens desk research

The decision

How could a small island expand manufacturing exports without immediately dismantling protection for the rest of its economy? Mauritius built a separate export regime. That opened a route into production, but preferences, imported inputs and labor conditions were part of the bargain. Later employment losses show why the route could not be judged by its early expansion alone. [S1-S5]

Abstract

Mauritius developed an export processing regime while maintaining protection elsewhere in its economy. Duty free inputs, incentives, market access and production knowledge helped firms enter manufacturing exports, but no single policy explains the island's wider development. Original research emphasizes institutions and historically specific advantages, including trade preferences and investor networks. The same bargain also involved unequal labor conditions that should not disappear inside a success story. Official statistics reveal a later adjustment test: export processing employment fell sharply between December 1999 and December 2004, and apparel jobs continued declining into June 2005. Export receipts, imports, value added and worker outcomes are different measures. Preference erosion and changing competition made adaptation necessary, although these data alone cannot assign every job loss to one external change. For Sri Lanka, the conditional lesson is to remove obstacles to competitive production while funding skills, protecting workers and preparing for advantages that may not last.

Reader's question

If Sri Lanka attracts an export factory today, what will keep it competitive when its initial advantage fades? This case asks about inputs, learning, worker protection and adjustment. It does not assume that a tax holiday is enough, that low wages are a development objective, or that today's market-access rules match those available to Mauritius decades ago.

1. Open a route without opening everything

The ILO's NATLEX legal record dates Mauritius's Export Processing Zones Act to 1970. The same record identifies its repeal by the Industrial Expansion Act in April 1993. Those dates establish the historical legal sequence; the original arrangement should not be presented as unchanged law throughout the case period, much less as current law. [S1]

Mauritius's export strategy is often summarized as openness. Subramanian and Roy's 2001 original research makes that account more complicated. It describes a protected domestic trade regime alongside duty-free inputs and incentives for exporters. The export-processing regime helped separate export production from costs imposed by the protected import-competing economy. [S2]

The authors distinguish the mechanism from its ultimate explanation. More trade may accompany growth, but saying that trade grew does not explain why firms could produce and sell successfully. Their paper examines foreign investment, institutions and particular features of Mauritius and concludes that existing explanations remain incomplete. This is analytical research, not a controlled experiment proving that the zone alone caused national growth. [S2]

The available choices

A broad opening would have confronted protected sectors directly. Continuing the existing regime without an export route risked keeping input costs and incentives unfavorable to internationally competitive production. A separate regime provided an intermediate approach: firms serving external markets could operate under different input and incentive arrangements. These are analytical descriptions of the policy choices, not a claim that officials considered only these alternatives.

Judgment: a transitional arrangement can make a politically difficult change possible. But an exception can also become permanent privilege. Its value depends on whether it builds productive capability and whether the wider system eventually becomes easier to use, rather than multiplying special permissions indefinitely.

An island comparison with limits

Mauritius offers Sri Lanka a useful question because both face decisions about production for distant markets. It does not supply identical geography, scale, institutions or trade preferences. This case makes no new estimate of Sri Lankan export potential and no claim that the two countries started from the same income or policy position.

2. What firms needed beyond a certificate

Inputs at competitive cost. The 2001 research describes duty-free access to imported inputs as protecting exporters from domestic taxes that could raise production costs. It distinguishes input-duty relief from other export subsidies. Removing a tax disadvantage is not the same intervention as giving a firm an additional fiscal transfer. [S2]

Incentives and investable returns. The research also describes tax incentives. The 2009 UNU-WIDER paper discusses the historical tax-holiday and repatriation arrangements in its account of the export regime. These are retrospective descriptions of policy, not current investment offers or a verified estimate of the public cost of every concession. [S2, S3]

Access to buyers. The research identifies preferential access in sugar and textiles as important to the wider development story. Textile quotas in major markets created incentives for production in locations with access that constrained competitors lacked. The papers describe Hong Kong investor connections as part of this route. Those conditions were historical advantages, not resources a later policymaker could automatically recreate. [S2, S3]

Production knowledge. The papers examine the argument that foreign entrepreneurs brought ideas and expertise in textiles and apparel. They regard foreign investment as part of the story, but question whether it alone explains success when other countries also offered zones and incentives. A factory's arrival and domestic capability formation are related questions, not interchangeable outcomes. [S2, S3]

The mechanism, stated carefully

Hypothesis: predictable input access, workable administration, buyer connections and production knowledge can reinforce each other. A lower input cost matters little if shipments are unreliable; a market preference matters little if the product does not meet the buyer's requirements. The Mauritius research supports investigating this combination rather than reducing the policy to a single tax rate.

A wider economy remained outside the window

The WTO's November 2001 review described persistent border protection and a simple average most-favored-nation tariff of about 20%. This is a dated trade-policy measure, not a rate faced by every importer or a description of Mauritius today. The concluding remarks asked about moving from export-orientation toward a more broadly outward-oriented economy and reducing duality. [S4, S5]

Judgment: an export regime should be evaluated both inside and outside its boundary. Inspect whether it enables competitive production, whether it creates avoidable differences among firms, and whether its administrative costs or privileges obstruct wider reform.

3. Employment gains do not erase unequal treatment

The historical arrangement involved labor conditions as well as inputs and incentives. The 2001 research describes different retrenchment and overtime conditions in the export sector and lower minimum wages for women in the period it discusses. The 2009 paper repeats this account. These are author descriptions of historical arrangements, not statements about current Mauritian labor law. [S2, S3]

The ILO legal record's abstract separately records labor exceptions in the original Act, including overtime and maternity provisions. It also records the original Act's later repeal. The case therefore does not carry an old rule forward as if it governed every workplace in 2005. Nor does it claim to have audited enforcement at individual factories. [S1]

Participation and protection are separate measures

Official June 2005 survey figures report 67,402 people employed in the EPZ, including 42,359 women. Women therefore represented 62.8% of the workforce, calculated from the reported counts. That shows participation, not equal pay, safe work, household welfare or freedom from discrimination. [S6]

The same survey records a decline of 3,048 women in EPZ employment between June 2004 and June 2005, while male employment increased by 353. Together these changes give the net workforce decline of 2,695. The distribution of adjustment matters: a small aggregate change can hide much larger losses for a particular group. [S6]

Foreign workers numbered 13,615 in June 2005, about 20.2% of total EPZ employment. The report says nearly 90% of them worked in wearing apparel. These are workforce counts and composition, not evidence about immigration status, working conditions or effects on local wages. [S6]

Do not turn a historical explanation into a prescription

A paper may describe lower labor costs as part of an incentive structure. That does not make unequal treatment a defensible recommendation. Judgment: evaluate export policy through production capability and worker outcomes together. An arrangement that expands orders while transferring risk to workers needs more than a favorable export statistic to be called successful.

Conditional Sri Lankan question: who bears adjustment costs when orders or investment move? Answering it requires local evidence about contracts, income, safety, access to training and credible grievance routes. None of those facts can be inferred from Mauritius's employment series alone.

4. The adjustment test, in dated numbers

Official statistics published in September 2005 provide a historical table and a June 2005 employment survey. They allow the early-success narrative to be tested against later contraction. No figure below is a current employment count. [S6]

December 1999 to December 2004. EPZ employment fell from 91,374 to 68,022: a decline of 23,352 people, or 25.6%. Both are year-end counts from the same published series. This is a sectoral change, not the national unemployment rate or the cumulative number of people who ever lost a job. [S6]

June 2004 to June 2005. EPZ employment fell from 70,097 to 67,402: down 2,695, or 3.8%. Wearing-apparel employment fell from 55,032 to 51,725, a loss of 3,307. Expansion elsewhere partly offset apparel's decline, including 624 additional jobs in the food group. [S6]

March to June 2005. Total EPZ employment increased by 605. The survey records 2,961 jobs created through expansion and new enterprises, against 2,356 jobs lost through reductions and closures. A positive quarter therefore coexisted with a negative year-on-year change. Choosing only one comparison would distort the picture. [S6]

Export turnover is another series

Provisional first-half 2005 EPZ exports were 14,247 million Mauritian rupees, down 10.3% from the corresponding half of 2004. The reported amounts are nominal and period-specific. They do not describe real export volume, annual exports or workers' incomes. [S6]

The publication reports EPZ imports of 7,922 million rupees and a difference of 6,325 million rupees. Its "net exports" measure is exports minus imports, around 44% of exports. It is not interchangeable with domestic value added: the publication separately reports value added in its historical table. The export and import figures also use different standard valuation bases in that table, f.o.b. and c.i.f. [S6]

What these observations establish

The export-processing sector had reached substantial scale and then faced contraction and restructuring. These descriptive statistics do not assign every lost job to quota removal, preference erosion, wages or productivity. They establish the adjustment problem that any causal explanation must address.

5. An advantage can expire before capability is ready

The WTO's 2001 review already identified narrowing trade preferences, greater competition, production costs and shortages of skilled labor among the pressures facing Mauritius. Its concluding remarks commended diversification while asking about remaining protection, incentive schemes and attracting investment. The review is a contemporary institutional assessment, not evidence that every recommended reform was completed. [S4, S5]

An IMF Selected Issues report published in August 2005 was based on work completed in July 2004. It discussed the ending of textile quotas in January 2005 and possible effects of preference erosion. Its estimates and scenarios must be read from that earlier information date. They are not post-2005 audited outcomes or a verified causal account of the employment losses shown on the previous page. [S7]

Learning must outlast favorable access

Judgment: firms and governments should treat temporary advantages as a period in which to improve delivery, skills, product quality and buyer relationships. If survival depends entirely on a preference margin, the policy has bought time rather than secured durable competitiveness. It may still be useful, but its purpose and exit conditions should be explicit.

The 2001 and 2009 research argues that simple openness and foreign-investment explanations are incomplete, with institutions and particular Mauritian circumstances also important. These papers share an author and a related analytical account; they are not two independent replications. This case uses them to expose competing explanations and limits, not to vote an explanation into certainty. [S2, S3]

What to inspect before renewing an incentive

Ask whether the firm has improved productivity or quality, whether domestic suppliers have gained usable capability, whether workers can move into better opportunities, and whether support is buying an identifiable public benefit. These are proposed evaluation questions, not outcomes demonstrated by the historical statistics here.

Renewal should also consider the fiscal cost and the treatment of firms outside the favored regime. A concession that is justified at entry may lose its purpose after the initial problem has changed. Conversely, ending support abruptly without considering viable adjustment can impose costs on workers and suppliers who did not choose the policy.

Success was neither automatic nor permanent

Mauritius's history does not prove that protection is harmless, that every export zone works, or that foreign investment inevitably transfers knowledge. It also does not prove that later contraction cancels all earlier gains. The decision case is about managing a sequence: create a route, build capability, measure distribution and adapt when the external conditions change.

6. Conditional lessons for Sri Lanka

Fix the production obstacle first. Judgment: identify whether the binding problem is input taxes, customs delays, electricity, logistics, finance, standards or buyer access. A tax holiday cannot repair every obstacle, and its benefit is not established merely by counting approved projects.

Separate input relief from additional subsidy. The research distinguishes duty relief from other incentives. Judgment: state what disadvantage a measure removes, what extra support it supplies, who qualifies and what it costs. Avoid describing all relief as free, or all relief as the same intervention. Current legal and fiscal assessment is still required.

Verify the access, then prepare for its erosion. Judgment: check current tariffs, origin requirements, quotas where relevant, and the stability of the arrangement. Do not assume Mauritius's historical sugar and clothing preferences can be copied. Stress-test whether firms remain viable if access becomes less favorable.

Measure domestic capability and worker outcomes. Judgment: track export receipts alongside value added, suppliers, skills, pay, safety and job continuity. A large shipment can contain imported inputs; a large employment count can conceal unequal conditions. Choose measures that answer the policy's actual purpose.

Fund adjustment instead of celebrating flexibility alone. Judgment: connect restructuring to practical retraining, placement and lawful worker protection. Check who loses when the aggregate count improves. The Mauritius survey's different quarterly and annual directions show why one headline is insufficient.

Review the exception's future. Judgment: give incentives a review path and investigate whether wider reform can make special treatment less necessary. A certificate should be a tool for an identified obstacle, not the permanent definition of competitiveness.

Transfer limits

This case does not audit current Sri Lankan export zones or recommend a specific concession, labor-law change or budget. It supplies no estimated Sri Lankan employment gain. Local institutions, fiscal space, market access, industrial capabilities and safety requirements must be verified before a policy choice.

Decision. Prefer an export strategy that builds capability during the favorable window and protects people during adjustment. Mauritius's useful lesson is a sequence of work, not a magic designation: competitive inputs, dependable execution, measurable learning and preparation for advantages that may not last.

Sources, calculations and limits

Evidence inspected 13 October 2026 for the 14 October case. Original research, legal metadata, contemporary reviews and reported outcomes remain separate. Independent MacroLens desk research, not affiliated with Harvard Business School; not peer reviewed.

S1. ILO NATLEX, Export Processing Zones Act. Legal catalogue: 1970 adoption, historical labor provisions in its abstract and April 1993 repeal. Metadata is not the full statutory text or proof of workplace enforcement. No old provision is presented as current law.
https://natlex.ilo.org/dyn/natlex2/r/natlex/fe/details?p3_isn=45323

S2. Subramanian and Roy, IMF Working Paper 01/116, 2001. Original analytical research on trade, institutions and alternative explanations. Used for duty-free inputs, incentives, historical labor segmentation and limits to single-factor explanations. Author analysis, not a zone-only causal estimate.
https://www.elibrary.imf.org/view/journals/001/2001/116/article-A001-en.xml

S3. Arvind Subramanian, UNU-WIDER Research Paper 2009/36, June 2009. Later research synthesis. Historical preferences, investor connections and institutional explanations. Shares an author and related reasoning with S2; not an independent replication.
https://www.wider.unu.edu/sites/default/files/RP2009-36.pdf

S4. WTO, Mauritius trade-policy review, November 2001. Contemporary review material on border protection, preferences, costs and skill constraints. Its tariff average is a dated simple MFN average, not a universal applied rate.
https://www.wto.org/ENGLISH/tratop%5Fe/tpr%5Fe/tp176_e.htm

S5. WTO, concluding remarks, 2001 review. Institutional assessment and questions about duality, incentives and adjustment. Commendation and questions are not proof of completed reform.
https://www.wto.org/english/tratop_e/tpr_e/tp177_e.htm

S6. Mauritius Central Statistics Office, September 2005. EPZ and Pioneer Status Enterprises, second quarter 2005. Quarterly survey and historical Table 1.1; provisional trade figures subject to revision. EPZ and Pioneer Status enterprises are distinct populations.
https://statsmauritius.govmu.org/Documents/Statistics/ESI/2005/EI0527/ESI%200527.pdf

S7. IMF Country Report 05/280, published August 2005. Selected Issues and Statistical Appendix, work completed July 2004. Contemporary analysis of preference risks and labor markets; forecasts are not later actual outcomes.
https://www.imf.org/external/pubs/ft/scr/2005/cr05280.pdf

Calculations. (68,022 / 91,374 - 1) x 100 = -25.6%; (67,402 / 70,097 - 1) x 100 = -3.8%; 42,359 / 67,402 = 62.8%; 13,615 / 67,402 = 20.2%. Dates and populations match within each comparison. Net exports are not value added; nominal rupee trade figures are not real volumes. No counterfactual employment, welfare or Sri Lankan impact estimate is presented.