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PHÂN TÍCH SO SÁNH NĂNG LỰC CẠNH TRANH XUẤT KHẨU HÀNG MAY MẶC CỦA VIỆT NAM VÀ BANGLADESH SANG THỊ TRƯỜNG EU TRONG BỐI CẢNH THỰC THI EVFTA VÀ BANGLADESH RỜI KHỎI NHÓM NƯỚC KÉM PHÁT TRIỂN (LDC)

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Tóm tắt

Nghiên cứu xem xét sự thay đổi vị thế cạnh tranh giữa Việt Nam và Bangladesh tại thị trường may mặc EU dưới tác động của EVFTA và việc Bangladesh rời nhóm LDC. Mặc dù Bangladesh hiện chiếm ưu thế (16,22% thị phần so với 3,79% của Việt Nam), quốc gia này

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đang đối mặt với "vực thẳm thuế quan" khi mức thuế ưu đãi EBA sẽ bị thay thế bằng mức thuế tiêu chuẩn 12% sau giai đoạn 2026/2029. Ngược lại, EVFTA đóng vai trò là "lá chắn thuế quan" giúp Việt Nam tiếp cận mức thuế 0% kèm theo quy tắc xuất xứ "từ vải trở đi" nghiêm ngặt. Dựa trên Lý thuyết Thương mại Mới và dữ liệu giai đoạn 2000-2024, nghiên cứu đánh giá khả năng Việt Nam thu hẹp khoảng cách xuất khẩu 14 tỷ USD thông qua tích hợp chuỗi cung ứng và tuân thủ NTM. Kết quả cho thấy lợi thế về cấu trúc giúp Việt Nam sẵn sàng chiếm lĩnh các phân khúc thị trường trở nên dễ bị tổn thương do quá trình chuyển đổi của Bangladesh.

Từ khóa: EVFTA, tốt nghiệp LDC, ngành may mặc, Việt Nam, Bangladesh, vực thẳm thuế quan, quy tắc xuất xứ

THE IMPACT OF THE EVFTA ON VIETNAM'S TEXTILE-GARMENT COMPETITIVENESS IN COMPARISON WITH BANGLADESH IN THE CONTEXT OF POST-LDC GRADUATION

Abstract

This study analyzes the competitive shift between Vietnam and Bangladesh in the EU apparel market under the impact of the EVFTA and Bangladesh's LDC graduation. Despite Bangladesh's current dominance (16.22% share vs. Vietnam's 3.79%), it faces a "tariff cliff" with duties rising to 12% post-2026/2029. Conversely, the EVFTA serves as a "tariff shield" for Vietnam, offering zero-tariff access conditional on strict "fabric-forward" rules. Utilizing New Trade Theory and 2000-2024 trade data, the research evaluates how Vietnam's domestic supply chain integration and NTM compliance can bridge the \$14 billion export gap. Findings indicate that Vietnam's structural advantages position it to capture market shares rendered vulnerable by Bangladesh's price shocks and preference erosion.

Keywords: EVFTA, LDC graduation, apparel industry, Vietnam, Bangladesh, tariff cliff, rules of origin

1. Introduction

1.1. Rationale of the study

The European Union (EU) is a primary market for textile and garment exports from both Vietnam and Bangladesh. Currently, both nations benefit from near-zero tariff access to this market. Vietnam achieves this through the phased tariff reduction roadmap of the European Union-Vietnam Free Trade Agreement (EVFTA), while Bangladesh utilizes the "Everything But Arms" (EBA) scheme (Research and Policy Integration for Development [RAPID], 2024). Despite these tariff similarities, Vietnam encounters intense price competition due to its relatively higher labor costs compared to Bangladesh. However, as developing nations progress, their temporary trade preferences can be removed (RAPID, 2024). Bangladesh is scheduled to graduate from the Least Developed Country (LDC) status, which will lead to the expiry of its EBA privileges and create a massive shock for its apparel industry (Razzaque, Islam, & Rahman, 2023). This impending policy shift creates a unique window of opportunity

for Vietnam. Understanding this structural transition is critical for Vietnam to evolve from a low-cost competitor into a compliant and sustainable partner in the global value chain. The EVFTA provides Vietnam with a long-lasting zero-tariff advantage, contrasting sharply with the challenges Bangladesh will face (Friedrich-Ebert-Stiftung [FES], 2025).

1.2. Literature review and research gap

The body of academic literature regarding the competitive dynamics of the global textile industry is extensive, yet it often treats the trade trajectories of Vietnam and Bangladesh as parallel rather than intersecting phenomena. Firstly, the study by Hasan, Swazan, and Das (2024), published by Emerald Publishing, utilizes Revealed Comparative Advantage (RCA) and Trade Specialization Index (TSI) to evaluate Vietnam's structural shifts post-EVFTA. While their empirical results confirm that the agreement has upgraded Vietnam's export profile toward complex manufacturing, the research is limited by a Vietnam-centric scope that fails to benchmark against regional rivals. Furthermore, their reliance on quantitative indices overlooks the qualitative impact of "double transformation" rules and emerging environmental standards, which narrows the practical applicability of their strategic findings.

Secondly, Raihan, Khorana, and Uddin (2022) provide a macroeconomic perspective on Bangladesh's impending LDC graduation using a Computable General Equilibrium (CGE) framework. Their simulations predict a decline of 8% to 10% in apparel exports to the EU following the transition from the EBA scheme to standard GSP rates. However, this methodology relies on static competitor assumptions and fails to account for the simultaneous tariff elimination Vietnam enjoys under the EVFTA. This oversight likely underestimates the severity of trade diversion, as the "tariff shield" of a competitor may accelerate the erosion of Bangladesh's market share more rapidly than their baseline models suggest.

Finally, research by Sharma and Bharti (2025) employs a Gravity Model to compare trade flows between India, Bangladesh, China, and Vietnam, highlighting that preferential agreements remain the primary drivers of EU market access. Despite its comprehensive multi-country approach, the study's retrospective timeframe (2015-2023) limits its predictive validity for the post-2026 landscape. Moreover, by focusing strictly on traditional variables like GDP and distance, the authors fail to integrate "Green Readiness" and ESG compliance, which are increasingly acting as decisive non-tariff barriers under the EU's new sustainability frameworks.

Consequently, a critical research gap persists at the intersection of these events. While existing studies examine either the macroeconomic benefits of the EVFTA for Vietnam or the isolated LDC graduation shocks for Bangladesh, there is a pressing need for comparative research that evaluates Vietnam's strategic capacity to capture specific market shares rendered vulnerable by Bangladesh's transition. This study seeks to bridge this gap by synthesizing tariff-centric analysis with qualitative metrics of supply chain integration and environmental compliance.

1.3. Research objectives

This study is guided by three primary objectives. First, it aims to compare the tariff and non-tariff barriers facing both Vietnam and Bangladesh in the periods before and after 2029, particularly focusing on the transition from the EBA scheme and the implementation of EVFTA commitments. Second, the research seeks to evaluate Vietnam's strategic readiness to absorb potential market share shifts resulting from Bangladesh's preference erosion. Third, the study proposes actionable policy recommendations for Vietnamese policymakers and enterprises to effectively navigate stringent Rules of Origin and increasing sustainability requirements in the EU market.

To achieve these stated objectives, this research systematically addresses three core questions. The first question examines how the tariff and non-tariff barriers facing Vietnam and Bangladesh compare pre- and post-2029 in light of their respective trade frameworks. The second question investigates the extent to which Vietnam is strategically prepared to capture the specific market shares left vulnerable by Bangladesh's LDC graduation. Lastly, the study explores what actionable strategies and policies Vietnamese stakeholders should implement to maintain a long-term competitive edge while fulfilling the strict environmental and compliance standards of the EVFTA.

1.4. Methodology

1.4.1. Research approach

This study uses a comparative research approach grounded in Preference Erosion Theory and Global Value Chain (GVC) analysis to examine the evolving trade relationship between Vietnam and Bangladesh. To capture both policy-level and data-driven dimensions of competitiveness, the study adopts an embedded mixed-methods design. In this design, the qualitative analysis serves as the main framework, while quantitative indicators are incorporated to support and deepen the interpretation of the findings. This combination allows the research to move beyond a single-method perspective and develop a more comprehensive understanding of trade competitiveness in a changing institutional environment.

The research is organized around three main analytical dimensions. First, the regulatory analysis examines the difference between the EVFTA's fabric-forward, or double-transformation, rule and the more flexible single-transformation rule currently available to Bangladesh under the EBA scheme. By closely reading the legal language of Protocol 1 of the EVFTA, the study shows how rules of origin function as a critical condition for market access, beyond simple price competition.

Second, the competitive benchmarking dimension uses historical trade data from 2000 to 2024 to calculate indicators such as Revealed Comparative Advantage (RCA) and export unit values. These quantitative measures help identify structural strengths and weaknesses that are not visible through policy analysis alone. They make it possible to assess whether a country has the industrial base needed to actually benefit from preferential trade access.

Third, the strategic projection dimension brings the regulatory and quantitative findings together to assess future trade diversion. Through ex-ante scenario analysis, the study evaluates

Vietnam’s ability to absorb market share that may become vulnerable as Bangladesh loses preferential treatment after LDC graduation. By comparing Vietnam’s upstream competitiveness with the EVFTA’s origin requirements and transition timeline, the study assesses the extent to which Vietnam is strategically positioned to strengthen its role as a leading supplier to the EU market. This multimodal triangulation ensures that the research findings are not only statistically significant but also contextually grounded in the shifting legal landscape of EU trade policy.

1.4.2. Data collection

Qualitative data is sourced from institutional frameworks including the EVFTA Protocol 1 (Rules of Origin), EU GSP/EBA regulations, and the 2019 Vietnam Labour Code. These are supplemented by strategic reports from international organizations such as RAPID, FES, and the European Commission to map the "Tariff Shield" versus "Tariff Cliff" scenarios. To evaluate non-tariff barriers, the dataset includes policy documents on CBAM (carbon adjustment) and REACH chemical regimes, providing the regulatory context for the "Strategic Readiness" analysis.

Quantitative data is retrieved from the ITC Trademap and World Bank (WITS) databases for the 2000–2024 period. The dataset encompasses annual export volumes, market share percentages, and export unit values across HS codes 50-63. Additionally, labor productivity and wage data from Statista and World Bank reports are embedded to calculate the Revealed Comparative Advantage (RCA) index. These numerical inputs provide the empirical foundation for Competitive Benchmarking, allowing for a quality-adjusted comparison of manufacturing costs and efficiency gains.

1.4.3. Data analysis method

This study employs an embedded mixed methods design for data analysis, whereby quantitative evidence is integrated to substantiate and elaborate the principal findings of the policy analysis. By comparing numerical indicators with the applicable legal framework, we show that Vietnam’s robust material production capacity, as evidenced by high RCA scores, supports its ability to meet the stringent “fabric-forward” requirements of the EVFTA.

a) Qualitative Analysis: Content analysis is applied to trade protocols and EU sustainability mandates (REACH, CBAM) to interpret the strategic feasibility of meeting "fabric-forward" rules.

b) Quantitative Analysis: The technical core involves calculating the Revealed Comparative Advantage (RCA) index based on the Balassa (1965) formula:

$$RCA_{ki} = \frac{\frac{X_{ki}}{X_i}}{\frac{X_{kw}}{X_w}} \quad (1)$$

Where:

- RCA_{ki} is the revealed comparative advantage index of product k;

- X_{ki} is the export value of product k from country i;
- X_i is the total export value of country i;
- X_{kw} is the global export value of product k;
- X_w is the total global export value.

If the national export share of product k of a nation is greater than the global export share of product k, $RCA_{ki} > 1$, then that nation has the comparative advantage for product j and vice versa. The greater this indicator is, the higher the comparative advantage is. Hinloopen (2001) classified the RCA index into four grades as Table 1.

Grade	RCA value	Description
1	$0 < RCA \leq 1$	Do not have the comparative advantage
2	$1 < RCA \leq 2$	Low comparative advantage
3	$2 < RCA \leq 4$	Medium comparative advantage
4	$RCA > 4$	High comparative advantage

Table 1: RCA index classification

Source: Hinloopen (2001)

In this research, the RCA index is calculated to evaluate the structural readiness of Vietnam and Bangladesh in navigating the transition of EU trade preferences. The analysis utilizes ITC Trademap and secondary data averaged over a five-year period (2017-2021) to ensure high reliability and to smooth out short-term market fluctuations. To specifically assess each nation's ability to meet the EVFTA's "double transformation" (fabric-forward) rules and the EU's sustainability standards, the textile and garment value chain is categorized into three strategic sub-sections based on 2-digit HS codes (50-63):

HS Code	Product description	Segmentation in the textile garment value chain
50	Silk	Producing Raw Material (Sub-Section 1)
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabrics	
52	Cotton	

53	Other vegetable textile fiber; paper yarn and woven fabrics of paper yarns	
54	Man-made filaments; strip and the like of man-made textile materials	
55	Man-made staple fibers	
56	Wadding, felt and nonwovens; special yarns; twine, cordages, robes, cables and articles	
57	Carpets and other textile floor coverings	
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroideries	Manufacturing Textiles (Sub-Section 2)
59	Impregnated, coated, covered or laminated textile fabrics; textile articles	
60	Knitted or crocheted fabrics	
61	Articles of apparel and clothing accessories, knitted or crocheted	
62	Articles of apparel and clothing accessories, not or crocheted knitted	Make Garments (Sub-Section 3)
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	

Table 2: HS code, product, and sub-section classification

Source: The author composed

1.5. Research contribution

This study makes significant contributions to both academic literature and practical policy-making within the context of international trade and the global textile supply chain. From an academic perspective, the research enriches the existing body of literature by providing a comparative framework that bridges the gap between tariff-centric trade models and qualitative non-tariff barrier analyses. While previous studies have largely treated Vietnam's EVFTA integration and Bangladesh's LDC graduation as isolated macroeconomic events, this paper synthesizes these phenomena to evaluate their direct competitive interplay. By incorporating the European Union's stringent "double transformation" rules of origin and emerging Environmental, Social, and Governance (ESG) standards into the comparative analysis, the study offers a more holistic understanding of modern trade dynamics beyond mere price competition.

From a practical standpoint, the findings of this research offer timely and actionable insights for Vietnamese policymakers and textile enterprises. As the 2029 tariff transition period for Bangladesh approaches, this study provides a strategic roadmap for Vietnamese firms to shift from low-cost manufacturing to sustainable, high-value production. By highlighting the critical importance of domestic supply chain localization and "Green Readiness", the research equips industry stakeholders with the necessary foresight to fully leverage the EVFTA as a long-term competitive shield. Consequently, the study serves as a valuable resource for formulating targeted industrial policies that aim to solidify Vietnam's position as a leading, compliant partner in the global apparel market.

2. Theoretical framework

2.1. Preference erosion theory

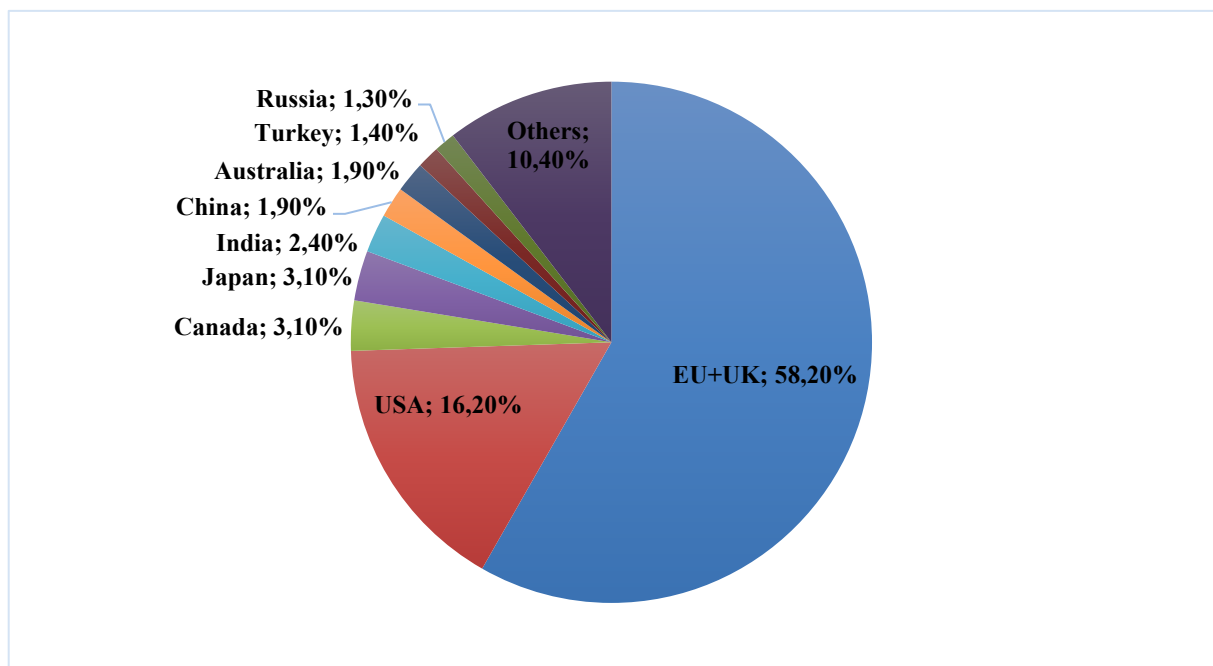


Figure 1: Bangladesh's major export destinations

Source: Author's compilation from *The Financial Express* (2024).

Preference erosion occurs when a country loses its special tariff advantages in an export market, often because this importing market signs a Free Trade Agreement (FTA) with competitors (Raihan, Khorana, & Uddin, 2022). Beyond traditional tariff advantages, New Trade Theory (NTT) suggests that long-term competitiveness also depends on economies of scale and product differentiation (Sharma & Bharti, 2025). Developing countries typically use programs like the Generalized Scheme of Preferences (GSP) or Everything But Arms (EBA) to export goods at zero tariffs to the EU (European Commission, n.d.). However, these preferences are temporary and can be removed as countries reach higher levels of economic development (Research and Policy Integration for Development [RAPID], 2024). When Bangladesh graduates from the Least Developed Country (LDC) status, losing the EBA duty-free privileges will create a significant structural adjustment for its apparel industry. Empirical

data shows that while Bangladesh’s market share in the EU reached a peak of 16.22% in 2022, this growth remains vulnerable to tariff hikes (Sharma & Bharti, 2025). Specifically, average tariffs on its apparel exports to the EU are expected to increase from 0% to approximately 12%. This is because Bangladesh’s export volume already exceeds the safeguard thresholds required to qualify for other preferential schemes like GSP+, making it difficult to avoid high tariff after 2026 (Razzaque, Islam, & Rahman, 2023).

Countries	Current tariffs on Bangladesh as an LDC (for garment products)	Post-graduation tariff rates (average)
Canada	0%	16.2%
EU	0%	11.6%
UK	0%	0% but with more stringent ROO
PRC	0%	6.7% (for garments)
India	0%	22.7%
Japan	0%	9.0%

Table 3: Change in tariff rates in major export markets

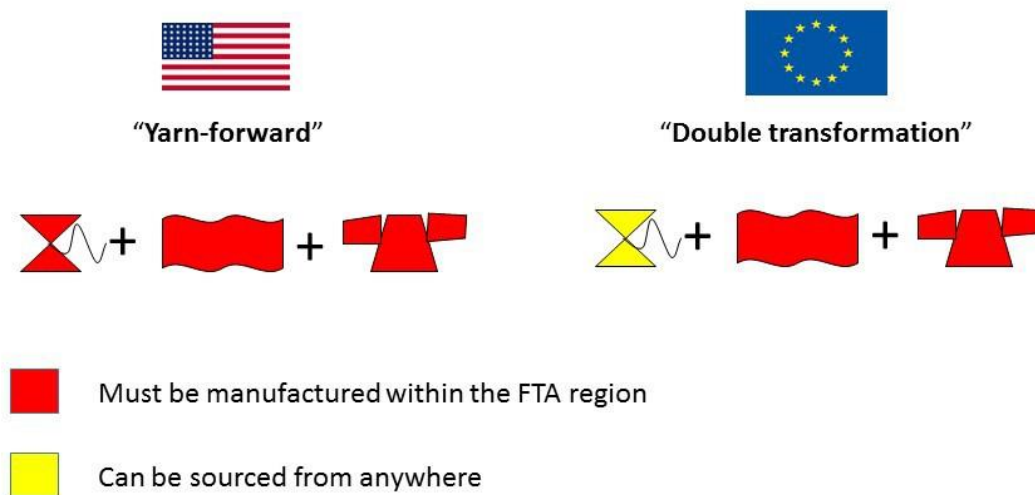
Source: Author’s compilation from The Financial Express (2024).

The country will have to compete on productivity and quality instead of relying on tax exemptions, whereas Vietnam has secured a long-lasting zero-tariff advantage through the EVFTA (Friedrich-Ebert-Stiftung [FES], 2025).

2.2. Global Value Chains (GVCs) & Rules of Origin (ROO)

The global textile industry operates within Global Value Chains (GVCs), where stages like spinning, weaving, and sewing are split across different countries to save costs (Hasan, Swazan, & Das, 2024). Within these chains, FTAs use Rules of Origin (ROO) to determine whether goods qualify for tariff preferences (Ozeren, 2024). ROO force countries to upgrade their supply chains through two primary mechanisms. The first is single transformation, a relaxed rule often used in the EBA program, which allows countries like Bangladesh to import fabric from third parties such as China, cut and sew it locally, and still enjoy zero tariffs when exporting to the EU (RAPID, 2024). The second mechanism is double transformation, commonly known as the fabric-forward rule. This is a strict requirement under the EVFTA, dictating that both the weaving and sewing processes must be completed within Vietnam or the EU (FES, 2025).

Comparison of U.S. and EU Rules of Origin for Textile and Apparel



Reference: EU Commission; OTEXA

Figure 2: Illustration of the "Double Transformation" rule in the EU trade framework.

Source: *EU Commission*.

Additionally, as tariffs decline, the EU increasingly implements Non-Tariff Measures (NTMs), such as technical and environmental standards. Recent studies indicate that Vietnam's proactive supply chain integration allows it to adapt to these NTMs more effectively than Bangladesh, which still relies on low-value-added products with thin margins (Sharma & Bharti, 2025; Razzaque, Islam, & Rahman, 2023). Because Bangladesh's apparel sector mostly produces low-value-added items with very low profit margins, it is highly sensitive to price shocks and will struggle to survive under stricter rules like double transformation (Razzaque, Islam, & Rahman, 2023). Therefore, to achieve sustainable exports and fully utilize modern FTAs, a country must build an independent domestic supply instead of relying heavily on imported inputs.

2.3. Analytical framework

This study views trade agreements not only as tax-cutting policies but also as drivers of long-term supply chains restructuring. The report evaluates the competitiveness of Vietnam and Bangladesh through two contrasting scenarios: the tariff shield and the tariff cliff.

Current market data provides a vital starting point for this analysis. As illustrated in Figure 3, the widening export gap between Bangladesh and Vietnam (reaching over \$14 billion in

2023) highlights Bangladesh's current dominance but also its extreme exposure to the 2026/2029 transition (Sharma & Bharti, 2025).

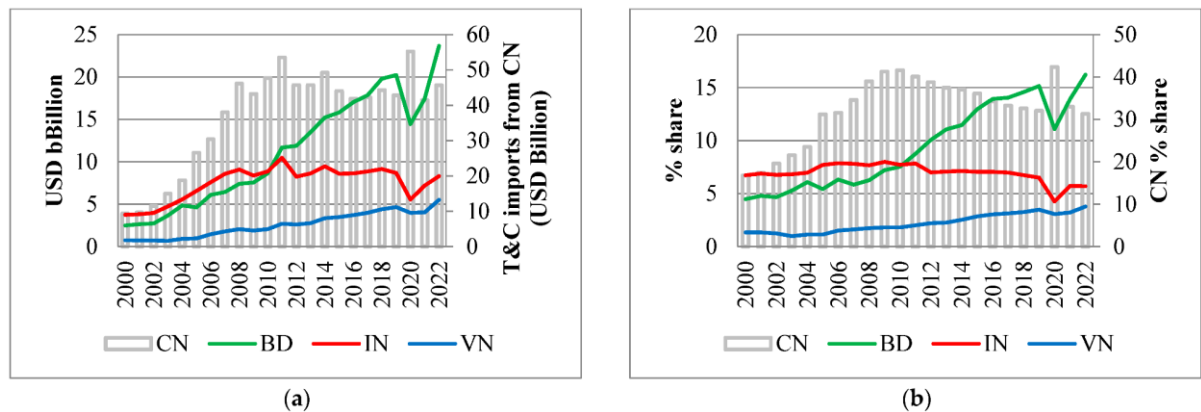


Figure 3: (a) EU textile and clothing imports from BCIV (USD billion) and (b) Percentage share of BCIV in the EU's textile and clothing imports (2000-2022).

Source: Sharma & Bharti (2025) based on WITS, World Bank data.

However, this analytical framework argues that the upcoming LDC graduation will flip this dynamic. Bangladesh's heavy reliance on the EBA program places it on a "tariff cliff." Once these benefits are lost, its garments will face standard GSP tariffs and stricter rules of origin, making its current scale difficult to sustain (Raihan, Khorana, & Uddin, 2022).

In contrast, the EVFTA acts as a "tariff shield" for Vietnam. While the "fabric-forward" rule is a significant constraint, it provides a stable and predictable trade environment. Vietnam's proactive efforts to build a domestic material supply chain create "strategic readiness." This framework suggests that while Bangladesh currently leads in volume, Vietnam's structural preparation will allow it to capture the market share left vulnerable when the "tariff cliff" event occurs.

3. Trade policy framework and market access conditions

The European Union (EU) operates a multi-layered trade policy framework granting different levels of market access. For developing and least-developed nations, access is governed either by unilateral preference schemes or by reciprocal Free Trade Agreements (FTAs). This section delineates the general architecture of EU trade preferences before examining the specific and contrasting positions of Vietnam and Bangladesh. As of 2026, Vietnam benefits from a comprehensive FTA with the EU, while Bangladesh is navigating a transition from LDC status, which will fundamentally alter its preferential access to the EU market.

3.1. Overview of trade preferences

The EU provides trade preferences to developing countries through two primary mechanisms: unilateral, non-reciprocal schemes under the Generalized System of Preferences (GSP) and bilateral, Free Trade Agreements (FTAs). The GSP is the EU's autonomous trade arrangement for low- and low-middle-income countries, designed to promote economic

development by reducing or eliminating EU tariffs on a wide range of products (European Commission, n.d.-a). The system is divided into three tiers, each offering a different level of market access based on a country's development status and willingness to meet certain governance and standards obligations.

3.1.1. Standard GSP

The Standard GSP is the baseline tier of the EU's preference framework, offering partial or full duty reductions on roughly two-thirds of EU tariff lines. Low- and lower-middle-income countries without access to more advanced tiers or a bilateral FTA with the EU can greatly benefit from it, and its unilateral preferences can be modified or withdrawn as development status changes. Product coverage is reviewed every three years; following the 2016 review, a revised list took effect on 1 January 2017, removing goods no longer eligible for preferences (European Commission, 2018).

In 2016, Vietnam was a dominant user of Standard GSP, accounting for 23% of total EU imports from all Standard GSP beneficiaries, with footwear alone comprising nearly 40% of Vietnam's GSP imports into the EU (European Commission, 2018). This concentration reflects both the export profile of Vietnam's manufacturing sector and the degree to which key industries depended on GSP preferences for competitiveness in the EU market.

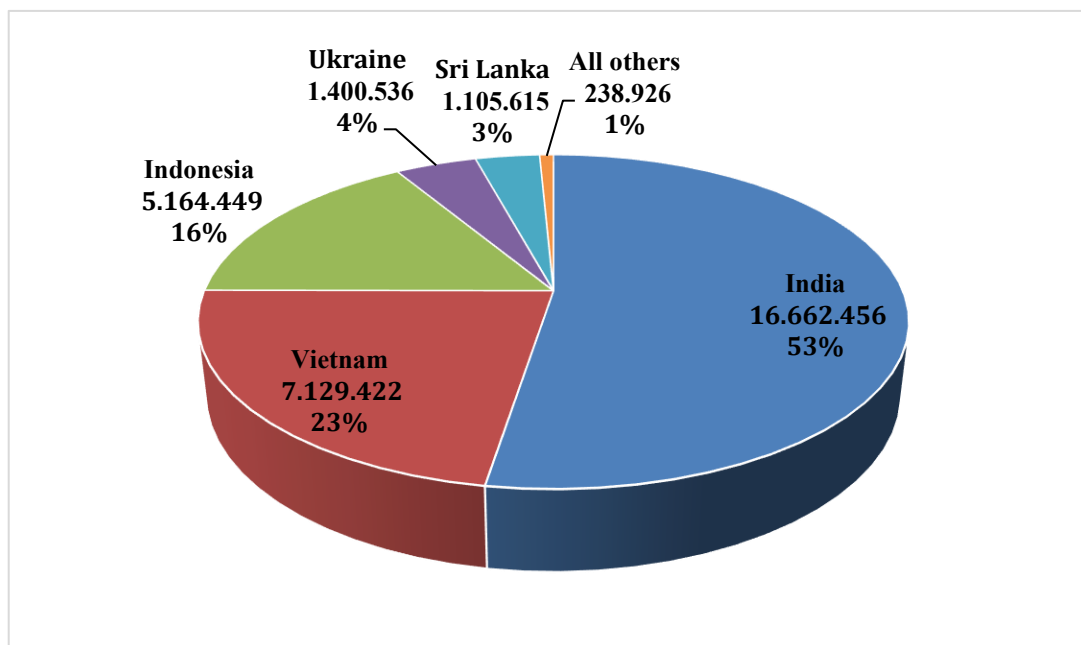


Figure 4: Standard GSP preferential EU imports, 2016 (thousand EUR)

Sources: Author's compilation from European Commission. (2018)

3.1.2. Everything But Arms (EBA)

The Everything But Arms arrangement is the most generous GSP tier, granting full duty-free and quota-free access for all products except arms and ammunition exclusively to UN-designated Least Developed Countries. It imposes no conditionality beyond LDC classification and offers the most flexible Rules of Origin among the three tiers, which is a significant

advantage for countries with young manufacturing sectors reliant on imported inputs. EBA thus reflects the EU's commitment to supporting its most vulnerable trading partners through asymmetric market access.

In Bangladesh's case, EBA preferences have made a measurable contribution to socio-economic development, most notably by generating millions of jobs in the readymade garment (RMG) industry, where the most workers are women (European Commission, 2018). However, the Commission has made clear that these gains must be accompanied by genuine respect for labour rights, particularly freedom of association, if the arrangement is to fulfil its broader development objectives. As of the 2016-2017 reporting period, the EU had signalled that sustained improvements in labour conditions were necessary to avoid further action under the withdrawal mechanism (European Commission, 2018).

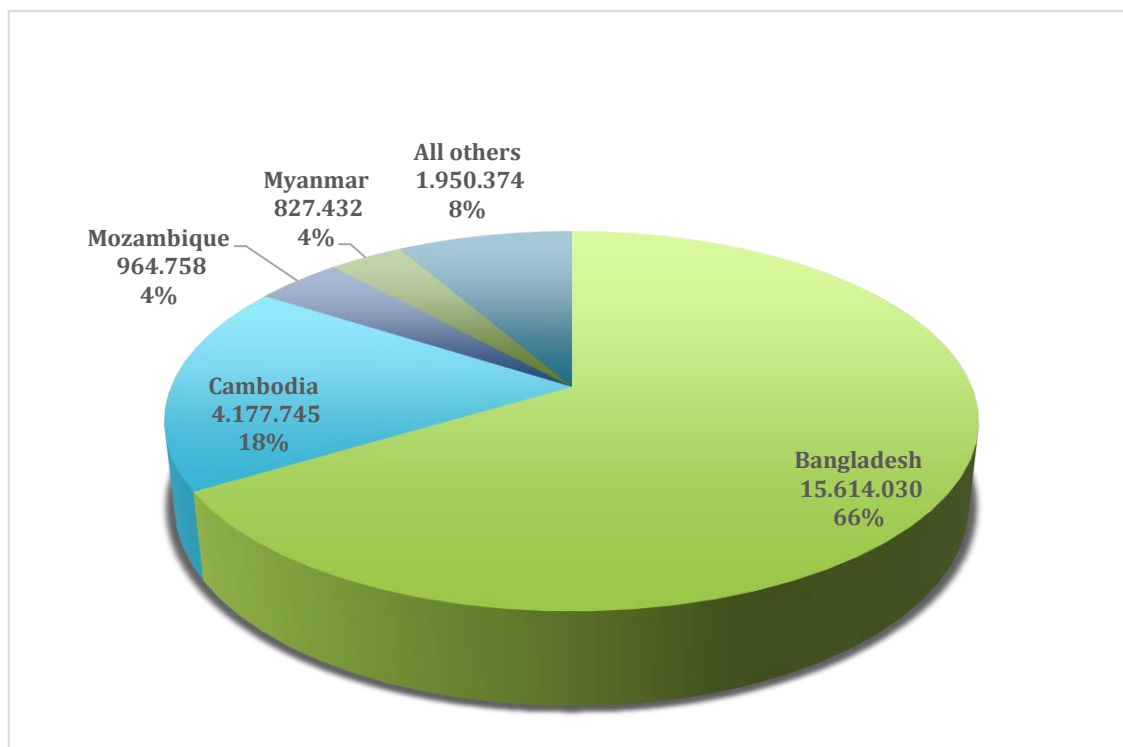


Figure 5: EBA preferential EU imports, 2016 (thousand EUR)

Sources: Author's compilation from European Commission. (2018)

3.1.3. Free Trade Agreements (FTAs)

In contrast to the GSP tiers, FTAs are bilateral, reciprocal arrangements negotiated directly between the EU and a partner country or region. They are typically more comprehensive and legally binding than unilateral preference schemes, aiming to liberalize substantially all trade and establish a stable, predictable framework for economic integration. Unlike GSP arrangements, which can be modified or withdrawn as a country's development status changes, FTAs offer exporters a legally binding framework (White & Case, 2020). Beyond tariffs, modern EU FTAs also address non-tariff barriers, investment, intellectual property, and sustainable development commitments, making them the most comprehensive form of trade arrangement.

3.2. Vietnam: the EVFTA advantage

Vietnam's market access to the EU is defined by the EVFTA, which entered into force on 1 August 2020 (European Commission, Access2Markets). This reciprocal agreement provides Vietnam with a significant and legally secure competitive edge.

The cornerstone of the EVFTA is its ambitious tariff elimination schedule. Upon entry into force, the EU immediately eliminated approximately 85.6% of its import tariffs on Vietnamese goods, covering around 70.3% of Vietnam's export value to the EU (Vietnam Briefing, 2024). The agreement provides for the progressive elimination of duties on 99.2% of tariff lines, with the remaining 0.3% of Vietnam's export revenue covered by tariff-rate quotas at zero percent (Vietnam Briefing, 2024). This near-total liberalisation provides a clear and predictable path for Vietnamese exporters. According to EuroCham, EU-Vietnam two-way trade reached approximately USD 298 billion between August 2020 and May 2025, with Vietnam becoming the leading ASEAN exporter to the EU (EuroCham, 2025).

Accessing these tariff preferences is conditional upon compliance with the agreement's Rules of Origin (RoO). For key sectors like textiles, the EVFTA enforces a "fabric forward" rule, requiring that fabric used to produce garments be sourced locally or from the EU to qualify for preferred treatment (European Commission Access2Markets, n.d.-b). This requirement poses challenges for Vietnamese businesses with import-dependent supply chains, and Rules of Origin have been widely identified as a key EVFTA implementation challenge (EuroCham, 2025).

Furthermore, Chapter 13 of the EVFTA introduces binding commitments on labour and environmental standards, requiring both parties to effectively implement fundamental ILO conventions and multilateral environmental agreements. It also stipulates that neither side may weaken or waive domestic labour or environmental laws to attract trade or investment (White & Case, 2020). These commitments are complemented by new EU-wide regulations, including the Carbon Border Adjustment Mechanism (CBAM), which entered its definitive compliance phase on 1 January 2026 (European Commission Taxation and Customs Union, 2026). CBAM places a carbon cost on imports of certain carbon-intensive goods - currently including cement, iron and steel, aluminium, fertilisers, electricity, and hydrogen - adding an additional compliance requirements for exporters (European Commission Access2Markets). Thus, the EVFTA's advantage is not only about tariff elimination but also about navigating an increasingly complex origin and sustainability requirements.

3.3. Bangladesh: the post-LDC transition

Bangladesh's trade relationship with the EU is currently defined by its LDC status and stands at the cusp of a major transformation following its graduation from the LDC category.

As an LDC, Bangladesh benefits from the EU's EBA arrangement, providing duty-free and quota-free access for all exports, including readymade garments (RMG) (European Commission Access2Markets). A key feature of EBA has been its flexible single transformation Rule of Origin, under which garments assembled from imported fabrics still

qualify for preferential treatment - a provision fundamental to the growth of Bangladesh's RMG industry (International Growth Centre, 2024). Bangladesh is now the largest beneficiary of LDC trade preferences, accounting for 67% of all LDC duty-free exports to the EU (The Daily Star, 2025).

Bangladesh's LDC graduation is scheduled for November 2026, with the EU granting a three-year transition period of continued EBA access until November 2029 (The Daily Star, 2025; The Diplomat, 2026). After this point, Bangladesh faces two scenarios.

Scenario A: Reversion to Standard MFN Tariffs: Without GSP+ status, Bangladesh's exports would face standard MFN tariffs, with readymade garments subject to duties of approximately 9-12% (Stein & Partners, 2025; The Financial Express, 2025). This would severely erode price competitiveness, particularly against Vietnam, whose tariff rates are set to reach zero under the EVFTA over the same period (The Financial Express, 2025).

Scenario B: Accession to GSP+: Bangladesh is widely expected to qualify for GSP+ as a vulnerable lower-middle-income country (TBS News, 2025), which would restore zero-tariff access for many products. However, GSP+ carries stricter conditions than EBA: it requires ratification and implementation of 27 core international conventions, proposed to rise to 32 under a revised framework (Council of the EU, 2022; TBS News, 2025) - and imposes a double transformation Rule of Origin for garments (TBS News, 2025; IGC, 2024). Bangladesh also faces risk from the GSP+ safeguard mechanism, which can withdraw preferences if a single country's share of EU imports of a given product exceeds 37% - a threshold Bangladesh's apparel exports already substantially surpass, making meaningful GSP+ coverage for its principal sector far from guaranteed (The Financial Express, 2025; Council of the EU, 2022; Bonik Barta, 2026; IGC, 2025).

These challenges have prompted Bangladesh to pursue both a GSP+ application and exploratory discussions for a bilateral FTA with the EU, seeking a more permanent trade framework beyond 2029 (TBS News, 2025; The Diplomat, 2026).

4. Comparative competitiveness analysis (Vietnam vs. Bangladesh)

4.1. Comparative cost analysis

The export pricing strategies for ready-made garments in Vietnam and Bangladesh exhibit significant divergence. Analysis of the European Union (EU) apparel trade reveals that Bangladesh's average export unit value was approximately \$1.90 per item in 2023, while Vietnam and other leading suppliers achieved roughly \$2.19. Furthermore, on a quality-adjusted basis, Bangladeshi garment prices in the EU represent only about 21% of Vietnam's for identical products, a disparity largely driven by Bangladesh's tariff-free access under the Everything But Arms (EBA) scheme. This arrangement allows importers to demand lower prices as these exports avoid EU duties.

However, the impending transition from LDC status will significantly alter this landscape. Post-2029, Bangladeshi garments are projected to incur an average EU tariff of 12%, whereas Vietnamese products will remain duty-free under the EVFTA. This shift effectively increases

Bangladesh's Free On Board (FOB) price by 12%; for instance, a \$2.00 Bangladeshi garment would cost \$2.24 delivered once tariffs are applied, nearly eroding its price advantage against over Vietnamese.

While the labor-cost differential partially cushions this impact - with Bangladeshi workers earning \$100 to \$113 per month compared to Vietnam's \$275 to \$300 - labor costs constitute only approximately 10% of total production expenses. Consequently, Vietnam's higher wages do not result in proportionally higher FOB costs, and the absolute effect on per-item pricing remains modest. In contrast, a 12% tariff serves as a direct, uncompensated price hurdle that inflates Bangladesh's export prices. Collectively, Vietnam's duty-free access under the EVFTA and its capacity to command higher unit prices position it favorably as the "tariff-adjusted" cost gap narrows post-2029.

4.2. Rules of Origin and supply chain integration

The practical utility of the EVFTA depends on a country's ability to meet the "double transformation" requirement within its Rules of Origin (ROO). An analysis of Revealed Comparative Advantage (RCA) data from 2017 to 2021 provides a quantitative basis for assessing the structural readiness of Vietnam and Bangladesh. Unlike nominal export volume, the RCA index highlights a country's specialization and its ability to integrate the textile value chain.

Vietnam demonstrates a significant competitive advantage in upstream segments, including raw material production (Sub-section 1) and textile manufacturing (Sub-section 2). Specifically, Vietnam maintains a robust sub-sectional RCA of 1.65 in Sub-section 1, supported by strong scores in Silk (3.72), Cotton (3.61), and man-made filaments (1.58). This maturity extends to Sub-section 2, where the nation achieves an RCA of 1.29, notably excelling in knitted or crocheted fabrics (RCA: 2.00). Such backward linkages allow Vietnamese exporters to meet the "fabric-forward" rule, ensuring duty-free access to the EU market.

In contrast, Bangladesh's textile industry is characterized by a highly uneven structure. While its overall RCA for the entire chain is 10.54, this is driven almost exclusively by the garment assembly segment (Sub-section 3), which boasts an exceptionally high RCA of 25.40. Conversely, its upstream capabilities are underdeveloped, with sub-sectional RCAs of only 0.35 for raw materials and 0.36 for textiles. Aside from niche dominance in Jute (HS 53: 68.47), Bangladesh suffers from deep comparative disadvantages in essential fabrics, with RCA scores often falling below 0.30.

S Co de	Segmentati on in the Value Chain	RCA Average of 5 years (2017-2021)					
		Vietnam			Bangladesh		
		Commo dity	Sub- section	Ent ire chain	Commo dity	Sub- section	Entir e chain
0	Producing Raw Materials (Sub-section 1)	3.72	1.65	1.93	0.01	9.98	10.54
1		0.07			0.01		
2		3.61			0.48		
3		0.49			68.47		
4		1.58			0.04		
5		1.14			0.22		
6	Manufacturi ng Textile (Sub- section 2)	0.97	1.29	1.93	0.63	0.36	10.54
7		0.71			0.98		
8		0.68			0.14		
9		1.78			0.06		
0		2.00			0.26		
1	Make Garment (Sub- section 3)	4.18	3.40	1.93	36.21	25.40	10.54
2		4.30			33.62		

3		1.73			6.39		
Total absolute value		38,107,976			41,354,629		

Table 4: Overall RCA Indexes of Vietnam and Bangladesh (2017 - 2021 Average)

Source: Author's compilation from ITC Trademap and Nguyen (2023)

This lack of upstream competitiveness forces Bangladesh to rely on a "single transformation" model, which is sustainable only under the flexible EBA scheme. As LDC graduation approaches, the inability to produce competitive domestic fabrics (indicated by an RCA of 0.42 or lower in most categories) creates a strategic bottleneck. While Vietnam's balanced RCA profile across the value chain facilitates integration into the EVFTA, Bangladesh's singular downstream advantage poses a severe risk to its long-term sustainability in the European market.

4.3. Labor cost and productivity dynamics

Country	Avg. Monthly Wage (USD)	Labor Productivity (USD output per worker/year)
China	345	~18,000
Bangladesh	95	~5,000
Turkey	621	~15,000
Vietnam	280–300	~7,000

Table 5: Average monthly wages and labor productivity in textile and garment in selected countries

Source: Author's compilation from World Bank, Statista, and industry reports (2023)

Labor cost remains a fundamental determinant of competitiveness in the garment industry. A comparative analysis reveals that Bangladesh possesses an absolute advantage in basic wage

rates, with an average monthly wage of approximately \$95. In contrast, Vietnam's labor cost is substantially higher, ranging from \$280-\$300 per month. When compared to advanced manufacturing centers like China (\$345) and near-shoring hubs like Turkey (\$621), Vietnam occupies a middle-tier position in the global wages.

However, nominal wages provide an incomplete picture; labor productivity must be factored in to determine the true manufacturing cost. Data indicates that while Bangladesh offers the lowest wages, it also records the lowest productivity, generating approximately \$5,000 in output per worker annually. Vietnam demonstrates a higher productivity rate of roughly \$7,000 per worker per year. Despite this efficiency, the gain does not fully offset the threefold difference in wage gap, underscoring that Vietnam can no longer rely on a low-cost labor strategy to compete against Bangladesh.

This widening wage gap highlights the strategic necessity of the EVFTA as a vital financial buffer for Vietnam. The phased elimination of import duties effectively neutralizes the pricing disadvantage stemming from higher domestic wages. Conversely, Bangladesh's reliance on low wages will face a severe stress test upon LDC graduation. When Bangladesh encounters standard tariff rates of approximately 12%, its historical wage advantage will be significantly eroded at the European border. Consequently, the competitive landscape will shift from a race for the cheapest labor toward tariff optimization and value-added productivity.

4.4. Non-tariff barriers: compliance as a differentiator

In the modern global sourcing landscape, non-tariff factors have become decisive as European Union (EU) buyers increasingly prioritize safe, transparent, and compliant supply chains. Environmental readiness represents a; while Bangladesh maintains a quantitative lead with over 230 LEED-certified textile factories as of late 2024, Vietnam possesses approximately 60 to 70 such plants. Both nations are investing heavily in meeting the strict REACH chemical regime, which mandates the elimination of hazardous substances to maintain market access. Despite Bangladesh's infrastructure lead, Vietnam demonstrates a stronger alignment with EU labor and social standards.

Social compliance further distinguishes the two competitors. Driven by EVFTA and CPTPP commitments, Vietnam has ratified ILO Convention 98 and enacted the 2019 Labour Code to enhance union rights and independent worker representation. Conversely, Bangladesh's labor record remains mixed; fewer than 10% of its garment factories have trade unions, and international monitors continue to report systematic issues in worker intimidation and safety. The EU has recently signaled that Bangladesh's labor amendments still fall short of the required roadmaps, positioning Vietnam's more robust legislative framework as a significant competitive edge under emerging EU corporate due diligence laws.

Furthermore, Technical Barriers to Trade (TBT) and evolving sustainability directives create new gatekeeping criteria. Compliance with mandatory standards for product safety, fiber composition, and labeling requires significant investment in quality control and third-party certification (European Commission, 2023). New regulatory layers, such as the revised Waste Framework Directive requiring Extended Producer Responsibility (EPR) by 2027, and the

Empowering Consumers for the Green Transition Directive (ECGT) applying from September 2026 (Carbonfact, 2026), will mandate independent verification of all "eco-friendly" claims. As these environmental and technical requirements transform from voluntary marketing into mandatory conditions for entry, Vietnam's superior compliance infrastructure is likely to further improve its competitive position.

5. Strategic implications and recommendations

5.1. Strategic positioning for Vietnam

To maximize these opportunities, Vietnam must adopt a strategic 5-year timeline, balancing short-term market expansion (2025-2026) with long-term structural transformation (2027-2029). Vietnam should strategically identify and focus on specific HS-coded product lines where its competitors are structurally vulnerable. Synthetic fiber garments (Man-Made Fiber - MMF) represent a significant opportunity. Specifically, Vietnam should solidify its position in the EU market by targeting complex, high-value categories such as HS 6201 and HS 6202 (overcoats and windbreakers), HS 6204 (women's woven suits and dresses), and HS 6110 (jerseys and pullovers). Bangladesh lacks strong domestic raw material capacity for MMF production and remains heavily dependent on imported inputs. Following its graduation from LDC status, Bangladesh is expected to face substantial tariff exposure in major markets such as the European Union once its duty-free privileges expire (Textile Insights, 2023). In contrast, Vietnam benefits from preferential access under the EVFTA. By expanding MMF production and meeting rules-of-origin requirements, Vietnam can capture greater market share in the European market.

To strengthen competitiveness and improve profit margins as a long-term goal (2027-2029), Vietnamese manufacturers should gradually move away from the traditional CMPT (Cut-Make-Trim) model and transition toward full-package services such as FOB and ODM. Offering design-to-delivery solutions would allow firms to capture more value and enhance their bargaining power with international buyers. This shift is particularly important because Bangladesh still faces limitations in providing large-scale comprehensive "full-package" services, creating an opportunity for Vietnam to differentiate itself through higher value-added capabilities.

At the same time, Vietnam needs to reconsider how European buyers perceive its market position. Rather than competing primarily on low production costs, the country should reposition itself as a "Reliable and Sustainable Hub." Emphasizing supply chain stability, regulatory compliance, transparency, and high production standards would help Vietnam stand out beyond price-based competition. As noted by the World Bank (2023), global buyers increasingly prioritize reliability and sustainability in sourcing decisions. Such repositioning would enable Vietnam to attract premium buyers who value long-term partnership and compliance over purely cost considerations.

5.2. Actionable policy recommendations

To overcome the strict “fabric-forward” requirement under the EVFTA and meet long-term supply chain objectives (2027-2029), the government should introduce targeted incentives to expand domestic dyeing and weaving capacity. Offering tax breaks and facilitating easier access to industrial land would attract both domestic and foreign direct investment (FDI) into these bottleneck segments. While upstream capacity gradually develops, firms should promote cumulative sourcing by importing raw materials from countries such as South Korea, which maintain trade arrangements with the European Union. This approach would help Vietnamese garments meet Rules of Origin (ROO) requirements and secure preferential tariffs in the short term (2025-2026) (European Commission, 2020).

In terms of digital and green transition, policymakers should accelerate the adoption of Digital Product Passports (DPP) to enhance transparency and ensure compliance with increasingly strict EU environmental regulations. At the same time, greater investment in renewable energy is necessary. Expanding and subsidizing solar rooftop systems across textile industrial zones would reduce the carbon footprint of exports and improve their attractiveness to environmentally conscious European consumers.

Regarding market strategy, Vietnamese firms should act proactively in the short term (2025-2026) rather than waiting for the 2029 transition period associated with Bangladesh’s graduation from preferential trade schemes. Securing long-term contracts with European partners at this stage would allow firms to position themselves as a stable and credible alternative supplier. Early partnership formation would not only ensure a steady flow of orders but also strengthen Vietnam’s role as a primary substitute supplier in the European market.

6. Conclusion

This study examined the changing competitive landscape of the textile and garment industry in the European Union (EU) market, with a specific focus on Vietnam and Bangladesh. The scope of the research was limited to the EU market and to the period leading up to and following Bangladesh’s graduation from LDC status in 2029. The central research question asked how Vietnam can assess its strategic readiness and reposition itself as Bangladesh loses its current trade preferences. This study set out to achieve three main objectives. First, it aimed to compare the tariff and non tariff conditions facing Vietnam and Bangladesh before and after Bangladesh’s LDC graduation. Second, it sought to evaluate Vietnam’s level of strategic readiness to respond to these changes. Third, it proposed practical recommendations for policymakers and firms to strengthen long term competitiveness in the EU market.

The analysis was grounded in Preference Erosion Theory and the Global Value Chains (GVCs) framework. These theoretical foundations helped explain how changes in tariff regimes can reshape competitive advantages and how upgrading within value chains influences long-term positioning. Methodologically, the study adopted a qualitative-dominant comparative approach, relying on comparative analysis of trade agreements and legal frameworks, particularly the EVFTA and the EU’s EBA scheme. Secondary trade data and policy documents were used to support the assessment.

The findings show a clear structural shift. Bangladesh currently benefits from flexible Rules of Origin under the EBA scheme, which supports its strong export performance. After moving to standard GSP or GSP Plus, it will likely face higher tariffs and stricter origin requirements, reducing its price advantage. In contrast, Vietnam has already adapted to stricter EVFTA rules and higher compliance standards, making it better prepared for the period after 2029 and more capable of capturing vulnerable market share.

However, this study has several limitations. First, it relies mainly on qualitative analysis and secondary data, which may not fully reflect sudden macroeconomic changes or unexpected disruptions in global supply chains. Second, the analysis assumes that current trade policies remain relatively stable. If Bangladesh negotiates a new bilateral Free Trade Agreement with the EU before or shortly after 2029, the expected level of preference erosion may be reduced. Future research could apply quantitative models to estimate potential export shifts more precisely and to evaluate the real cost of compliance with environmental and sustainability standards.

In conclusion, as Bangladesh moves toward the end of its tariff-free advantages, Vietnam's success in the EU market will depend less on low labor costs and more on its ability to strengthen integration, compliance, and sustainability within the global value chain.

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