

BUDAPEST BUSINESS SCHOOL,
Faculty of International Business Economy

**Following the Footsteps of Bangladesh and Vietnam:
Strategies for SME Consolidation and Garment Sector
Development in Kyrgyzstan**

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Declaration

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Abstract

This thesis explores the potential for Kyrgyzstan's garment industry to transform and achieve significant growth by following the successful examples of Vietnam and Bangladesh. These two countries have established themselves as global leaders in the garment sector through targeted reforms, strategic policies, and innovative approaches to industrial organization. The study examines the similarities and differences in their development paths and assesses how Kyrgyzstan can adapt these strategies to its unique economic and geographical context.

By analyzing the consolidation of small and medium-sized enterprises (SMEs) into centralized production hubs, the study identifies key factors that contributed to the success of Vietnam and Bangladesh. These include the establishment of structured industrial zones, fostering cooperation among SMEs, and the development of supporting infrastructure and policies. The research evaluates how Kyrgyzstan's garment sector, which is currently fragmented and informal, can adopt these practices to create a more organized and efficient industry.

Based on this analysis, the study provides recommendations tailored to Kyrgyzstan, emphasizing the importance of strategic reforms, industrial clustering, and SME consolidation. The findings highlight actionable steps that Kyrgyzstan can take to modernize its garment industry and create a framework for sustainable development. This research serves as a foundation for understanding how experience of Bangladesh and Vietnam can be adapted by Kyrgyzstan, offering a roadmap for meaningful transformation in Kyrgyzstan's garment sector.

Key words: garment industry, garment sector, SMEs, Kyrgyzstan, Bangladesh, Vietnam, consolidation of SMEs.

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1 INTRODUCTION

The textile and clothing industry has long played a pivotal role in the economic development of many countries, serving as a key driver of employment, industrialization, and export-led growth. In countries such as Bangladesh and Vietnam, the transformation of small and medium-sized tailoring enterprises into larger, more structured production hubs has significantly contributed to national economic development. However, in Kyrgyzstan, despite the potential for growth in the textile sector, the industry remains largely fragmented and underdeveloped. Small tailoring ateliers specializing in textile and clothing industry operate independently, often lacking the resources and infrastructure necessary to expand and compete in both domestic and international markets. This research aims to explore how consolidating these small and medium-sized tailoring ateliers into larger production hubs can enhance the textile sector and drive economic growth in Kyrgyzstan.

In the context of Kyrgyzstan, the creation of such textile production hubs could significantly improve the efficiency of tailoring ateliers, allowing them to benefit from economies of scale and greater access to technology, training, and international markets. Additionally, these hubs could contribute to job creation, skills development, and the promotion of sustainable practices within the textile industry. By facilitating collaboration between small businesses, production hubs can also enhance knowledge sharing, driving innovation and boosting the overall competitiveness of Kyrgyzstan's textile sector.

The primary objective of this research is to explore the potential for enhancing and consolidating small and medium-sized tailoring ateliers in Kyrgyzstan's garment industry into larger production hubs. The research compares the footsteps of Bangladesh and Vietnam in its success in the garment industry and analyzes what can Kyrgyzstan follow taking into account its specific characteristics. Specifically, the research will analyze how the consolidation of small and medium enterprises happened in these two countries and what has been done.

Significance of the Study

This research is significant as it addresses a critical gap in the development of Kyrgyzstan's garment industry. Despite being a key sector of the economy, Kyrgyzstan's garment industry remains fragmented, with many small ateliers operating below their potential due to lack of

infrastructure, capital, and market access. By examining how similar sectors in Vietnam and Bangladesh have successfully transformed through consolidation, this study provides valuable insights that can inform policymakers, business leaders, and stakeholders in Kyrgyzstan.

It explores Kyrgyzstan's economic landscape, comparing it to Vietnam and Bangladesh before their garment sector transformations. The analysis highlights the role of SMEs, logistical systems, and geographical hubs in supporting garment production. Using case studies from Vietnam and Bangladesh, the study investigates how SME consolidation into industrial hubs can enhance competitiveness and operational efficiency. Finally, actionable recommendations are provided, emphasizing logistics improvements, industrial clustering, and fostering collaboration to strengthen Kyrgyzstan's garment sector and overall economic resilience.

2 LITERATURE REVIEW

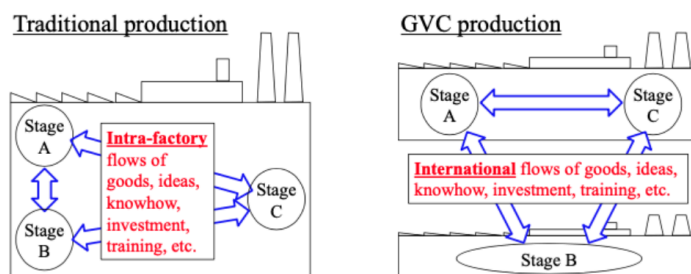
Numerous studies highlight the significance of the textile sector as a crucial component of economic development in emerging economies. Gereffi (1999) examines the global value chain (GVC) in the apparel and textile industry, emphasizing how low-income countries can become competitive by focusing on production and service activities such as sewing and repair. This is particularly relevant to Kyrgyzstan, which can be described as a low-income country, where the textile sector is a major contributor to the national economy, providing employment and contributing to exports. The GVC framework underscores how countries like Kyrgyzstan can integrate into global markets by becoming specialized nodes within the larger global production network, taking advantage of their comparative strengths. Baldwin (2012) extends this perspective by describing the GVC as the "denationalisation of comparative advantage, which provides an important framework for understanding how countries like Kyrgyzstan can integrate into global markets and develop their textile sectors effectively. Baldwin (2012) argues that, unlike traditional economic theories where countries specialize in entire industries based on their comparative advantage (such as complete garment production or textile manufacturing), GVCs allow nations to focus on specific parts of the production process. This "denationalisation" of comparative advantage means that production is broken down into smaller tasks, which are distributed across different countries based on their specific strengths and resources. Essentially, countries can now

participate in global trade without having to master every aspect of production; they can specialize in one or a few stages, such as sewing, finishing, or quality control.

If previously it was traditional production within one factory or country, nowadays we have GVC production, where the production process can be spread all over the world. It is clearly depicted in Figure 1. It also shows different stages of production, previously clustered within single factories or countries, have been dispersed globally due to reduced communication and coordination costs brought by ICT developments.

Figure 1

Global value chains



Source: CEPR, 2024.

The GVC system has many opportunities, but has notable drawbacks. For example, the footloose nature, i.e., where industries can move quickly to other countries offering lower costs or more favorable conditions. While these industries do not care about the original host country leaving them with economic instability, job losses, and underutilized infrastructure. Moreover, this model is inherently not conducive to the organic development of an industrial base. By focusing on certain productive activities, countries may not develop integrated industrial ecosystems, and this limits long-term growth. Similarly, organic development of skills and technology is limited, as specialization in one or two stages of production can impede broader knowledge transfer and technological progress (Baldwin, 2012).

In Central Asia, Tait (2016) discusses the potential for Kyrgyzstan to grow its textile industry, citing factors such as affordable labor and growing regional demand. However, challenges such as outdated machinery and lack of skilled labor persist, which further reinforces the need to explore

small-scale enterprises like sewing and repair services that could complement existing manufacturing capacities. The garment industry in Kyrgyzstan has a long played-role in the country's economic structure, contributing to both employment and export revenues. At the heart of this sector are small and medium-sized tailoring ateliers, which serve as the backbone of garment production, yet their small scale often limits their growth and potential.

Over the years, a significant body of literature has highlighted the importance of small and medium enterprises (SMEs) in driving economic growth, especially in developing nations, where they account for a large portion of both GDP and employment. Studies such as those by Beck and Demirgüç-Kunt (2006) underscore the pivotal role that SMEs playing job creation and poverty alleviation, but they also draw attention to the inherent challenges these businesses face, including limited access to finance, fragmented operations, and the inability to compete in larger markets. This is particularly relevant within the GVC framework, as local SMEs must upgrade their capabilities and integrate into global supply chains to remain competitive.

Garment businesses in Kyrgyzstan are typically small-scale, family-owned operations that focus on local markets or exports to neighboring countries such as Russia and Kazakhstan (Kaminski and Mitra, 2012). These small ateliers often lack the necessary infrastructure and investment to scale their operations, which results in inefficiencies in production and limits their ability to compete with larger, more established garment manufacturers in the region. Further, the informal nature of many of these businesses contributes to a lack of access to financial resources, which hinders their ability to upgrade technology or expand their operations. Scholars such as Kappel (2010) have pointed out that SMEs in developing economies struggle to obtain the necessary capital to innovate and grow, a situation mirrored in Kyrgyzstan's tailoring industry.

As researchers have explored solutions to these issues, the idea of consolidation has gained traction. The consolidation of small ateliers into larger production hubs has been suggested as a means to improve efficiency, foster collaboration, and enhance competitiveness in the global market. Porter's (1990) theory of competitive advantage emphasizes the role of industrial clusters, where geographically concentrated businesses can benefit from shared resources, better supply chain coordination, and innovation. This notion of clustering and consolidation has been successfully applied in various industries around the world, particularly in the garment sector in

countries such as Bangladesh and Vietnam (Nadvi, 1999; Gereffi and Frederick, 2010). The consolidation of small tailoring operations into larger hubs in these countries has led to improvements in productivity and market access, suggesting a potential model for Kyrgyzstan.

In Bangladesh, for instance, the garment industry's growth was significantly accelerated by the establishment of larger production hubs, which allowed small workshops to combine resources, reduce costs, and meet international standards for production (Kabeer and Mahmud, 2004). Similarly, Vietnam's garment industry, once dominated by small enterprises, saw a marked increase in exports and overall competitiveness after government policies encouraged the creation of industrial parks where small garment producers could operate under the same roof, benefiting from economies of scale (Tewari, 2006).

Applying these lessons to Kyrgyzstan, the potential benefits of consolidation are clear. As noted by Ssewanyana and Kasirye (2014), larger production hubs not only enhance operational efficiency but also provide better opportunities for skill development, innovation, and collaboration among businesses. In Kyrgyzstan, where the tailoring industry is often characterized by outdated equipment and a lack of formal training for workers, consolidating ateliers into larger hubs could foster greater investment in modern machinery and provide centralized training programs to improve the overall skill set of the workforce. This, in turn, could enhance the quality of garments produced, making them more competitive in international markets.

For Kyrgyzstan, where the garment industry is already a significant source of export revenue, improving the efficiency and scale of production could lead to increased foreign exchange earnings, which would benefit the national economy as a whole. Additionally, by creating more formalized and structured employment opportunities within larger hubs, the consolidation of tailoring ateliers could help address issues of underemployment and informality, which have long plagued the Kyrgyz labor market (World Bank, 2018).

As Lall (2000) notes, the success of industrial consolidation efforts often depends on creating an enabling environment that encourages collaboration while respecting the interests of small business owners. Government policies that provide incentives for consolidation, such as tax breaks or subsidies for those joining larger hubs, may be necessary to overcome resistance and ensure a smooth transition.

By analyzing the opportunities and challenges associated with such a consolidation on the example of such countries as Bangladesh and Vietnam, this research aims to provide insights into how Kyrgyzstan's textile sector can be transformed into a more dynamic and competitive industry, contributing to national economic growth following successful cases. The findings of this research could also inform policy decisions and strategic initiatives aimed at promoting the development of the textile sector, which holds significant potential for creating jobs, improving living standards, and fostering economic diversification in Kyrgyzstan.

3 RESEARCH METHODOLOGY

This research aims to explore the potential benefits and challenges of consolidating small and medium-sized tailoring ateliers in Kyrgyzstan into larger production hubs, drawing on comparative data from successful examples in countries such as Vietnam and Bangladesh. This study will primarily rely on secondary data, such as national statistical data, academic articles, industry reports, and case studies, to analyze and compare the development of the garment industries in Bangladesh and Vietnam. Through a comparative analysis, the research will examine key factors such as SME collaboration, government policies, infrastructure, and workforce development in both countries.

Research Questions

The research will be guided by the following key questions:

1. What are the similarities and differences between the economies of Kyrgyzstan of nowadays, Vietnam, and Bangladesh before their success in terms of size, employment, and economic contribution?
2. What were the steps that enabled the growth of garment production hubs in Vietnam and Bangladesh, and how did these differ between the two countries?
3. What specific steps can Kyrgyzstan take to replicate or adapt in order to shift its current garment industry into a competitive production hub, considering its unique economic and social context?

Contribution to the Field

This research will contribute to both academic literature and policy discourse on the garment industry and SME consolidation. First, it will extend the existing body of knowledge on industrial consolidation by providing a detailed comparative analysis between Kyrgyzstan, Vietnam, and Bangladesh. Second, it will generate practical recommendations for Kyrgyz policymakers and industry leaders on how to foster the growth of the garment sector through consolidation, drawing on lessons from other countries.

Research Design

The study will adopt a **comparative case study design**, examining how the garment industries in Vietnam and Bangladesh have evolved, particularly regarding the consolidation of small enterprises into larger production hubs, and then applying those lessons to Kyrgyzstan. This approach will enable an analysis of the economic and institutional factors that have driven consolidation in other countries, while also assessing the similarities and differences in Kyrgyzstan's economic environment.

Data Collection Methods

Given that the research does not involve primary data collection through interviews or surveys, **secondary data** will be the primary source for analysis. This will include data on the garment industries, economic conditions, and macroeconomic indicators from Kyrgyzstan, Vietnam, and Bangladesh.

The following sources of secondary data will be used: National Statistical Committees, World Bank and IMF Reports, Industry Reports and Case Studies, Academic Literature.

Data Analysis Methods

The research will employ comparative analysis to identify key indicators such as contribution to GDP, garment sector employment, garment industry's supply chain, and some other key economic indicators. Simple macroeconomic indicators and comparative analysis of those indicators will be used for this aim.

4 RESEARCH DESCRIPTION

Comparative Data Analysis

The primary method of analysis will be comparative analysis between Kyrgyzstan, Vietnam, and Bangladesh. This approach will involve:

Identifying Key Indicators: Key economic and industry indicators will be identified to assess similarities and differences between the countries. These indicators will include:

- Key sectors of the economy
- Economic environment indicators such as availability of agreements with other countries, ease of crossing borders, and infrastructure quality
- Employment in the garment industry
- Contribution of the garment sector to GDP
- Average wage in the garment industry
- Logistics in the garment industry: import of raw materials and export of garments

Limitations

One of the primary limitations of this methodology is the reliance on secondary data, which may not fully capture the nuances of the garment industry in Kyrgyzstan. While comparisons to Bangladesh and Vietnam provide valuable insights, these countries operate in different cultural and political contexts, which may affect the applicability of their experiences to Kyrgyzstan.

5 SUCCESS OF VIETNAM AND BANGLADESH IN GARMENT INDUSTRY: GVC, POLICY AND ITS EFFECT ON COUNTRIES

This part of the paper will explain briefly how Vietnam and Bangladesh could succeed in the garment industry using policy. This chapter of the paper is written in order to give a quick overview of implemented policies to give a deeper understanding of the garment industry in its success path in these two countries.

As for now, both Bangladesh and Vietnam play significant roles in global trade. In Table 1, this paper shows that Bangladesh and Vietnam is in the top 4 garment exporting countries by 2023, having 6.4% and 6.3% correspondingly.

Table 1

List of Top 4 Garment Exporting Countries in the World, 2023

Rank	Country	Export Value (in billions USD)	Market Share (%)
1	China	\$161	30.6%
2	Bangladesh	\$34	6.4%
3	Vietnam	\$33	6.3%
4	India	\$16	3.0%

Source: Geeks for Geeks (2023)

Through global value chains (GVCs), developed countries have attempted to reduce production costs by shifting labor-intensive production steps to countries with competitive advantages such as lower wages and high labor force. As Baldwin's (2012) points out “Denationalization of comparative advantage” allowed countries such as Vietnam and Bangladesh to effectively integrate into the global economy. As it doesn't require establishing a full-fledged industrial base. Instead, they specialized in specific segments of the value chain, such as garment assembly and finishing, which were particularly labor-intensive and well suited to their comparative advantage.

In the 1980s and 1990s, global brands from developed countries actively started to shift their manufacturing operations to lower-income countries. As noted in the literature review, Gereffi (1999) and Baldwin (2012) emphasized that GVCs allowed these emerging economies to focus on value-added production activities which didn't require the significant capital investment, which was needed to develop fully integrated production facilities. This fragmentation of production has allowed Vietnam and Bangladesh to leverage their comparative advantages, such as low labor

costs and favorable demographic conditions, to become critical nodes in global apparel value chains.

Another important factor to consider is the liberalization of trade and capital. It created an environment for developing countries to integrate into global trade. Trade agreements such as the Multi-Fiber Arrangement (MFA), which initially imposed quotas on textile imports, provided opportunities for smaller low-income countries to enter the market as alternative suppliers. At the same time bilateral and multilateral trade agreements, including Vietnam's accession to the World Trade Organization (WTO) in 2007, have further reduced trade barriers, which increased market access, and created a level playing field for developing exporters. Interconnected part of these changes is the liberalization of capital flows. It encouraged foreign direct investment (FDI) in Vietnam and Bangladesh, which allowed international investors to establish garment factories. The inflow of FDI not only provided much-needed capital but also transferred skills, technology, and management expertise. It has resulted in upgrading their capabilities and enhancing their competitiveness within the global garment sector. Gereffi and Frederick (2010) also highlighted that the clustering of firms into production hubs allowed both countries to benefit from it. As a result both countries have collaboration between manufacturers, suppliers, and logistics providers, which ultimately enhance productivity and reduce costs.

The combination of outsourcing and offshoring through GVCs, together with liberalization of trade and capital flows has played a fundamental role in transforming Vietnam and Bangladesh from agrarian economies to globally competitive garment exporting countries. As they have advanced in economic development, they have been able to take advantage of their comparative advantages thanks to the interplay between domestic policies and global economic dynamics. A short discussion about these global economic dynamics took place at the beginning of this chapter, so later pages will be taken by domestic policies that influenced the garment industry of both Vietnam and Bangladesh.

The success of the garment industries in Vietnam and Bangladesh can be traced back to a series of strategic policies designed to foster economic growth, attract foreign direct investment (FDI), and support the development of local small and medium-sized enterprises (SMEs). These policies

created an environment conducive to the expansion of the garment sector, which became a significant driver of economic development in both countries.

5.1 Vietnam: Doi Moi Reforms and Trade Liberalization

In Vietnam, the turning point for the garment industry came with the Doi Moi reforms initiated in 1986. This set of economic policies marked a shift from a centrally planned economy to a more market-oriented approach, allowing private enterprises to thrive alongside state-owned enterprises (Nguyen, 2020). The Doi Moi reforms aimed to reduce state control over the economy and encourage foreign investment. Key components included the liberalization of trade, reduction of tariffs, and the establishment of laws to protect foreign investments (Vo, 2019).

The Vietnamese government actively promoted the textile and garment sector as a priority industry, recognizing its potential to generate employment and foreign exchange earnings. The government implemented various incentives for foreign investors, including tax breaks, customs duty exemptions, and support for infrastructure development (Pham, 2019). This favorable environment attracted significant FDI, with multinational corporations like Nike, Adidas, and H&M establishing manufacturing operations in Vietnam. These companies benefited from Vietnam's competitive labor costs, which were around \$75 per month in the early 2010s, making it an attractive destination for garment production (Nguyen & Tran, 2019).

Moreover, local SMEs played a crucial role in the supply chain, often serving as subcontractors for larger multinational companies. The government's support for SMEs included access to credit and training programs aimed at enhancing productivity and competitiveness (Nguyen & Tran, 2019). The integration of local SMEs into the global supply chain not only enhanced their capacity but also created a multiplier effect that stimulated overall economic growth.

Vietnam's accession to the World Trade Organization (WTO) in 2007 further accelerated the growth of its garment sector. Membership facilitated greater access to international markets, reduced trade barriers, and provided the country with a platform to enhance its competitiveness (Pham, 2019). This integration into the global economy enabled Vietnam to transition from a small player in the garment industry to one of the largest exporters globally, with garment exports reaching approximately \$30 billion by 2010.

5.2 Bangladesh: Export Processing Zones and Trade Agreement

In Bangladesh, the garment industry's ascent began in the 1980s with the establishment of Export Processing Zones (EPZs). These zones were specifically designed to attract foreign investment by offering various incentives, including tax holidays, customs duty exemptions, and relaxed labor regulations (Rahman & Hossain, 2017). The EPZs allowed foreign firms to operate with fewer restrictions, thus encouraging investment from multinational corporations seeking to capitalize on Bangladesh's low labor costs, which averaged around \$50 per month during this period (Islam, 2021).

The Multi-Fiber Arrangement (MFA), which governed global textile trade until its expiration in 2004, was instrumental in shaping Bangladesh's garment sector. The MFA provided preferential access to Western markets, allowing Bangladesh to export garments at competitive prices, while limiting imports from other countries (Yunus & Yamagata, 2012). This trade arrangement incentivized foreign brands, such as Zara, H&M, and Walmart, to source their products from Bangladesh, further solidifying the country's role in the global garment supply chain.

Local SMEs in Bangladesh also contributed significantly to the garment industry's growth by providing a wide range of services, including manufacturing, dyeing, and finishing. The government recognized the importance of these SMEs and implemented policies to support their development, including access to financing, training programs, and assistance in meeting international quality standards (Ahmed, 2020). This support enabled local SMEs to upgrade their capabilities and compete for contracts from larger foreign companies.

The combination of favorable government policies, EPZs, and the expiration of the MFA in 2004 created a perfect storm for the rapid expansion of Bangladesh's garment sector. By 2010, garment exports had skyrocketed to approximately \$20 billion, establishing Bangladesh as one of the leading garment exporters in the world (Rahman & Hossain, 2017).

In summary, Vietnam's Doi Moi reforms and WTO accession created a conducive environment for FDI and local SMEs, while Bangladesh's establishment of EPZs and the MFA facilitated foreign investment and export growth. Both countries successfully integrated local SMEs into their supply chains, enhancing their capacity and contributing to overall economic development.

These strategic policies not only transformed the garment sectors in both nations but also established them as key players in the global textile market. But what were the economic conditions of these two countries before these policies? How did the garment industry operate before this success? Did these countries have similarities in their economies before their success with Kyrgyzstan of the current days? These questions are going to be answered in the following chapters.

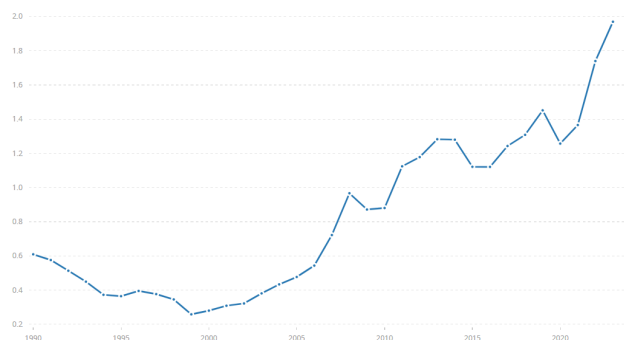
6 ECONOMIES OF KYRGYZSTAN, BANGLADESH AND VIETNAM

6.1 Economy of Kyrgyzstan - current time

Kyrgyzstan, located in Central Asia, has a developing economy that relies on a mix of sectors including agriculture, mining, services, and the inflow of remittances. Following its independence from the Soviet Union in 1991, Kyrgyzstan transitioned to a market-oriented economy, although its progress has been hindered by external shocks, political instability, and structural issues. In 2023, the country's GDP stood at around \$13.99 billion, with a per capita income of approximately \$1,969.9, which places it among the lower-income countries in the region (World Bank, 2023).

Figure 2

GDP per capita (current US\$) - Kyrgyz Republic



Source: World Bank Group (n.d.).

Over the last decade, Kyrgyzstan's economy has grown by an average of 3-4% annually, but fluctuations have occurred due to global and regional economic factors. In 2021, the economy grew by 3.6%, recovering from a sharp 8.6% contraction in 2020 caused by the pandemic (International Monetary Fund [IMF], 2022). Inflation surged to 14% in 2022, largely driven by

rising global costs for food and energy, which has further strained the purchasing power of Kyrgyz households (World Bank, 2023).

As of 2023, Kyrgyzstan's labor force was estimated to be around 2.6 million, with an employment rate of about 55%. Despite this, the unemployment rate remains a concern, with official figures at around 7-8%, and underemployment being prevalent, especially in rural regions (National Statistical Committee of the Kyrgyz Republic, 2023). A significant share of the labor force is engaged in agriculture, followed by the service and industrial sectors. The average wage in Kyrgyzstan is approximately 24,000 KGS (around \$270 per month), though wages differ significantly between sectors. Higher-paying sectors like mining and finance offer much more, while agriculture and garment manufacturing are lower-paying, with workers in these industries earning between \$100 and \$150 monthly (World Bank, 2023).

Wage inequality is noticeable across urban and rural areas, as well as between genders. Men tend to earn more than women, especially in industries such as mining and construction. In contrast, sectors like healthcare and education, which employ more women, generally have lower wages overall (IMF, 2022).

6.1.1 Major Sectors in the Economy

In the text below, this paper shows the economic activities of Kyrgyzstan (not exact sectors). Instead of giving figures on sectors, which can show the composition of the GDP, this thesis would focus on exact activities within these sectors that are largely contributing to the GDP. Main economic activities are Agriculture, Mining and Natural Resources, Hydropower, Remittances and Textile/Garment Industry.

1. Agriculture:

Agriculture remains a crucial part of the Kyrgyz economy, contributing around 15-20% of GDP and employing over 30% of the workforce. The country's main agricultural products include wheat, cotton, fruits, and vegetables. Cotton, in particular, serves as an essential link to the textile and garment industries, while livestock farming is also significant, especially for rural livelihoods (National Statistical Committee of the Kyrgyz Republic, 2023). However, this sector faces numerous challenges such as outdated farming methods, poor water management, and vulnerability to climate change.

2. *Mining and Natural Resources:*

The mining industry, particularly gold mining, is a major contributor to Kyrgyzstan's GDP, accounting for roughly 10%. The Kumtor Gold Mine, one of the largest in Central Asia, is a key player in the country's economy. Other valuable resources include coal, antimony, and mercury (IMF, 2022).

3. *Hydropower:*

Kyrgyzstan has significant potential for hydropower, given its abundant rivers and mountainous terrain. Over 70% of the country's electricity is generated from hydropower, which is vital for domestic needs and presents opportunities for export, particularly to neighboring countries like Kazakhstan and Uzbekistan. However, outdated infrastructure and the seasonal variability of water flow remain challenges for the sector (Asian Development Bank [ADB], 2022).

4. *Remittances:*

Remittances from Kyrgyz nationals working abroad, particularly in Russia, are a major pillar of the economy. In 2022, remittances accounted for roughly 30% of GDP, making Kyrgyzstan one of the most remittance-dependent nations globally (World Bank, 2023).

5. *Textile and Garment Industry:*

The textile and garment sector plays a significant role in Kyrgyzstan's economy, both in terms of employment and exports. The industry employs over 200,000 people, with women comprising a large portion of the workforce, particularly in urban centers like Bishkek and Osh (National Statistical Committee of the Kyrgyz Republic, 2023). Most of the sector focuses on garment manufacturing rather than textile production, as fabrics are typically imported from countries like China and Turkey. Garments, produced by small and medium-sized enterprises (SMEs), contribute approximately 15% to the country's total exports, with Russia and Kazakhstan being key trading partners within the Eurasian Economic Union (EAEU) (IMF, 2022). However, the sector faces challenges such as informal labor practices, reliance on imported raw materials, and competition from global garment producers like China and Bangladesh.

6.1.2 Foreign Trade and Investment

Kyrgyzstan's trade primarily involves its neighboring countries, with Russia, Kazakhstan, and China being the largest partners. As a member of the Eurasian Economic Union (EAEU), Kyrgyzstan benefits from greater integration with Russia and Kazakhstan, though compliance with EAEU standards presents challenges for some sectors, especially agriculture and manufacturing. Kyrgyzstan's exports are dominated by gold and other precious metals, which accounts for 39% of total exports, followed by oil, gas and other mineral products, after which textiles, garments, and agricultural products are in a row (National Statistical Committee of the Kyrgyz Republic, 2023). This information theoretically proves that the garment industry has a potential to grow as it already takes its place in export. But this will be analyzed and compared to both Vietnam and Bangladesh as well later on. The composition of of Exports by category is depicted below, on Figure 3.

Figure 3

Exports of Kyrgyzstan By Category in U.S. dollars, 2023



Source: United Nations COMTRADE database on international trade, 2023

Kyrgyzstan's economy relies heavily on exporting gold along with other precious metals and gemstones. Additional key exports consist of oil, gas, various mineral products, textiles (12%), vegetables (9%), and transportation equipment (8%). The primary export destinations are Switzerland, Kazakhstan, Russia, and Uzbekistan, while other significant partners include China, Turkey, Turkmenistan, and Afghanistan.

Imports, on the other hand, consist mainly of petroleum, machinery, and consumer goods from countries like China, Russia, and Kazakhstan. The country runs a significant trade deficit, with imports consistently exceeding exports. Foreign direct investment (FDI) in Kyrgyzstan has been

relatively low, constrained by political instability, corruption, and inadequate infrastructure, although efforts have been made to improve the investment climate (ADB, 2022).

Nevertheless, Kyrgyzstan holds several opportunities for economic development. Its strategic location, which is between China and Central Asia, gives it potential as a regional trade hub, especially under China's Belt and Road Initiative (BRI).

To conclude this part of the paper, Kyrgyzstan takes place among the lower-income countries in the region, having relatively low GDP, high unemployment rate and relies on remittances coming abroad. This undoubtedly shows that it is necessary to create jobs for people so that there is no need to migrate to earn money, increase wages and working conditions.

6.2 Vietnam's and Bangladesh's economy before its success in the garment industry

Vietnam

Vietnam's economy was mainly undeveloped and mainly dependent on agriculture prior to its rise to prominence in the garment industry. Low GDP, high unemployment, low wages, and little industrial development were just a few of the nation's many economic problems. Vietnam was still getting over the devastation of its economy and infrastructure caused by the Vietnam War in the 1970s and early 1980s. The nation, like other communist nations at the time, had a centrally planned economy and mainly relied on state-owned enterprises (SOEs). Vietnam's economy grew very slowly during this time, and by 1985, its GDP per capita was among the lowest in the world, at only about \$200 (World Bank, 2021). The central planning model, which gave priority to collectivization and heavy industry but failed to produce productivity gains in either industry or agriculture, was the cause of the economy's inefficiency. Particularly in the early 1980s, when Vietnam was struck by famine, hyperinflation, and trade isolation, the GDP growth rates were either near zero or negative (Nguyen & Tran, 2019).

In the late 1970s and early 1980s, agriculture accounted for 40–50% of the nation's GDP, making it the main driver of economic activity. Since farming, especially rice cultivation, employed over 70% of the labor force, the economy was heavily reliant on this industry (Nguyen, 2020). Despite being one of the biggest producers of rice in the world, Vietnam's output was insufficient to spur appreciable economic growth. Due to ineffective SOEs and a dearth of foreign investment, the

manufacturing and industrial sector at the time only made up 15% to 20% of the GDP. Exports were also limited, consisting mostly of raw agricultural goods like rice and coffee.

Another big problem was unemployment, which was especially problematic in cities where there weren't many jobs available outside of agriculture. According to estimates from the early 1980s, unemployment rates in some areas were between 20 and 30 percent, particularly for younger workers who weren't employed in agriculture (Nguyen & Tran, 2019). The minimum wage in the early 1980s was less than \$10 per month, making wages during this time period incredibly low (Vo, 2019). Wages were still too low for the majority of people to live comfortably, even in state-run industries, which paid a little more. Inflation was out of control, hitting rates of over 700% at times, which eroded any small gains that workers might have had in income (Nguyen, 2020).

Due to the failure of the state-led development model, the nation had a weak industrial base, high rates of inflation, and low wages. Vietnam was economically isolated and struggling prior to the Doi Moi reforms, which opened the economy to trade, foreign direct investment, and market forces. These reforms were essential in setting the stage for future growth (Vo, 2019). At the time, the economy was largely dependent on a small number of industries, chiefly agriculture, which employed the vast majority of the workforce but was unable to produce the revenue required for significant economic growth.

Chronology of Vietnam's Success in the Textile and Garment Industry

1986 - Implementation of Doi Moi Reforms

The Vietnamese government introduced the **Doi Moi** reforms, marking a shift from a centrally planned economy to a market-oriented system. These reforms aimed to liberalize the economy, attract foreign direct investment (FDI), and promote export-oriented industries, including textiles and garments (Nguyen & Tran, 2020). The shift was crucial as it allowed the country to integrate into the global economy and begin building its textile and garment sector.

1990s - Early Growth and Establishment of Export Processing Zones (EPZs)

Throughout the 1990s, the government set up EPZs to attract foreign investment and facilitate large-scale textile production. Key zones like the Tan Thuan EPZ in Ho Chi Minh City offered tax

incentives, improved infrastructure, and reduced regulations to entice foreign companies (Pham, 2019).

1995 - Membership in the Association of Southeast Asian Nations (ASEAN)

Vietnam joined ASEAN in 1995 and benefited from preferential trade agreements. Membership also increased Vietnam's attractiveness as a manufacturing hub for international brands looking to diversify their production bases (Nguyen, 2020).

2000s - Expansion through Foreign Investment and Trade Agreements

In the early 2000s, Vietnam's textile and garment industry saw rapid growth, driven by increased FDI from major international brands such as **Nike**, **Adidas**, and **H&M**. The government's focus on developing industrial zones and trade agreements, such as the U.S.-Vietnam Bilateral Trade Agreement signed in 2001, boosted exports significantly (Nguyen & Pham, 2015).

2007 - Accession to the World Trade Organization (WTO)

The WTO membership reduced tariff barriers, opened up new markets, and led to an influx of FDI in the textile and garment industry. Export growth accelerated significantly following this, with textile exports increasing by over 20% annually (Nguyen & Pham, 2015).

2010s - Growth through New Trade Agreements and Investment in Infrastructure

During the 2010s, Vietnam signed several key trade agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam Free Trade Agreement (EVFTA). These agreements provided Vietnam with duty-free access to major markets like the EU and Canada, giving its garment exports a competitive edge over other manufacturing hubs (Pham, 2019).

2015-Present - Vietnam's Position as a Key Global Garment Hub

By 2015, Vietnam had solidified its position as one of the world's largest textile and garment exporters, ranking among the top five globally. The sector employed over 3 million people, contributing significantly to Vietnam's GDP and providing crucial employment opportunities, particularly for women in rural areas (Nguyen & Tran, 2020).

2020-2023 - Navigating the COVID-19 Pandemic and Recovery

The COVID-19 pandemic in 2020 temporarily disrupted Vietnam's garment industry, as global

demand for apparel dropped and supply chains faced interruptions. However, the government quickly implemented measures to support the industry, including subsidies and loans for businesses, helping them to maintain operations during the crisis. By 2022, the industry had recovered, with exports surpassing pre-pandemic levels due to Vietnam's efficient response and resilience. As of 2023, garment exports had grown to nearly \$45 billion, with continued investments in technology and sustainability ensuring its competitiveness in the global market (Nguyen & Tran, 2023).

Despite Vietnam's success, challenges remain regarding working conditions and wages. The average wage for garment workers is around **\$150-200 per month**, which, although higher than in previous decades, remains low compared to international standards (Vo, 2020). The government has been working to improve conditions by implementing stricter labor regulations and collaborating with international organizations to enhance factory safety. However, issues such as long working hours and wage disputes still persist.

As the chronology above makes evident, there are some factors that contributed to Vietnam's success as a global leader in the garment industry. Low-cost labor has attracted international brands searching for cost-effective production options, and trade agreements like the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) and WTO membership have reduced trade barriers and opened up new markets. Thanks to large FDI and investments in infrastructure, industrial zones, and sustainable practices, Vietnam is now a reliable and efficient manufacturing hub. Vietnam's focus on green manufacturing and eco-friendly industrial parks has also bolstered the country's competitive edge in the global market by attracting brands that prioritize sustainable sourcing.

Bangladesh

Before Bangladesh emerged as a global leader in the garment sector, its economy was largely undeveloped, heavily dependent on agriculture, and plagued by widespread poverty and inefficiencies. After gaining independence from Pakistan in 1971, Bangladesh found itself in a severe economic situation, with much of its infrastructure destroyed and virtually no industrial base. The country initially struggled to establish a sustainable economy, relying predominantly on agriculture, which employed over 85% of the population and made up more than 50% of GDP

during the 1970s (Rahman & Hossain, 2017). However, agriculture alone could not drive sufficient economic growth, leading to persistent food shortages and widespread poverty. At that time, GDP per capita was among the lowest globally, sitting at less than \$100 in 1975 (World Bank, 2021).

In the 1970s, industrial activity contributed less than 6% of GDP, and the country had little manufacturing capacity or technological development (Islam, 2021). Bangladesh was highly dependent on foreign aid for survival, and external assistance remained a critical part of its economy during this period.

In the 1970s, it was estimated that unemployment ranged from 25-35%, especially among young people in urban areas (Rahman & Hossain, 2017). This high level of unemployment was partly due to the limited capacity of agriculture, which could not absorb the growing labor force. Wages were exceptionally low, with agricultural workers earning less than \$30 per month by the early 1980s. Even within the small industrial sector, wages were low and inconsistent, as most jobs were in informal and small-scale operations (Yunus & Yamagata, 2012).

The country's exports consisted mainly of agricultural products like jute and tea, which were subject to fluctuations in global demand. Bangladesh struggled with a trade deficit, lacking the industrial capacity to produce higher-value exports. Inflation was another persistent issue, and the economy remained vulnerable due to its reliance on foreign aid and agricultural exports (World Bank, 2021).

A shift began in the late 1970s, when Bangladesh initiated a series of economic reforms aimed at encouraging industrialization and export-led growth. The government established Export Processing Zones (EPZs) in 1980, which offered tax incentives, reduced tariffs, and relaxed regulations to attract foreign investors, particularly in labor-intensive industries like garments (Rahman & Hossain, 2017). Although these reforms laid the foundation for the garment sector's growth, before their effects were felt, Bangladesh remained one of the poorest countries globally, with little infrastructure to support large-scale manufacturing (Islam, 2021).

To be short, Bangladesh's economy before the success of its garment sector was heavily agriculture-dependent, had high levels of unemployment, and faced severe poverty and underdevelopment in the industrial sector. Its reliance on diminishing jute exports and foreign aid

left it in a vulnerable state. The shift to export-oriented policies and the creation of EPZs in the late 1970s and early 1980s began the country's transformation, but before these measures took hold, the economy was stagnant and uncompetitive in the global market.

Chronology of Bangladesh's Success in the Textile and Garment Industry

1971 - Independence from Pakistan

After independence, Bangladesh was left with a largely agrarian economy and minimal industrial base. The country faced severe economic challenges, including widespread poverty, a lack of infrastructure, and reliance on agriculture, especially jute production, for export revenue (Islam, 2021).

1974 - Introduction of the Multi-Fiber Arrangement (MFA)

The MFA, introduced by Western countries, set import quotas for textiles from major producers like China. This opened up opportunities for smaller economies such as Bangladesh, which began to position itself as an alternative low-cost garment producer (Rahman & Hossain, 2017).

Late 1970s - First Export-Oriented Garment Factory and International Partnerships

The establishment of Desh Garments in 1977, in collaboration with South Korea's Daewoo Corporation, marked Bangladesh's entry into the global garment market. This partnership enabled the transfer of technical knowledge and expertise, which laid the foundation for Bangladesh's early development in the industry (Yunus & Yamagata, 2012).

1980 - Establishment of Export Processing Zones (EPZs)

The government created EPZs such as the Chittagong EPZ, offering tax incentives, duty-free importation of machinery, and relaxed labor regulations to attract foreign investment (Rahman & Hossain, 2017).

1982 - Major Expansion and Entry of Foreign Brands

Brands such as **J.C. Penney** and **H&M** began sourcing from Bangladesh due to its competitive labor costs and access to Western markets under the MFA (Islam, 2021). By this time, Bangladesh's ability to offer low-cost production and favorable trade terms attracted more global buyers.

1985 - Formation of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA)

The BGMEA was established to represent and organize the growing number of garment manufacturers. It played a crucial role in lobbying for industry-friendly policies, negotiating with international buyers, and promoting Bangladesh as a viable source of garment production (Yunus & Yamagata, 2012).

1990s - Policy Reforms and Expansion of EPZs

Throughout the 1990s, Bangladesh capitalized on its low labor costs and the MFA's quota benefits to grow its garment sector. This decade saw the diversification of export products to include knitwear and other apparel items, further solidifying Bangladesh's position in the global market (Islam, 2021).

2000 - Formation of the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA)

Recognizing the importance of the growing knitwear sector, the BKMEA was established to represent and support knitwear manufacturers. By the early 2000s, knitwear had become a major contributor to garment exports, accounting for nearly 40% of total exports (Yunus & Yamagata, 2012).

2005 - Post-MFA Era and Competitiveness

Despite initial concerns that the end of the MFA would reduce Bangladesh's competitive edge, the country expanded its market share, as its low production costs continued to attract major brands like Walmart, Gap, and Zara (Islam, 2021).

2013 - Rana Plaza Collapse and Factory Safety Reforms

The Rana Plaza factory collapse in 2013, which killed over 1,100 workers, brought global attention to poor safety standards in the industry. In response, international organizations and brands, alongside the Bangladeshi government, launched initiatives such as the Accord on Fire and Building Safety and the Alliance for Bangladesh Worker Safety. These initiatives led to significant improvements in factory conditions and the establishment of stricter safety protocols (Islam, 2021).

2015-Present - Sustainability Initiatives and Green Factories

In recent years, Bangladesh has invested heavily in making its garment sector more sustainable. The country now hosts the highest number of LEED-certified green factories in the world, which highlights its focus on environmentally sustainable production. These green initiatives, coupled with continued investments in technology and infrastructure, have helped Bangladesh maintain its position as a leader in the global garment industry (Rahman & Hossain, 2017).

2020-2023 - Post-Pandemic Recovery and Current State

Despite the disruptions caused by the COVID-19 pandemic, Bangladesh's garment industry rebounded quickly, with exports recovering to pre-pandemic levels. By 2023, the industry's exports had reached nearly \$35 billion, with new agreements signed with the EU and other key markets ensuring duty-free access under the Generalized System of Preferences (GSP).

While working conditions have improved significantly since the 2013 Rana Plaza incident, challenges remain. Today, the average wage for garment workers is around \$100-120 per month, which is still low by international standards but represents a gradual increase from past decades. Compliance with international labor standards has improved, and there are ongoing efforts to strengthen worker rights and safety standards, but issues such as long working hours and wage disputes still exist (Yunus & Yamagata, 2012).

The country's large and low-cost labor force continues to be a major competitive advantage. The government's commitment to maintaining duty-free access to key markets, such as the EU, under the GSP scheme has also been crucial. Additionally, investments in sustainable production and the establishment of green factories have attracted brands focused on environmental responsibility. The ongoing modernization of the industry and the expansion of infrastructure further enhance Bangladesh's status as a leading garment exporter (Islam, 2021).

6.3 Comparative analysis of economies of Kyrgyzstan, Vietnam and Bangladesh

This thesis briefly described the economies of Kyrgyzstan, Vietnam and Bangladesh and now provides a comparative analysis based on the given information about their economic conditions. First, it will analyze the economic conditions of Vietnam and Bangladesh before significant achievements in the textile and garment industry and compare it with the current economic condition of Kyrgyzstan.

Prior to the different economic transformations, the economies of Vietnam and Bangladesh were similar to those of Kyrgyzstan. Due to their shared history of low GDP per capita, Kyrgyzstan, Bangladesh, and Vietnam have all been classified as low-income economies at various points in time. As Vietnam struggled to recover from the war and operated under a centrally planned economic model, its GDP per capita in the 1980s was about \$200, making it one of the world's poorest countries. Similar to Bangladesh, which experienced extreme poverty and dependence on agriculture shortly after gaining independence, the country's GDP per capita fell below \$100 in 1975, underscoring its own economic vulnerability (World Bank, 2021). These figures reflected the conditions of the time when global income thresholds were much lower than today's standards, and anything below \$300 was often categorized as extreme poverty (Nguyen & Tran, 2019).

Today, Kyrgyzstan, with a GDP per capita of \$1,969.9, also ranks as a lower-income country, although this figure is considerably higher than Vietnam and Bangladesh's earlier per capita income levels. Despite this improvement in absolute terms, the economic pressures on Kyrgyzstan remain similarly intense. A GDP per capita below \$2,000 is now viewed as a sign of poverty and limited industrial progress, while a middle-income threshold might be closer to \$4,000–\$5,000. This is because modern definitions of low income have changed in tandem with global inflation and economic growth (World Bank, 2023).

Another part to compare is dependency on agriculture. Both economies were mainly agricultural before the Doi Moi reforms in Vietnam (1986) and the growth of Bangladesh's garment industry (late 1970s to early 1980s), with Vietnam employing about 70% of its workforce. Similarly, over 30% of the workforce is employed in Kyrgyzstan's agriculture sector, which now accounts for an important percentage of the country's GDP (Nguyen, 2020; National Statistical Committee of the Kyrgyz Republic, 2023). Even though the percentage is lower, Kyrgyzstan still finds it significant. Both figures indicate a heavy reliance on agriculture, a characteristic common in economies that have not yet achieved significant diversification. Less than 5% of workers in developed nations are usually employed in the agricultural sector. Therefore, Kyrgyzstan's 30% is still high in comparison, even though it is less than Vietnam's historical percentage. It is important that these numbers be interpreted relative to one another rather than absolute. Just as Kyrgyzstan's current 30% labor force shows a similar lack of significant industrial transition, Vietnam's 70% agricultural labor force in the 1980s indicated an early stage of development. Furthermore, there is

a gap of more than 40 years, while the percentage of employed in agriculture has declined all over the world. To be short, since 1980 agricultural shares of the labor force have declined in all countries, both developed and developing according to Cheong & Jansen (2013).

One of the main sources of GDP for Kyrgyzstan is remittances. Today, Kyrgyzstan is one of the most remittance-dependent economies in the world, with remittances making up around 30% of the nation's GDP (World Bank, 2023). This dependence highlights how important labor migration is to helping Kyrgyz households and boosting the country's economy. Remittances, on the other hand, were much less important in Bangladesh and Vietnam in their early stages of development prior to the growth of their apparel industries. Remittances played a comparatively minor role in the economies of Bangladesh and Vietnam in the 1970s and 1980s because both countries were still in the early phases of both internal industrial development and international migration.

In the case of Bangladesh in the late 1970s, although there was growing migration to the Gulf countries following the 1973 oil boom, remittances still contributed only a minor share of the GDP at that time (Migration Policy Institute, 2023). Under the communist government, Vietnam remained largely isolated, with little opportunity for citizens to work abroad, and as such, remittances during this time held negligible value in the national economy (Nguyen & Tran, 2019). Most migration from Vietnam during this period was either internal or involved refugees fleeing the political and social upheavals of the time, primarily heading to countries like the United States, with minimal economic impact through remittances. Another crucial factor contributing to the differing roles of remittances is the broader trend of globalization and increased migration pathways, which have shaped economic opportunities across decades. During the 1970s and 1980s, global migration was a far more restricted phenomenon compared to today. The formal channels for labor mobility were less developed, and global migration flows were limited. For instance, in 1980, the global number of international migrants was estimated at around 75 million, whereas by 2020, the number had surged to over 280 million (United Nations, 2020). This dramatic increase highlights how the nature of migration has changed over time due to greater economic interconnectedness and more accessible migration routes, especially for countries that are part of broader regional agreements, such as Kyrgyzstan with the CIS.

The unemployment rates provide further insight into the economic condition of these countries, highlighting the challenges associated with underemployment and lack of job opportunities outside traditional sectors. As of 2023, Kyrgyzstan's official unemployment rate is estimated at around 7-8%. However, underemployment is prevalent, particularly in rural areas, as many workers in agriculture and informal sectors are only partially engaged in productive work. Prior to their industrial expansions, Bangladesh and Vietnam experienced high rates of underemployment and unemployment, particularly in urban areas. Vietnam's urban unemployment rate was between 20 and 30 percent prior to the 1986 Doi Moi reforms, which made many people seek employment in agriculture as there were few industry-based jobs available (Nguyen & Tran, 2019). Likewise, Bangladesh experienced high unemployment rates following independence, with estimates in the 1970s ranging from 25 to 35%, particularly for young adults unable to secure stable employment in either agriculture or industry (Rahman & Hossain, 2017). In the 1980s, Vietnam and Bangladesh had high levels of informal, low-wage agricultural work, similar to today's Kyrgyzstan, where many are technically "employed" but in underutilized, seasonal, or low-paying roles. As a result, Kyrgyzstan's labor situation now points to economic vulnerability similar to 15-20% unemployment, which is more in line with historical data from Bangladesh and Vietnam. Furthermore, after accounting for inflation, unemployment at that time would have caused more economic strain than comparable rates today due to fewer employment opportunities and greater living expenses in comparison to income, highlighting common structural issues prior to their economic transformations (National Statistical Committee of the Kyrgyz Republic, 2023; Nguyen & Tran, 2019; Rahman & Hossain, 2017).

In terms of wage levels, both Vietnam and Bangladesh have long offered some of the lowest wages in the global garment industry, which has served as a key factor in attracting major brands seeking to lower production costs. Efforts to address wage-related grievances and improve working conditions have led to some progress, but the industry continues to face challenges related to long working hours, overtime, and basic workplace safety standards (Yunus & Yamagata, 2012; Islam, 2021). When Vietnam opened up its economy in the 1980s under the Doi Moi reforms, which included steps to develop labor-intensive industries like textiles and clothing, it too began with a base of wages that were abnormally low. The nation's wage levels have somewhat improved over time, and as of late, the average monthly salary for garment workers has risen to \$150–200. This upward trend has been supported by the government's broader economic development and

infrastructure investments, which have improved industry standards and attracted higher-quality foreign investment. However, wages in the garment sector remain low relative to other regions, despite efforts to implement higher labor standards and align with global manufacturing norms (Nguyen & Tran, 2020; Vo, 2020).

Kyrgyzstan's garment sector follows a similar low-wage pattern, with the average wage for garment workers ranging between \$100 and \$150 per month. Like Bangladesh, Kyrgyzstan's industry benefits from a competitive cost structure, which attracts regional buyers, particularly from the Eurasian Economic Union (EAEU). However, Kyrgyzstan's garment industry continues to face informality, in contrast to Bangladesh and Vietnam of current days, which have formalized many labor practices over time. Numerous small ateliers and workshops operate outside of legal restrictions, which affects working conditions and pay rates. In contrast to Bangladesh and Vietnam, where concerted efforts have led to gradual improvements in wages and working conditions, Kyrgyzstan's reliance on informal labor practices continues to present significant challenges. Informality hinders the standardization of wage structures, prevents industry-wide improvements in worker safety, and contributes to limited oversight in labor rights protection (World Bank, 2023; IMF, 2022).

This paper collected all the relevant information regarding macroeconomic indicators and other relevant factors that can be compared between these three countries in order to make visual analysis to show similarities and differences and prepared a Table 2, where all the written information is shortly illustrated.

Table 2

Selected economic indicators of the analyzed countries

Indicator	Kyrgyzstan (2023)	Vietnam (1980s)	Bangladesh (1970s)	Vietnam (2023)	Bangladesh (2023)
GDP per Capita	\$1,969.9	~\$200 in 1985	<\$100 in 1975	\$4,346.8	\$2,529.1
Key Sectors	Agriculture, Mining, Remittances	Agriculture, State-Owned Enterprises	Agriculture, Jute, Remittances	Manufacturing, Garments, Services	Garments, Manufacturing, Knitwear
Average Salary	~\$270	<\$10	<\$30	~\$400	~\$200

Average Salary in Garment Sector	\$100-\$150	<\$10	\$20-\$30	~\$150-\$200	\$100-\$120
Trade Agreements Affecting Garment Sector	EAEU (Russia, Kazakhstan), Preferential trade talks with China, Uzbekistan	Doi Moi Reforms (1986)	Multi-Fiber Arrangement (MFA, 1974), Export Processing Zone (EPZ) Policy (1980)	ASEAN Membership (1995), US-Vietnam Bilateral Trade Agreement (2001), WTO Accession (2007), CPTPP (2018), EVFTA (2020)	GSP with EU, Trade agreements with the USA, ILO Safety Accord, Alliance for Bangladesh Worker Safety (2013)
FDI Index	Low FDI due to political instability, limited foreign investment	Low before 1986, reforms in 1986 attracted FDI	Minimal before 1980, increased FDI after EPZs	High FDI due to industrial zones, foreign brands like Nike and Adidas	Moderate to High, LEED-certified green factory investments
Raw Materials (Countries of Origin)	China, Turkey	China, India	India, China	China, Domestic sources, India	India, China, Domestic sources
Exports of Ready Garments (USD Value)	\$100 million (mainly Russia, Kazakhstan)	Not significant	Not significant	\$45 billion in 2023 (USA, EU, Japan)	\$35 billion in 2023 (USA, EU, Canada, UK)
Production Scale in Garment Sector	Small-scale SMEs, emerging sector	Small workshops before 1986	Small informal workshops	Large-scale industrial parks, eco-friendly factories	Large-scale green-certified factories, advanced industrial parks

Source: Own editing based on data from World Bank (2023), National Statistical Committee of the Kyrgyz Republic (2023), Migration Policy Institute (2023), Nguyen & Pham (2015), Yunus & Yamagata (2012), International Monetary Fund (IMF, 2022), and Geeks for Geeks (2023)

Based on what this paper has found, it can be concluded that overall, the economic landscape of Kyrgyzstan today shows considerable similarities to that of Bangladesh and Vietnam before their garment industry successes. Low GDP per capita, reliance on agriculture, and a competitive low-wage workforce (which aligns with the current cost-competitiveness in the garment industry for maintaining low production costs) are shared characteristics that suggest a potentially viable path for Kyrgyzstan's garment sector development. However, there are also significant differences, such as Kyrgyzstan's heavy reliance on remittances, which reflects the changing dynamics of globalization, and the absence of supportive industrial policies, such as Export Processing Zones (EPZs), which were instrumental for Bangladesh and Vietnam.

Furthermore, it is important to note that there were no inherently favorable economic conditions that organically led to success in the garment industry in either Bangladesh or Vietnam as from the beginning there were different key sectors. The primary condition that these countries possessed was a low-wage workforce, which attracted large companies aiming to reduce production costs. However, there were no specific key economic or industrial conditions that automatically facilitated the consolidation of small garment enterprises into production hubs. Instead, the successes of Bangladesh and Vietnam were the result of deliberate and strategic actions taken by their governments—direct steps aimed at attracting foreign direct investment (FDI) and creating favorable trade conditions, while removing barriers and minimizing obstacles. These targeted efforts included policy reforms, infrastructural developments, and incentives to ensure a business-friendly environment that could attract investment and encourage growth in the garment sector. Figures 4 and Figure 5 below, shows export by category for Bangladesh and Vietnam in 2023.

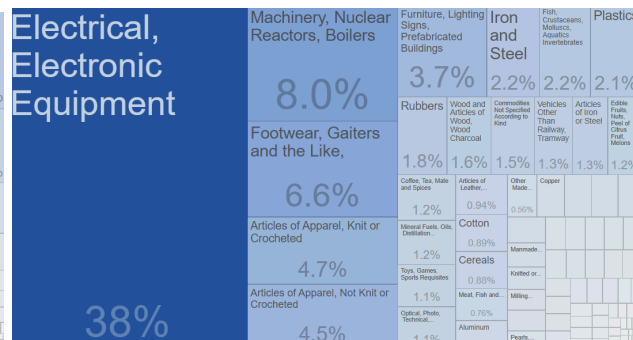
Figure 4

Vietnam's Exports By Category, 2023



Figure 5

Bangladesh's Exports By Category in U.S., 2023



Source: (Trading Economics, n.d.).

According to Trading Economics, after China, Bangladesh is the world's second-largest exporter of clothing. Eighty percent of export revenue is made up of apparel, which includes knitwear and hosiery, as well as jute goods, home textiles, footwear. Since low utility costs and competitive minimum wages have encouraged foreign direct investment in the manufacturing sector, Vietnam's exports have doubled in recent years. Vietnam's top exports are textiles (12 percent) and telephones, cell phones, and parts (21% of total shipments). Other products include footwear and machinery, tools, and supplies, as well as computers and electrical goods (12%) (Trading Economics, n.d.).

Kyrgyzstan's ability to replicate the success of Vietnam and Bangladesh will depend largely on its capacity to overcome infrastructure limitations, reduce dependence on remittances by creating domestic employment opportunities, and attract targeted investments in industrial development. To achieve this, Kyrgyzstan must follow a similar approach, making deliberate policy decisions that foster trade-friendly conditions and attract FDI, thus positioning itself as a competitive leader in the global garment industry. It is important to note that this analysis does not take into account potential changes in the global economic landscape, such as increased protectionism or a decline in the importance of global value chains (GVCs), which could significantly impact Kyrgyzstan's prospects. However, if the global environment remains conducive to international trade and investment, the strategies employed by Vietnam and Bangladesh could serve as effective blueprints for Kyrgyzstan's industrial and economic development.

7 FOLLOWING THE PATHS OF BANGLADESH AND VIETNAM

As we could see in the previous parts of this paper, the garment sector could be used as a powerful engine for economic growth in countries such as Bangladesh and Vietnam. The economies of these countries passed a transition from agricultural to more diverse and globally integrated economies, where the garment sector takes its own place. They experienced a significant increase in GDP and economic prosperity. Today, none of these countries are among the poorest in the world, as GDP per capita has multiplied. This is considered a real success as these numbers are different from their historically low figures, when GDP per capita in Vietnam and Bangladesh were among the lowest.

At the beginning of this paper, several research questions were posed, one of which was: "What reforms and steps could be taken in order to facilitate such growth in the garment sector in Kyrgyzstan?" Based on the research conducted on Vietnam's and Bangladesh's experiences with their respective reforms, this paper has formulated recommendations to answer this question. These recommendations are aimed at guiding Kyrgyzstan on the necessary steps to effectively develop its garment sector.

Kyrgyzstan is classified as a lower middle-income country, with a GDP lower than Bangladesh and Vietnam. Although Kyrgyzstan's economy has similar characteristics to those of Vietnam and Bangladesh before their success in the garment sector, the country has yet to capitalize on a

specific industry as effectively as Vietnam and Bangladesh have done to accelerate economic growth and improve living standards. Kyrgyzstan can learn from the policy decisions, structural reforms and strategic investments undertaken by Bangladesh and Vietnam to achieve similar success. The following recommendations are based on the earlier descriptive analysis of the development paths of these countries.

1. Establishment of Export Processing Zones (EPZs) and Special Economic Zones (SEZs)

One of the most effective measures in both Bangladesh and Vietnam has been the establishment of Export Processing Zones (EPZs) and Special Economic Zones (SEZs) to attract foreign direct investment (FDI) and stimulate industrial growth.

The success of Bangladesh's and Vietnam's SEZs and EPZs in attracting investment and increasing exports provides a clear model for Kyrgyzstan. To attract similar levels of investment, Kyrgyzstan should consider adopting the following strategies:

- Create Targeted Incentives: Offer multi-year tax holidays followed by partial exemptions, as seen in Vietnam, to gradually integrate investors into the tax base.
- Guarantee Profit Repatriation: Ensure that foreign companies can repatriate 100% of profits and are exempt from dividend taxes, creating a secure investment environment.
- Simplify Bureaucratic Processes: Follow Vietnam's example of establishing a centralized SEZ/EPZ authority to streamline approvals and reduce regulatory burdens.
- Invest in infrastructure: Bangladesh and Vietnam have been successful in providing SEZs and EPZs with reliable infrastructure, including electricity, transportation, and water supply. Improved infrastructure is critical to ensure operational efficiency for foreign investors. Kyrgyzstan is currently working hard to build roads throughout the country, and electricity and water supply are not a problem for the country.

By implementing SEZs and EPZs with targeted incentives, reliable infrastructure, and favorable policies for international investors, Kyrgyzstan can position its garment sector for export-oriented growth and replicate the success of Bangladesh and Vietnam in the global market.

2. Targeted Trade Agreements and Market Access

The integration of Bangladesh and Vietnam into GVCs was greatly facilitated by the strategic signing of trade agreements and gaining preferential access to key markets. For Kyrgyzstan, developing targeted trade agreements and strategically leveraging existing linkages is essential to establishing itself as a regional and global player in the apparel industry.

Utilize the Eurasian Economic Union (EAEU) Membership: As a member of the Eurasian Economic Union (EAEU), Kyrgyzstan already has duty-free access to key regional markets such as Russia, Kazakhstan, Belarus and Armenia. Membership in the EAEU gives Kyrgyzstan the opportunity to become a competitive supplier within the union, targeting niche markets in Russia and Kazakhstan where there is a growing demand for affordable, locally produced clothing. Kyrgyz manufacturers can focus on cost-effective clothing lines that are in high demand in these countries. By first establishing relationships with local brands and distributors in the EAEU, Kyrgyzstan can gain experience and improve its skills and further establish itself as a reliable regional supplier, which will be a stepping stone for potential international expansion.

Targeted neighbors and untapped market in Central Asia: The Central Asian region lacks large garment factories that cater to international brands. Kyrgyzstan can exploit this gap by becoming a center of apparel production in the region. Countries such as Uzbekistan, Tajikistan and Turkmenistan could be promising initial markets where Kyrgyzstan could supply affordable and quality garments by becoming a manufacturing country for international brands. Bilateral trade agreements with neighboring Central Asian countries could further simplify duty-free access. Kyrgyz products could thus be made more competitive in these markets. Also, entering into cooperation agreements with neighboring countries to create specialized zones for apparel production could allow Kyrgyzstan to attract investment from international brands seeking to enter Central Asian markets. Such agreements could position Kyrgyzstan as a leader in the regional apparel market and encourage international companies to establish production bases in the country.

3. Negotiating Bilateral Trade Agreements Beyond the EAEU

For Kyrgyzstan to expand its market beyond the Eurasian Economic Union (EAEU), it could focus on establishing bilateral trade agreements with major global markets, specifically the European Union and the United States. In these regions demand for garments remains robust. But of course

in case a country really will have a potential to embrace these huge markets in case of success on its local regional level.

- For example, the EU's GSP+ scheme (Generalized System of Preferences Plus, which provides tariff reductions to developing countries meeting specific human rights and environmental standards) could offer Kyrgyzstan reduced or even duty-free access for garment exports to European markets, making Kyrgyz products more competitive against established players like Bangladesh. Achieving GSP+ status. However, it requires Kyrgyzstan to meet specific criteria around human rights, labor practices, and environmental protections, so compliance with these standards would be essential.
- For access to the U.S. market, Kyrgyzstan might explore programs similar to the African Growth and Opportunity Act (AGOA) (a U.S. initiative that offers duty-free access to African nations) by pursuing similar benefits through negotiations with the United States. Although AGOA applies only to sub-Saharan Africa, Kyrgyzstan could negotiate for reduced tariffs on garments, thus making its exports more competitive.

4.Enhancing FDI to Improve Technology and Skills Transfer

Foreign direct investment (FDI) has been instrumental in developing skills and technological capacity in countries like Bangladesh and Vietnam, where international brands provided technical training, quality control expertise, and equipment upgrades, resulting in increased efficiency, productivity and participation in GVC.

For Kyrgyzstan to follow a similar path, attracting FDI in the garment sector should be a priority. This can be achieved through several steps, including:

- Simplifying investment procedures,
- Minimizing bureaucratic obstacles,
- Enhancing investor protections.

By taking these steps, Kyrgyzstan can create favorable conditions for establishing partnerships with international brands willing to invest in skills development and modern technologies to improve productivity. As mentioned above, as a member of the Eurasian Economic Union (EAEU), Kyrgyzstan has a unique opportunity to position itself as a regional leader in garment

production. By drawing in major brands and FDI, Kyrgyzstan can leverage its geographic location to become the EAEU's garment production hub, meeting the demand for quality, cost-effective garments across the region, including Russia and Kazakhstan. These markets are significant, and even now, with relatively low production capacity, Kyrgyzstan is supplying garments to them.

To attract such investments, Kyrgyzstan must enhance its ease of doing business by reducing corruption, ensuring enforceable contracts, protecting intellectual property, and streamlining business registration processes. Establishing a reputation as an efficient and stable business environment will be critical for positioning Kyrgyzstan as a garment industry leader within the EAEU and Central Asia, with the potential to grow into a regional powerhouse for garment production.

5. Prioritize Value Addition and Niche Production

Vietnam moved from basic manufacturing to the production of higher-value clothing by utilizing its position within global value chains (GVCs). With the help of new technology and higher quality standards, it developed the capacity to produce more complex products (Nguyen & Pham, 2015).

Kyrgyzstan can move its focus on product differentiation to add value, rather than just competing on low-cost labor. By investing in better quality raw materials and developing more intricate garment production, Kyrgyzstan can increase its value capture within the GVC. This approach is directly linked to attracting FDI and enhancing skills and resources, which are all interconnected aspects of increasing value addition. To improve its participation in GVCs, Kyrgyzstan can also advance its skills and technology. These steps in its turn will make a Kyrgyzstan closer to meet environmental and ethical standards—requirements that are crucial for becoming a recognized production hub. Therefore, Kyrgyzstan should take comprehensive steps to enhance production capabilities, attract investments, and ensure compliance with international standards, ultimately positioning itself as a competitive production hub in the garment industry.

To conclude this part, Kyrgyzstan has the potential to follow in the footsteps of Bangladesh and Vietnam in successfully developing its garment sector. By establishing SEZs and EPZs, negotiating trade agreements for better market access, attracting FDI to boost skills and technology, and improving workforce training and compliance standards, Kyrgyzstan can

transform its garment industry into a significant contributor to economic growth. The key to success will be the government's ability to create an enabling environment for business, attract international partners, and ensure that its industries can meet the demands of international markets both in terms of quality and ethical standards. This multi-faceted approach could help Kyrgyzstan leverage its garment industry as a tool for broader economic development, just as Bangladesh and Vietnam have successfully done.

8 PARTICIPATION IN THE GARMENT SECTOR'S GVC: LOGISTICS AND TRANSPORT INSIGHTS

This chapter of the paper covers logistics and transport used by Vietnam and Bangladesh in the garment sector. Having a look into this will give us additional insight regarding Kyrgyzstan's potential to follow the steps of Bangladesh and Vietnam.

8.1 Bangladesh: Transportation and Logistics Overview

Bangladesh's garment sector heavily relies on sea freight for both importing raw materials and exporting finished garments. Bangladesh imports a significant amount of cotton, fabrics, dyes, and chemicals from China, India, and Pakistan. The primary port used for handling these imports is Chittagong Port, which accounts for around 80% of all international cargo. Mongla Port serves as a secondary option, but Chittagong remains the central gateway for the garment industry. While sea freight remains the primary transportation mode for Bangladesh's garment industry due to its cost-effectiveness and capacity to manage bulk shipments, air freight is also employed for urgent shipments. In 2020, air transport services ranked among Bangladesh's top imported services, valued at approximately \$537 million, which reflects the selective use of air freight for certain imports to balance cost and urgency in the supply chain (OEC, 2020).

1. Importing Raw Materials:

Ports: Chittagong Port and Mongla Port handle the bulk of imports.

Cost Benefits: Sea freight costs are much lower compared to air freight. The cost of shipping a 20-foot container from China to Chittagong, for example, is approximately \$1,200 to \$1,500,

depending on season and demand. The comparatively low cost of sea freight makes it highly attractive for bulk materials, which is a key requirement for textile and garment manufacturers.

Efficiency: Efficient handling and logistics are crucial. Bangladesh has made considerable investments in upgrading Chittagong Port's capacity to handle more containers, including the expansion of container storage yards and the construction of deep-sea berths (Islam, 2020).

2. Exporting Ready Garments: Bangladesh exports most of its garments to markets in Europe, North America, and Japan. The majority of the exports are handled by Chittagong Port, with a small share being handled by Mongla.

Cost-Effectiveness: Shipping by sea is the most cost-effective means to transport garments from Bangladesh to distant markets. It can cost approximately \$1,500 to \$2,000 per container for sea freight to Europe, compared to over \$8,000 if air freight were used, making sea transport far more economical for bulk shipments (Ahmed, 2020).

Third-Party Logistics (3PL): Bangladesh works with global logistics providers like Maersk, Hapag-Lloyd, and DHL, which manage warehousing, customs clearance, and the overall supply chain to ensure timely deliveries (World Bank, 2021).

3. Domestic Logistics: For domestic transportation, trucks and trailers are used to transport raw materials from the ports to the factories, and finished goods from factories back to the ports. Road infrastructure improvements around the Dhaka-Chittagong corridor have had a positive impact, though traffic congestion continues to be an issue that affects lead times (UNESCAP, 2020).

8.2 Vietnam: Transportation and Logistics Overview

Vietnam has a well-developed infrastructure that has played a crucial role in supporting its garment sector. Vietnam's geographical advantage allows it to access multiple deep-sea ports, which makes it a major player in the global garment industry. While Vietnam's garment industry mainly relies on air freight, it strategically uses different freight modes to optimize cost, efficiency, and timeliness in its supply chain operations (Nguyen & Pham, 2018).

1. Importing Raw Materials: Vietnam imports cotton, fabric, and accessories mainly from China, South Korea, Japan, and the United States.

Ports: Hai Phong Port, Da Nang Port, and Cat Lai Port in Ho Chi Minh City are the major ports handling the import of textile raw materials.

Shipping Costs: The cost for importing materials from China to Vietnam is relatively low given the short distance. For instance, the cost to transport a 20-foot container is about \$800 to \$1,000, depending on the location of origin. The lower cost makes it affordable for garment producers to import high-quality raw materials (Tran, 2020).

2. Exporting Finished Garments:

Vietnam exports garments to the United States, European Union, Japan, and South Korea.

Sea Freight Dominance: Vietnam relies primarily on sea freight for its exports, benefiting from cost-effective shipping to distant markets. Shipping costs to the United States for a 40-foot container are roughly \$2,500 to \$3,000, while the same shipment by air could cost \$10,000 or more.

Third-Party Logistics: Similar to Bangladesh, Vietnam also utilizes international logistics providers such as DHL, Kuehne + Nagel, and UPS for end-to-end supply chain solutions, ensuring effective customs clearance, warehousing, and the movement of goods (Pham & Nguyen, 2018).

3. Domestic Transportation: Vietnam's internal logistics network consists of roads, railways, and inland waterways. Industrial parks and garment factories are well-connected to ports through efficient highways and rail lines, which significantly reduce transportation times and costs (World Bank, 2021).

4. Added Advantage of Infrastructure: Vietnam's investment in industrial parks near port areas has facilitated rapid handling of imports and exports. The government has strategically promoted special economic zones (SEZs) to attract FDI, which has also led to better road connectivity and warehousing infrastructure (UNESCAP, 2020).

8.3 Kyrgyzstan: Transportation and Logistics Overview

Kyrgyzstan is a landlocked country in Central Asia that's why it faces unique challenges in the transportation and logistics of its garment sector. Unlike Vietnam and Bangladesh, Kyrgyzstan does not have direct access to the sea, which makes it reliant on overland transportation to import raw materials and export finished garments. Below, this paper explores what Kyrgyzstan is currently utilizing for transportation, how it manages its imports and exports, and how improvements can be made based on the models of Bangladesh and Vietnam if it's possible at all.

1. Importing Raw Materials for the Garment Sector in Kyrgyzstan

Currently Kyrgyzstan mainly imports raw materials for garment production from China, Turkey, and Russia. The majority of fabrics, cotton, and accessories used by Kyrgyzstan's small and medium-sized garment manufacturers come from these neighboring countries, with China being the dominant supplier. According to recent statistics, 55% of raw materials come from China, 20% from Turkey, and 15% from Russia (National Statistical Committee of Kyrgyzstan, 2023).

Modes of Transport and Costs:

Road Freight: The primary method of transport for raw materials is road freight through border crossings. Goods from China are usually transported by truck through the Torugart or Irkeshtam passes. For goods coming from Turkey, trucks are used to cross Kazakhstan and Uzbekistan.

Rail Transport: Rail networks are used for materials from Russia and Kazakhstan. Rail transport offers a cost-effective alternative for bulk goods but is typically slower compared to trucking.

Cost: The cost for trucking a container from China to Bishkek is estimated to be approximately \$1,200 to \$1,500, which is significantly higher compared to shipping costs for Bangladesh and Vietnam, due to the overland distances and the challenges of customs checkpoints (Islam, 2020).

The Table 3 illustrates estimated cost per 20-Foot Container for primary mode of transport for Kyrgyzstan, Bangladesh and Vietnam depending on the country of import. This comparative analysis of the cost for import for three countries is prepared to make a visual analysis and for the ease of seeing the difference. For Kyrgyzstan China is the most economical source due to proximity, while imports from Turkey are the most expensive due to the extended overland route

and distance. Bangladesh mainly relies on sea freight for importing raw materials from China, India, and Pakistan. Sea freight costs are relatively stable across these countries due to established routes and proximity to Chittagong Port.

Table 3

Import sources, estimated import costs and key factors for each country's garment exports

Country	Import Source	Import Mode	Estimated Cost per 20-Foot Container	Key Factors Influencing Cost
Kyrgyzstan	China (55% of imports)	Road Freight	\$1,200 – \$1,500	Long overland transport with customs checkpoints and varying road conditions.
	Turkey (20% of imports)	Road Freight	\$2,000 – \$2,500	Longer overland distance with multiple border crossings, increasing transportation costs.
	Russia (15% of imports)	Road/Rail Freight	\$1,500 – \$2,000	Shorter route, fewer border crossings compared to Turkey, reducing cost slightly.
Bangladesh	China (45%), India (20%), Pakistan (10%)	Sea Freight	\$1,200 – \$1,500	Proximity to Chittagong Port; efficient routes make sea freight cost-effective for bulk imports.
Vietnam	China (40%)	Sea Freight	\$800 – \$1,000	Short distance, frequent routes, and proximity to Vietnamese ports keep costs low.
	South Korea (15%)	Sea Freight	\$900 – \$1,200	Close proximity with frequent shipping routes; slightly higher than China due to distance.
	Japan (10%)	Sea Freight	\$1,000 – \$1,300	Moderate distance and less frequent routes make it slightly more expensive than Korea.
	USA	Sea Freight	\$2,500 – \$3,000 (40-foot container)	Long trans-Pacific distance, high-volume shipments make it viable primarily for large-scale exports.

Source: Own editing based on National Statistical Committee of Kyrgyzstan (2023), Ahmed (2022), Tran (2022), World Integrated Trade Solution (2023).

While Vietnam's sea freight costs vary based on distance and shipping frequency from China, South Korea, Japan, and the USA. Imports from China are the cheapest due to close proximity, while those from the USA are the most costly due to the trans-Pacific route. These figures reflect a

strong regional interdependence, particularly with China, as a primary source of affordable textile materials, thereby shaping the production strategies of these garment-producing countries.

2. Exporting Ready Garments from Kyrgyzstan

Export Destinations: Kyrgyzstan primarily exports garments to neighboring markets, such as Russia and Kazakhstan. Benefiting from the Eurasian Economic Union (EAEU) framework, Kyrgyzstan enjoys duty-free exports, helping to reduce export costs.

Transportation Modes:

Road Freight: The primary mode of transportation for Kyrgyzstan's garment exports is by truck. Trucks carry finished garments across borders into Russia and Kazakhstan.

Cost and Logistics Challenges: Exporting via overland routes presents logistical challenges, such as border delays and fluctuating fuel prices, which can increase transportation costs. The average cost for transporting a container to Russia is estimated to be around \$1,500 to \$2,000 depending on border wait times and fuel prices (World Bank, 2023).

The lack of direct sea access means that exporting to European or American markets involves complex logistics. Goods would need to transit through multiple countries before being shipped from ports like Aktau Port in Kazakhstan or Vladivostok Port in Russia.

The Table 4 shows estimated export costs and key factors for each country's garment exports based on their primary export destinations and modes of transport.

Kyrgyzstan exports to Russia and Kazakhstan mainly using road freight, because there is no way for sea freight and railway doesn't cover all the ways till countries of destination. That's why main mode of transportation remains the road. It incurs higher costs due to border checks. Exports to the European Union face additional expenses due to long routes and complex logistics. Bangladesh uses sea freight and it is cost-effective in bulk shipments to the EU and USA (costs ranging from \$1,500 to \$2,000). Exports to the Middle East have lower sea freight costs due to proximity. Vietnam has a privilege in its location, so it can use sea freight, that's why sea freight is the main mode for exports to the USA and EU, with higher costs for trans-Pacific shipments to the USA.

Exports to Japan, South Korea, and ASEAN countries benefit from shorter distances and frequent shipping routes, reducing costs.

Table 4

Export destination, estimated export costs and key factors for each country's garment exports

Country	Main Export Destinations	Primary Export Mode	Estimated Cost per 20-Foot Container	Key Factors Influencing Cost
Kyrgyzstan	Russia, Kazakhstan, Turkey	Road Freight	\$1,500 – \$2,000	Relies on overland transport; relatively short distances to neighboring countries but high costs due to customs and border delays.
	European Union	Rail & Road Freight	\$2,500 – \$3,000	Long overland routes with multiple border crossings; customs and logistics complexity increase costs.
Bangladesh	European Union, USA, Canada	Sea Freight	\$1,500 – \$2,000	Cost-effective bulk shipping from Chittagong Port; established routes to Europe and North America.
	Middle East	Sea Freight	\$1,200 – \$1,500	Proximity to Middle Eastern markets reduces sea freight costs; frequent shipping routes available.
Vietnam	USA, European Union, Japan, South Korea	Sea Freight	\$2,500 – \$3,000 (to USA); \$1,500 – \$2,000 (to EU)	Trans-Pacific route to USA has higher costs, while shorter routes to EU and Asia benefit from cost-effective sea freight.
	ASEAN countries	Sea & Road Freight	\$800 – \$1,200	Proximity and regional trade agreements reduce costs to ASEAN countries, making both sea and road options viable.

Source: Own editing based on National Statistical Committee of Kyrgyzstan (2023), Ahmed (2022), Tran (2022), World Integrated Trade Solution (2023).

9 RECOMMENDATIONS FOR KYRGYZSTAN ON THE EXAMPLE OF BANGLADESH AND VIETNAM: LOGISTICS AND TRANSPORTATION

1. Sea Freight and Port Infrastructure: Kyrgyzstan lacks direct sea access, this is the main difference from Bangladesh and Vietnam. These countries can rely on sea freight, and transportation is cost-effective. However, Kyrgyzstan could form strong partnerships with ports in neighboring countries, such as Kazakhstan's Aktau Port or Russian ports like Vladivostok. Similar to how Bangladesh has improved Chittagong Port to handle garment exports (Islam, 2020), Kyrgyzstan can establish preferential deals to handle container storage and processing, allowing for streamlined international trade. A combination of rail, road, and sea transport should be developed to optimize logistics. Goods can be transported via rail to ports in Kazakhstan or Russia, from where they can be shipped to further destinations, similar to how Vietnam handles its logistics through Cat Lai Port (Nguyen & Pham, 2018). However, this depends on many factors that are remaining political and needs further investigation.

2. Domestic Logistics and Industrial Hubs: Special Economic Zones (SEZs): Both Bangladesh and Vietnam benefited from establishing SEZs and industrial hubs near key transportation nodes, which improved logistics efficiency. Kyrgyzstan could benefit from setting up similar zones, particularly near Chinese border points, to encourage investments and reduce transportation costs (UNESCAP, 2020). Improving road networks is critical for efficient logistics. Bangladesh's investment in the Dhaka-Chittagong corridor has significantly improved lead times and transportation reliability. Kyrgyzstan can adopt similar improvements, specifically along major routes such as the Bishkek-Osh corridor, to facilitate faster movement of goods between production centers and borders (UNESCAP, 2020). As for now Kyrgyzstan is building a new alternative route Bishkek-Osh, which will make these two big cities closer to reach each other, which is not the only improvement of roads. Government is trying to improve it all over the country, so it is much better compared to previous years.

3. Third-Party Logistics (3PL) and Strategic Partnerships: Bangladesh and Vietnam rely heavily on third-party logistics (3PL) services from companies such as DHL and Maersk for warehousing, customs clearance, and the overall management of exports (World Bank, 2021). Kyrgyzstan has partnerships with third-party logistics companies, which are connecting Kyrgyzstan's trade with other countries'. As for now those companies are enough to handle current

trade, but there is another question if the amount of imported and exported goods will increase. This paper will not go into deep research of this question, but rather it gives points that are needed to be considered in its path of improving the garment sector.

4. Leveraging Regional Markets: Unlike Bangladesh and Vietnam, which predominantly focus on exporting to Europe and the United States, Kyrgyzstan is in a unique position to become a garment production hub for Central Asia. Its location offers the potential to produce garments for neighboring countries like Uzbekistan, Kazakhstan, and Russia. To capitalize on this opportunity, Kyrgyzstan must focus on improving its road and rail connectivity to these markets, rather than relying on expensive and complex sea freight routes. Moreover, with the establishment of new online marketplaces such as “Wildberries” and “Ozon” import and export between Kyrgyzstan, Russia and Kazakhstan are increasing from day to day.

Partnerships with China: Kyrgyzstan's proximity to China can be a major advantage for sourcing raw materials and accessing international shipping routes. Negotiating favorable terms for using Chinese ports, such as Lianyungang, would allow Kyrgyzstan to more effectively tap into global markets. So after becoming a production hub for neighboring countries, Kyrgyzstan will have enough labor skills and all the other resources needed to be able to export to the global market. This needs a drastic increase in the amount of garments that are being exported and additional political agreements with China.

Digitalizing Logistics: Vietnam has made strides in digitizing logistics and customs procedures, streamlining the export process. Kyrgyzstan should follow suit by implementing digital customs platforms and GPS tracking for trucks to minimize delays and improve efficiency (Nguyen & Tran, 2020).

10 CURRENT STATUS OF KYRGYZSTAN’S GARMENT INDUSTRY: ROLE OF SMEs

The textile and garment industry in Kyrgyzstan had a history since when the country was a part of the Soviet Union. Going back to the start, under Soviet rule, Kyrgyzstan was mainly an agrarian supplier, contributing raw materials like cotton to Soviet factories spread across the union. After the collapse of the Soviet Union in 1991, Kyrgyzstan embarked on a journey towards establishing its own garment industry. During the early years of independence, there was a steep decline in

production due to disruptions in supply chains and limited infrastructure to support industrial growth as the country just started to operate on its own without being controlled by the Soviet Union. Since the early 2000s, Kyrgyzstan has positioned itself as one of the important center for garment production for its neighboring countries. This was fueled largely by the deregulation of the economy, the rise of small and medium-sized enterprises (SMEs), and the relatively low cost of labor that attracted attention from neighboring countries. Moreover, informal trade routes through the Dordoi Bazaar, one of the largest bazaars in Central Asia, that is building trade ties in the garment industry between neighboring countries including big players such as Russia, China and Kazakhstan is located in Kyrgyzstan. This allowed Kyrgyz garment producers to access regional markets efficiently (ADB, 2020).

This chapter takes a close look at the current situation of Kyrgyzstan's garment industry and at the role of small and medium-sized businesses (SMEs) in helping the industry grow. It covers shortly how the garment industry evolved over time since Kyrgyzstan's independence, its impact on economy and some of the main challenges it faces, such as difficulties in accessing funding, outdated technology, and competition. The chapter also highlights SMEs' role in the garment industry in Kyrgyzstan, while it does play a crucial role.

10.1 Overview of Kyrgyzstan's Textile and Garment Sector

Garment industry is now one of the country's primary economic sectors, employing a substantial number of people, especially in urban centers like Bishkek and Osh, two biggest cities of the country. The industry's exports cater mainly to Russia and Kazakhstan, leveraging Kyrgyzstan's membership in the Eurasian Economic Union (EAEU) to reduce trade barriers (Tilekeyev et al., 2020). Kyrgyzstan's garment industry is characterized by small-scale, labor-intensive production units. Kyrgyz "light industry" focuses on producing affordable, low to mid-priced clothing, which is highly popular in neighboring countries, such as Kazakhstan and Russia (National Statistical Committee of the Kyrgyz Republic, 2023).

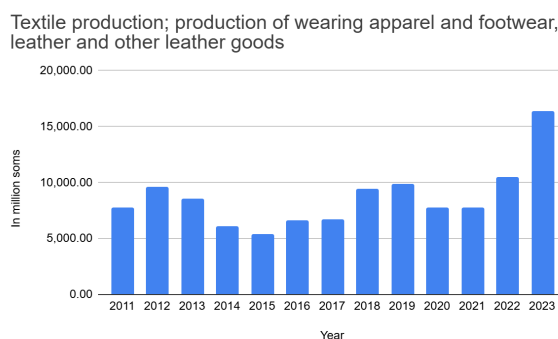
The garment sector contributes around 7-8% of the national GDP. The industry is also a significant source of employment, engaging around 200,000 people directly, the majority of whom are women. This makes the garment sector one of the largest employers in the country, providing

crucial economic opportunities, particularly for women in urban areas like Bishkek and Osh (World Bank, 2023).

Exports from the garment sector make up 12-15% of the country's total exports during the last decade. In 2021, Kyrgyzstan exported garment products worth approximately \$100 million, reflecting the sector's importance to the national economy (National Statistical Committee of the Kyrgyz Republic, 2023).

According to recent data on Figure 6, Kyrgyzstan's garment production has shown a notable upward trend. Production levels fluctuate through the years, experiencing challenges in the mid-2010s but showing substantial growth more recently.

Figure 6



Source: own editing based on National Statistical Committee of the Kyrgyz Republic

Kyrgyzstan is a member of the Eurasian Economic Union (EAEU), which allows for duty-free movement of goods between member states such as Russia, Kazakhstan, Belarus, and Armenia. Through the EAEU framework, Kyrgyzstan benefits from lower tariffs and streamlined customs procedures when exporting garments to neighboring countries, which makes Kyrgyz products more competitive in terms of price (EAEU, 2022).

In addition to the EAEU, Kyrgyzstan also engages in informal cross-border trade with Uzbekistan and Tajikistan, further enhancing its role in the region's supply chain. The strategic location of the country has allowed it to act as a transit hub, providing access to Central Asian markets (UNESCAP, 2021).

Associations and Cooperative Initiatives: There are several industry associations and cooperative initiatives aimed at supporting the growth of Kyrgyzstan’s garment sector. The “Legprom” Association is one such organization, which provides training and market access assistance to Kyrgyz garment producers. The association plays a key role in representing the interests of the industry and engaging in dialogues with the government to secure favorable policies. Moreover, international development organizations such as the United Nations Development Programme (UNDP) and the Asian Development Bank (ADB) have been actively supporting Kyrgyz garment SMEs with funding, training programs, and technical assistance to help them scale and integrate into regional and global value chains (ADB, 2020; UNDP, 2021).

The key associations and cooperative initiatives in the garment industry include:

- **Government Ministries:** Ministries such as the Ministry of Economy and Commerce and the Ministry of Industry, Energy, and Infrastructure work to create favorable regulations, support SME development, and negotiate trade agreements that enhance market access for garment exports.
- **Industry Associations:** There are two main that are aimed at enhancing the garment industry. They are “Legprom” and “Souztextil (Union of Textile Enterprises)” that focus on uniting textile producers to address common challenges, promote quality standards, and enhance the competitiveness of Kyrgyz textile products in both domestic and international markets.
- **International Organizations:** Organizations like the ADB, UNDP, USAID play a role in providing capacity-building and financial support to SMEs.
- **SMEs and Large Firms:** SMEs dominate the production landscape, while a few large firms are attempting to build capacity for larger-scale production and export.

10.2 Role of SMEs in the garment industry

The garment sector in Kyrgyzstan is dominated by small and medium-sized enterprises (SMEs). According to official statistics, 60% of garment enterprises are small (sewing workshops), 30% are medium, and only 10% are large (NSC, 2023). These SMEs usually operate as tailoring ateliers and small workshops, focusing primarily on garment assembly rather than textile production. The lack of vertically integrated supply chains is a limitation, as these SMEs are heavily dependent on

imported raw materials (UNDP, 2021) as it was discussed in the previous chapters dependent on imports from China, Turkey and Russian. And only a small number of larger companies are starting to emerge in Kyrgyzstan, particularly in Bishkek. These larger companies have started investing in more advanced machinery and workforce training to improve productivity and meet international quality standards. However, they still represent a minority within the industry. However, these bigger companies provide good working conditions and comparatively higher salaries to its workers.

The majority of these workers in the garment industry are employed by SMEs, often family-run businesses. Women represent a substantial portion of the workforce, comprising up to 90% of employees in the garment industry (ITC, 2021). These SMEs play a critical role in creating employment opportunities for women. SMEs contribute significantly to employment and foster innovation due to their ability to adapt quickly to market changes and customer demands (Trade.gov, 2020). Supporting SMEs is essential for sustaining the garment sector's growth and its role in regional trade.

10.3 Key Challenges and Barriers to Growth

There are some challenges faced by Kyrgyzstan in the garment industry that hinder its growth potential. These issues start from structural and operational inefficiencies and continue with external dependencies and global competitiveness concerns.

Some of these challenges are listed below:

- **1. Dependence on Imported Raw Materials**

One of the major challenges for Kyrgyzstan's garment industry is its reliance on imported raw materials such as fabrics, threads, and accessories. Approximately 90% of raw materials are imported from China, Turkey, and Russia (UNDP, 2021). This dependency brings to increases in production costs and to fluctuations in international prices and supply chain disruptions.

- **2. Limited Access to Finance**

Accessing reasonably priced financing options is a challenge for small and medium-sized businesses (SMEs), which make up the majority of the clothing industry. Due to their informal operations, many SMEs find it difficult to obtain loans from official financial

institutions (UCA, 2021). Their ability to scale operations, modernize production methods, or invest in cutting-edge machinery to effectively compete in regional and international markets is hampered by this lack of funding.

- 3. Informal Operations and Lack of Regulation

A significant portion of SMEs in Kyrgyzstan's garment industry operate informally, which creates challenges related to quality control, labor standards, and taxation. Informal businesses often struggle to comply with international standards, limiting their access to lucrative export markets (Trade.gov, 2020).

- 4. Limited integration into global value chains (GVCs)

Kyrgyzstan's garment sector has limited participation in GVCs, which limits access to international markets and advanced manufacturing technologies. Countries such as Vietnam and Bangladesh have been successful in becoming an integral part of GVCs, but Kyrgyzstan has yet to leverage its geographic location and labor advantages to achieve similar integration (ADB, 2020).

- 5. Political and economic instability

Political instability and inconsistent economic policies also deter foreign direct investment (FDI) in the garment sector. Without stable governance and predictable regulation, international brands and investors are less likely to establish long-term partnerships with Kyrgyz apparel manufacturers (UNDP, 2021).

Addressing these challenges requires a multi-pronged approach that includes financial support for SMEs, policy reforms to formalize activities and strategies for integration into GVCs. One of the most important factors is political stability, which can attract FDI, but this is a separate topic that needs to be analyzed in depth. But this thesis, having studied the successful experience of such countries as Vietnam and Bangladesh, Kyrgyzstan will be able to give a number of recommendations for overcoming barriers that were similar.

10.4 The Geographical Distribution of SMEs in the garment industry and Importance of Dordoi Bazaar

The geographical distribution of small and medium-sized enterprises (SMEs) in Kyrgyzstan's garment industry plays a crucial role in its growth and operational efficiency. SMEs are predominantly concentrated in urban and semi-urban areas, with a notable presence in Bishkek, the

Chui region, and Osh. These locations provide strategic advantages that enhance the sector's competitiveness (UCA, 2021).

10.4.1 Bishkek, Chui Region and Osh: The Urban and Regional Industrial Hubs of Kyrgyzstan

Bishkek, the capital of Kyrgyzstan, is the primary hub for garment production. It hosts a significant portion of the country's SMEs, supported by the surrounding Chui region, which also accommodates a substantial number of garment enterprises. The concentration of SMEs in this area creates a robust industrial ecosystem that supports collaboration among manufacturers, suppliers, and logistics providers (ADB, 2020). This has multiple advantages that help SMEs to cooperate.

Advantages: Bishkek's strategic location near major domestic and international markets, particularly Russia and Kazakhstan, enables efficient trade. Additionally, Bishkek's proximity to Central Asian markets allows SMEs to tap into a broader regional consumer base. Moreover, the region benefits from relatively well-developed road and transport infrastructure, connecting SMEs to suppliers of raw materials and export destinations. Bishkek also hosts several logistics providers, facilitating the smooth flow of goods (ITC, 2021). Last but not least, urban areas like Bishkek attract a skilled and semi-skilled workforce, essential for production activities. The presence of vocational training centers in Bishkek further ensures a steady supply of trained workers to the garment industry (UCA, 2021).

Osh and surrounding areas in southern Kyrgyzstan are emerging as significant hubs of SMEs including for garment assembly. These SMEs focus primarily on producing low-cost garments for regional markets, leveraging the area's cost advantages.

Advantages: Compared to Bishkek, operational costs in Osh are lower, particularly in terms of wages and overhead expenses. This cost advantage allows SMEs to remain competitive in price-sensitive markets (ADB, 2020). Osh's geographic location near Uzbekistan and Tajikistan facilitates trade within Central Asia, expanding the reach of Kyrgyz SMEs (Trade.gov, 2020). Southern regions like Osh benefit from local agricultural outputs, including cotton. While

Kyrgyzstan's domestic cotton production is limited, the availability of raw materials locally contributes to cost savings for SMEs (UCA, 2021).

10.4.2 Dordoi Bazaar and Informal Trade Networks

Situated in Bishkek, Dordoi Bazaar is one of the largest trade hubs in Central Asia involving SMEs in the garment sector, which are located nearby.

“Dordoi” turned an empty field into a huge smoke-free factory, where tens of thousands of people got the opportunity to start their own business and find jobs. As a key transit point, Dordoi connects Central Asia to China's vast manufacturing sector, redistributing goods to Kazakhstan, Uzbekistan, Russia, and even Europe (Eurasianet, 2024).

Inspired by the structure and organization of markets such as Privoz in Odessa, entrepreneur Salymbekov opened the bazaar on a modest 2-hectare plot, gathering only 300 traders from Bishkek city and its suburbs. Strategically located near a major ring road, it connected regional and international routes. (Pikabu, 2024).

Dordoi has grown into a huge shopping center often described as a “metropolis of metal containers.” The market covers more than 100 hectares and about 10,000 containers arranged on two levels - stores on the lower floors and warehouses upstairs. It is home to more than 40,000 trading points that operate almost every day of the year, directly and indirectly supporting the livelihoods of some 150,000 Bishkek residents (Pikabu, 2024).

This central role extends to the garment industry, where the bazaar facilitates imports of key raw materials such as fabrics and accessories, allowing for local production. These materials are then distributed to local garment producers, who transform them into finished products. It also serves as a redistribution center for Kyrgyz-made garments, linking producers to regional markets (Pikabu, 2024).

Advantages: SMEs located near Dordoi Bazaar benefit from easy access to wholesalers, retailers, and traders. This proximity allows garment producers to distribute their products efficiently and quickly respond to market demands (UCA, 2021). These networks enable SMEs to reach regional markets with minimal bureaucratic obstacles, fostering a competitive advantage (Trade.gov, 2020).

The current geographical distribution of SMEs in the Kyrgyz garment industry offers various advantages, ranging from cost efficiency and market accessibility to integration into regional and global trade networks. However, to take full advantage of these benefits, the industry needs further investment in infrastructure, workforce development and more, as discussed earlier in this thesis. Addressing these challenges will improve the competitiveness of small and medium-sized enterprises in the Kyrgyz garment industry and enable the country to be at least a leader of the Central Asian producers of the garment industry.

11 CASE STUDIES: VIETNAM AND BANGLADESH' EXAMPLE OF CONSOLIDATION OF SMEs

This chapter examines how Vietnam and Bangladesh have successfully consolidated small and medium-sized enterprises (SMEs) in the garment industry into production hubs. This consolidation has created the whole ecosystem and made these countries competitive in the garment industry in the global market. Both countries achieved this through multiple measures, and one of them was to intentionally consolidate SMEs into structured zones and encourage collaboration.

11.1 Vietnam

Bringing together SMEs in Vietnam on common spaces has been a transformative step in the development of the country's garment industry. By consolidating SMEs in industrial zones and production hubs, Vietnam has created a collaborative ecosystem that has maximized the use of shared resources, reduced costs and increased the industry's visibility and attractiveness to customers and investors.

11.1.1 Establishment of Industrial Zones and EPZs

The Vietnamese government has prioritized the development of export processing zones (EPZs) and industrial parks. This was especially true for key garment-producing regions such as Ho Chi Minh City, Hanoi, and the Red River Delta. SMEs were encouraged to relocate to these zones through incentives. The government offered various incentives to facilitate this transition, including tax breaks, access to low-interest loans, and exemptions on duties for imported machinery, as highlighted by the Asian Development Bank (ADB) in 2020. Additionally, firms

operating in Export Processing Zones (EPZs) were granted long-term leases at reduced rates, making it financially feasible for small businesses to relocate.

As of 2024, Vietnam has more than 400 industrial zones covering more than 100,000 hectares. Whereas in the late 1980s and early 1990s, these zones were much smaller and the number of small and medium-sized enterprises (SMEs) in them was more limited compared to today (Vietnam.Incorp.Asia, 2024). The initial size of most such zones was about 150-200 hectares. Each zone initially housed about 20-40 small and medium-sized enterprises (SMEs), which paved the way for growth. Over time, the zones expanded significantly to accommodate the growing number of enterprises interested in setting up production.

The industrial parks like Tan Thuan EPZ in Ho Chi Minh City and Trang Due Industrial Park in Hai Phong witnessed significant expansions in their sizes and the number of enterprises housed within. By 2024, some zones, such as Trang Due, had grown to cover approximately 600 hectares, while the number of SMEs had multiplied as the garment industry scaled up. The Table 5 below, visualizes the establishment and growth trajectory of Vietnam's industrial parks.

Table 5

Size of Key Industrial Zones and Number of SMEs in Vietnam

Industrial Zone Name	Year Established	Size -year of establishment (hectares)	Size - 2024 (hectares)	Number of SMEs - year of establishment	Number of SMEs - 2024
Tan Thuan EPZ	1991	100	300	~50	~200
Trang Due Industrial Park	2007	200	600	~100	~350
Linh Trung EPZ	1995	50	150	~30	~120
Bien Hoa 2 Industrial Zone	1995	335	500	~80	~300

Source: own editing based on Nguyen & Pham (2015), ADB (2016), ADB (2020), Vietnam.Incorp.Asia (2024).

As of today it is clear that Vietnam succeeded in its path to industrialization.

11.1.2 Attracting business networks and customers

The consolidation of SMEs into defined industrial zones made it easier for buyers, suppliers and investors to connect with garment manufacturers. This centralization provided a one-stop solution for customers looking for manufacturers, which increased the competitiveness of SMEs (UNIDO, 2021). For instance, international brands such as H&M and Zara have benefited significantly from sourcing in these industrial zones. They could efficiently engage with multiple local SMEs to meet their production requirements.

Main benefits from industrial zones are listed below:

- Ease of access: Buyers can interact with multiple SMEs in one location, simplifying procurement and reducing time and costs.
- Personalization and flexibility: Indeed, the clusters allowed customers to choose from a range of manufacturers specializing in different aspects of garment production, such as stitching, dyeing and finishing.

At the same time, a very important role was held by entrepreneurs and business networks. They take a part in managing and promoting these hubs. Local and international investors established factories in the zones and subcontracted work to smaller SMEs within these industrial zones. Special quality control measures were established in these zones, which significantly improved the quality of the production. Export brokers and international brands found it more efficient to source products from consolidated zones where standards and quality could be uniformly controlled (World Bank, 2019).

11.1.3 Infrastructure and Location Advantages

Vietnam's investment in infrastructure in industrial zones also played an important role in the country's ultimate success in SMEs. Many industrial parks were strategically located near deep-water ports such as Hai Phong and Cat Lai. As a result, this facilitated efficient transportation of raw materials and export of finished garments. In addition, well-developed road and rail networks connected these industrial zones to ports and urban markets, thereby reducing logistics costs for small and medium-sized enterprises (SMEs). The industrial parks also provided necessary support services on-site, including packaging, quality inspection and logistics companies, further

simplifying operations (Nguyen & Pham, 2015). These infrastructural advances have had a profound impact on SMEs by reducing overhead costs through infrastructure sharing, speeding up lead times to improve customer satisfaction, and improving access to global markets through more efficient logistics and export routes (Nguyen & Pham, 2015).

11.1.4 The role of cooperation and business environment

The government has actively promoted collaboration among SMEs, creating an ecosystem where resources, knowledge and skills are shared. Large companies started subcontracting experience, where specific tasks were given to smaller SMEs. In this way, even the smallest players were able to capitalize on growing manufacturing demand. Shared training centers in industrial parks trained workers in advanced skills, increasing productivity and enabling SMEs to improve their competitiveness. In addition, a general awareness of modern equipment and IT solutions allowed SMEs to move ahead alongside the competitors they saw every day. This contributed to the overall development. In this way, all SMEs were already able to meet international standards, which would have been difficult for individual companies to achieve on their own (UNIDO, 2021).

For example, in the Trang Duy Industrial Park, collaboration between SMEs led to a marked reduction in material waste and improved production efficiency. This was achieved through collaborative efforts. In supply chain management, companies coordinated procurement, logistics and resource utilization. Similarly, in Hiep Phuoc Industrial Park, companies shared advanced dyeing and finishing equipment, which not only reduced costs but also ensured consistent quality of garments for export (World Bank, 2019). And this is only two examples among many.

The consolidation of SMEs into centralized hubs led to several positive outcomes. It attracted labor and skills by creating employment opportunities, drawing workers from rural areas to industrial parks. This clustering facilitated the enforcement of labor and quality standards, thereby improving the reputation of Vietnamese garment exports. Moreover, with enhanced access to resources and clients, SMEs were able to scale up operations, transitioning from informal workshops to competitive global suppliers. According to the Organisation for Economic Co-operation and Development (OECD), these developments have contributed to the robust growth of Vietnam's SME sector.

11.2 Bangladesh

Bangladesh, like Vietnam, has consolidated its garment SMEs into centralized hubs such as export processing zones (EPZs) to promote cooperation, reduce costs and improve efficiency. Bangladesh prioritized the garment sector as the main driver of exports. It emphasized labor-intensive production to remain competitive in global markets (ADB, 2020). This approach has made Bangladesh a leader in exporting readymade garments, and zones such as the FEZs in Dhaka and Chittagong are contributing to growth and employment (OECD, 2020). Since the thesis has already discussed how certain actions have influenced the consolidation of SMEs using Vietnam as an example, this chapter will focus on comparing Bangladesh's steps with Vietnam's consolidation experience to identify similarities and differences.

11.2.1 Establishment of Industrial Zones and EPZs

Bangladesh has established export processing zones (EPZs) and industrial parks to support its garment industry, as has Vietnam. As of 2024, Bangladesh has 8 EPZs, including the Dhaka EPZ and the Chittagong EPZ, totaling about 2,500 hectares (World Bank, 2020). In comparison, Vietnam has more than 400 industrial zones with an area of over 100,000 hectares (Vietnam.Incorp.Asia, 2024). However, while in Vietnam these zones cater to a wide range of industries as discussed in the previous chapter, Bangladesh follows a focused strategy, favoring the garment sector as the dominant export driver.

Both countries introduced incentives to encourage SMEs to relocate to these zones. Bangladesh offered tax vacations, duty-free imports of raw materials and equipment, and tax exemption on dividends (World Bank, 2020) just like Vietnam. These incentives were crucial in encouraging SME participation and growth in both countries.

The initial size of Bangladeshi SEZs was relatively modest. For example, the size of the Dhaka FEZ in 1993 was about 130 hectares, and by 2024 it had grown to 356 hectares (BEPZA, 2024). Similarly, the SEZ in Chittagong increased from 200 hectares in the early 1980s to about 425 hectares by 2024. The number of SMEs operating in these zones has also increased significantly: in the Dhaka EPZ from 50 SMEs at the time of establishment to over 200 by 2024 (World Bank, 2020). In comparison, Vietnamese zones such as Tan Thuan FTE have grown from about 100 ha

when established in 1991 to 300 ha in 2024, and the number of SMEs has increased from 50 to about 200 (ADB, 2020; Vietnam.Incorp.Asia, 2024).

Table 6

Industrial Zones/EPZs of Bangladesh and Vietnam

Country	Total Industrial Zones/EPZs	Total Area (hectares)	Focus Industries	Examples of Key Zones	Initial Zone Size (hectares)	Current Zone Size (hectares)
Vietnam	400	100,000	Diversified (garments, electronics, manufacturing)	Tan Thuan EPZ, Trang Industrial Park	150-200	300-600
Bangladesh	8	2,500	Primarily garments	Dhaka EPZ, Chittagong EPZ	130-200	356-425

Source: Own editing based on ADB (2020), BEPZA (2024), Vietnam.Incorp.Asia (2024), World Bank (2020), and Nguyen & Pham (2015).

Bangladesh is competitive with Vietnam despite the much smaller number of hectares allocated to industrial zones. This is due to a deliberate strategy to optimize specifically the garment industry in these zones. In Vietnam, the larger zones support a wide range of industries as discussed in the previous chapters. Bangladesh's targeted approach has enabled it to maintain its position as one of the world's largest exporters of readymade garments on a par with Vietnam's broader industrial success.

11.2.2 Attracting business networks and customers

Entrepreneurs and business networks played an important role in both countries. In Bangladesh, as in Vietnam, local and international investors set up factories in SEZs and subcontracted work to SMEs. In addition, both countries introduced quality control measures in their zones. These measures significantly improved product quality and ensured compliance with international standards, making sourcing more efficient for export brokers and international brands (UNIDO, 2021; BEPZA, 2024).

While Vietnam's zones cater to multiple industries, Bangladesh has leveraged its focused approach to remain competitive globally in the garment sector. This specialization has ensured that its SMEs

remain a critical part of the supply chain for international buyers, even with fewer industrial zones and less total industrial space compared to Vietnam.

11.2.3 Infrastructure and Location Advantages

The infrastructure and location of Bangladesh has had a significant impact on the success of garment SMEs. However, the approach differs somewhat from the Vietnamese approach. The development of Export Processing Zones (EPZs) near key ports such as Chittagong Port has provided SMEs with direct access to international trade routes. This strategy (port-oriented) facilitated efficient imports of raw materials, such as fabrics and chemicals, and exports of finished garments from Bangladesh. Chittagong Port serves about 80% of Bangladesh's international trade, making it a crucial center for the garment industry (The Daily Star, 2021).

Unlike Vietnam's extensive road and rail networks, Bangladesh's dependence on waterways and proximity to ports offers cost advantages for bulk commodity transportation. However, underdeveloped domestic infrastructure often leads to port congestion and delays in the supply chain, negatively affecting lead times for SMEs (Textile Today, 2020). Despite these challenges, FEZs located near ports provide important shared resources such as warehousing, customs clearance and utilities, ensuring a more seamless operation for resident SMEs.

Bangladesh's infrastructure significantly impacted SMEs. Locating garment factories near ports minimized overhead costs and logistics simplified as well. While improving road connectivity remains a priority, low transaction costs near the EPZs and the availability of affordable labor have helped maintain competitiveness. Vietnam's integrated infrastructure model, while Bangladesh's port-centric strategy proved its effectiveness as well, especially in supporting SME consolidation and export growth, although continued investment in infrastructure development is required to sustain this success (The Daily Star, 2023; Textile Today, 2020).

11.2.4 The role of cooperation and business environment

In Bangladesh, large companies have turned to subcontracting. They outsource specific tasks such as sewing, cutting, or finishing to smaller players. However, while Vietnam has relied heavily on shared facilities for training or high-tech equipment, Bangladesh has relied on informal networks and localized training programs, often initiated by non-governmental organizations (NGOs) or

private firms (UNDP, 2023). As Bangladesh's comparative advantage is in labor-intensive industries, its skills development and job-specific training are prioritized over infrastructure investment was reasonable.

Vietnam's industrial parks are more heavily supported by government planning, whereas in Bangladesh, industry associations and private sector initiatives play a larger role in fostering collaboration. The Bangladesh government created a favorable environment for collaboration among SMEs through initiatives such as the Bangladesh Export Processing Zone Authority (BEPZA). However, unlike the centrally managed industrial parks of Vietnam, the business environment in Bangladesh is characterized by a mix of formal and informal networks, with SMEs often relying on partnerships with larger enterprises and industry associations such as the BGMEA for support and coordination (BGMEA, 2021).

12 RECOMMENDATIONS FOR KYRGYZSTAN ON THE EXAMPLE OF BANGLADESH AND VIETNAM: CONSOLIDATION OF SMEs

The experience of Bangladesh and Vietnam in consolidating small and medium-sized enterprises (SMEs) in the garment industry is a valuable experience for Kyrgyzstan. These two countries have successfully used the strategy of consolidating SMEs in industrial zones and export processing zones (EPZs) to improve competitiveness, efficiency and expand their global presence in the garment sector. Kyrgyzstan, with its growing textile industry, can adopt and adapt these strategies to its unique economic and geographical conditions.

1 Establishment of industrial zones and FEZs

Kyrgyzstan cannot create zones of a big scale as in Vietnam or in Bangladesh given its population and the size of the country. The creation of a few well-planned industrial parks in key garment-producing regions could be the basis for growth. Bangladesh's deliberate strategy of maintaining fewer zones, but optimizing them for apparel production demonstrates the effectiveness of specialization.

Recommendation: establishment of several strategically located industrial zones are needed near major urban centers such as Bishkek and Osh, as well as Chui province, initially focusing on the garment sector, as the country already exports to this sector. Also it is necessary to take into

account the importance of “Dordoi” bazaar, its location should be integrated with the establishment of industrial zones and FEZs.

These zones need to be provided with the essentials:

- access to utilities,
- transport links
- general facilities such as warehouses and training centers.

In this way, it will be easier for existing non-profit organizations that are trying to help entrepreneurs in this area to provide training. Because there will be a permanent place to use, the right equipment on hand for all employees, and accessibility to all SMEs at the same time.

2 Incentives for SME Relocation

Both Vietnam and Bangladesh successfully incentivized SMEs to relocate to industrial zones through measures like tax holidays, duty exemptions on machinery imports, and reduced lease rates. These measures addressed the financial constraints often faced by SMEs, making relocation feasible and attractive.

Recommendation:

1. Introduction of tax holidays for SMEs relocating to industrial zones, with gradual phase-outs to ensure long-term contributions to the economy.
2. Offer subsidized rates for land leases and utilities within the zones, particularly for startups and smaller firms.
3. Facilitate access to low-interest loans specifically for SMEs investing in machinery, technology upgrades, or production capacity expansion.

3. Developing Infrastructure and Strategic Location

Vietnam has properly located its industrial zones near deep-water ports, while also developing an extensive road and rail network. In turn, Bangladesh's port-oriented strategy, with zones such as the Chittagong FTE located near key ports, has shown how proximity to trade hubs can minimize logistics costs. Kyrgyzstan's landlocked geography necessitates a focus on efficient overland trade routes. As it was written in the overview of the garment industry of Kyrgyzstan, currently SMEs are located in Bishkek, Osh, Chui, particularly near Dordoi bazaar.

Recommendations:

1. Carefully consider and locate industrial zones near key logistics hubs so that there are necessarily major roads or railroads that connect Kyrgyzstan to regional markets such as Kazakhstan, Uzbekistan and China.
2. Invest in improving road infrastructure where the zones will be located to ensure smooth connections between the industrial zones and border trade points.
3. Locate common facilities such as customs clearance centers, warehouses, and quality control laboratories in industrial zones to reduce logistics overheads.

4. Quality control and Standardization

Both Bangladesh and Vietnam introduced strict quality control measures in their zones, which enhanced the reputation of their garment exports. Buyers considered it more reliable to source products from zones where standards are constantly monitored.

Recommendations:

1. Collaborate with international organizations to develop training programs on quality management and compliance with global standards. This will open a door to new country-partners.
2. Establish centralized quality control laboratories in industrial zones to ensure that SMEs consistently meet international standards.
3. Promote a national certification system for SMEs operating in industrial zones, so these SMEs will understand that certification will boost their sales showing reliability.

5. Collaboration and Foreign and Domestic Investment

Shared training centers and access to modern technologies enabled even smaller companies to meet international standards. Similarly, collaboration in Bangladesh focused on subcontracting, where larger companies supported smaller SMEs by outsourcing specific tasks. This created a symbiotic ecosystem in which even smaller players thrived.

Recommendations:

1. Offer guarantees and incentives to both international and domestic investors to mitigate risks and attract long-term commitments.
2. Facilitate the adoption of modern technologies by creating shared access to equipment and IT solutions, enabling SMEs to compete in international markets.
3. Actively market Kyrgyzstan's industrial zones to international garment buyers and investors, emphasizing the country's strategic location and low labor costs.

Collaboration of SMEs can play a crucial role in enhancing the garment industry. By adopting these strategies and tailoring them to its unique context, Kyrgyzstan can adopt the experience of Bangladesh and Vietnam. As a result it can transform its SME sector and boost its garment industry's competitiveness in global markets.

6. Creating working conditions

In Kyrgyzstan's garment industry, women make up the majority of the labor force. A significant challenge faced by many women in the garment industry is balancing work and childcare. In order to ensure the long-term growth and competitiveness of the industry, improving working conditions is crucial - not only for the well-being of workers, but also to meet global standards and avoid reputational risks.

Establishing kindergartens or day care centers near industrial zones would provide working mothers with much-needed support, allowing them to focus on their work without stressing about the logistics of childcare. Kyrgyzstan can benefit from this practice by creating a more inclusive and supportive work environment for women.

Accessibility to jobs is another important factor. Introducing affordable and reliable transportation services to and from work would reduce the burden on workers, ensure on-time attendance, and improve overall efficiency.

Meeting global standards for working conditions is necessary to maintain and expand partnerships with international buyers. Compliance with safety regulations, proper ventilation, ergonomic workstations and clean sanitary conditions can significantly improve employee well-being and productivity.

Recommendations: Invest in On-Site Childcare: provide incentives for garment companies to establish or support kindergartens within or near industrial zones. These facilities should be affordable, professionally staffed, and meet the needs of workers' families.

Create Worker Transportation: partner with local governments and transport operators to create dedicated routes connecting residential areas to industrial zones. This could be subsidized through public-private partnerships to ensure affordability and sustainability.

Adopt International Best Practices: establish clear labor standards for the garment industry that emphasize worker safety, health, and rights. These standards should align with global frameworks such as the International Labour Organization (ILO) conventions.

By implementing these recommendations, Kyrgyzstan can create a garment industry that not only meets international expectations but also fosters a motivated and loyal workforce. These measures will enhance the industry's reputation globally and contribute to its sustainability and competitiveness in international markets.

7. Following the example of “Dordoi” bazaar

Dordoi Bazaar is a remarkable example of how collaboration and centralization can lead to success. Created entirely through entrepreneurial initiative, without direct government involvement, Dordoi became a hub where traders naturally gravitated after recognizing it as the central point of commerce.

Lessons from Dordoi Bazaar: The origins of Dordoi lie in private initiative. Founded by Askar Salymbekov, the bazaar started modestly but quickly became a magnet for traders and buyers. The key elements of its success were: natural attraction of traders, independent growth. Once traders realized that Dordoi was becoming a major trading center, they naturally gravitated towards it.

Cooperation between entrepreneurs and government, especially in infrastructure, incentives and policies, can accelerate the creation of such centers.

As in the case of Dordoi, a centralized garment hub could naturally attract buyers, who would mainly benefit from the convenience of having all suppliers in one place.

Centralizing workshops and suppliers in one location will promote collaboration and efficiency. Manufacturers would benefit from proximity to suppliers of raw materials, equipment and logistics, which would reduce costs and increase productivity.

Like Dordoi, which serves as a regional trade hub, a centralized garment zone will position Kyrgyzstan as a leader in garment manufacturing in Central Asia, attracting the attention of global markets.

Recommendations: Step-by-step entrepreneurial development: entrepreneurs can take the initiative to establish a garment hub, even without government support, by starting small and gradually expanding the zone. This approach reflects Dordoi's organic growth. However, it will take much longer.

Collaboration between entrepreneurs and government: while independent efforts can be successful, there are significant benefits to collaborating with government. Public-private partnerships can provide incentives, infrastructure development, and policy development to promote growth.

Following the Dordoi model, Kyrgyzstan's apparel industry can create a centralized hub that attracts customers, fosters collaboration, and builds a thriving ecosystem. Even if direct government support is limited, entrepreneurial leadership can drive this transformation step by step. However, combining entrepreneurial initiative with strategic government cooperation will ensure accelerated growth and global competitiveness, offering the best of both worlds.

13 CONCLUSION

This thesis analyzed and compared the economies of Kyrgyzstan of current days and Vietnam and Bangladesh before its success and found out similarities they share. The economies of Kyrgyzstan today share significant similarities with those of Bangladesh and Vietnam during their early stages of garment industry development. These include reliance on low-cost labor, dependence on agriculture, and limited global integration. Seeing similarities they share, give us theoretical evidence to say that there is a possibility of replication of the success of Vietnam and Bangladesh.

As of now, Vietnam and Bangladesh have established themselves as major players in the global garment industry. Through comparative analysis, it highlighted the differences and similarities in

their industrial development, focusing on the role of SMEs, government policies, and international integration in fostering growth.

As a result of the analysis, it can be said that Vietnam is distinguished by its developed infrastructure, its investment in modern technology and its focus on high value-added manufacturing. Bangladesh, on the other hand, has taken advantage of cheap labor and huge production capacity, making it a leader in high-volume apparel manufacturing. These advantages have enabled both countries to capture a significant share of the global market, attract international buyers and generate sustained economic growth in their apparel industries.

In contrast, Kyrgyzstan's garment industry is still at an early stage of development, characterized by fragmentation and informality from the side of SMEs while they constitute the majority in the garment industry. Most of the industry comprises small, independently operating ateliers that lack the resources and capacity to meet the demands of international buyers or compete effectively in global markets.

This thesis aims to address these challenges by providing detailed recommendations to enhance Kyrgyzstan's garment sector. A few of the proposed strategies, summarized here, focus on building a foundation for growth by adopting lessons from Vietnam and Bangladesh.

First, centralization is essential—establishing centralized production hubs, akin to export processing zones (EPZs), can help consolidate SMEs into structured industrial clusters. Such hubs would facilitate resource sharing, streamline operations, and attract larger buyers who prefer centralized sourcing.

Second, policy support is very important to create a favorable environment for growth. In this thesis the introduction of tax incentives, investment in infrastructure development and FDI attraction, as well as the creation of export-friendly conditions were considered.

In addition, partnerships need to be developed. For this purpose, it is very important to create conditions for their cooperation both among themselves and with large companies. This requires training. Establishing training centers with common access to modern equipment and quality control systems will enable small enterprises to improve their competitiveness and meet international standards. Upgrading the skills of SME workers and encouraging innovation will be

key to creating a more efficient and competitive industry as can be seen in Bangladesh and Vietnam.

Finally, global integration is necessary for Kyrgyzstan to connect with international buyers. By emphasizing its strategic location in Central Asia and low labor costs, the garment industry of Kyrgyzstan can attract many entrepreneurs and become a participant in the chain of global integration.

The thesis emphasizes that while Kyrgyzstan faces significant obstacles, the experience of Vietnam and Bangladesh shows that strategic reforms, infrastructure investment and targeted policies can stimulate transformational growth in the garment sector. However, this approach must be adapted to Kyrgyzstan's unique circumstances, particularly its geographic location and current economic structure.

Implementing these measures will enable Kyrgyzstan to create a competitive and sustainable apparel industry. It will contribute to domestic economic growth and integrate the country more deeply into global trade networks. This study lays the foundation for future efforts to unlock the untapped potential of Kyrgyzstan's apparel sector and position it as a leader in this industry in the regional market.

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