

Productivity Gap - GDP per worker [Constant 2015 GDP, in thousand US dollars]

per hour. This increase contrasts sharply with production wages in Vietnam, Thailand, or Malaysia, which remain below \$3 per hour on average. However, low wages are not the only significant advantage of Southeast Asia. Singapore has become a crucial player in advanced financial services and technology. Meanwhile, Southeast Asia can attract a considerable number of individuals aged 25 to 54, with higher education. Nevertheless, a sole focus on cost disparities can be misleading, as the issue of an efficiency gap remains significant. The reality is that most Southeast Asian countries cannot compete with China in terms of output per worker.

An instructive point for companies seeking alternatives in the supply chain is twofold: first, analyzing the “how of achieving lower production costs versus reducing efficiency rates,” and secondly, assessing whether, over time, addressing efficiency challenges can be achieved through on-the-job training and infrastructure improvement. It should be noted that the second aspect is crucial, as some cost advantages in Southeast Asia are likely to decrease in the coming decade.

What makes the ASEAN supply chain so distinctive?

Countries in ASEAN, like their Northeast Asian neighbors, opt for industrialization based on foreign direct investment and can be categorized into three groups. The first category is Singapore, functioning as a technological hub. The second category is the ASEAN-4 group (including Malaysia, Thailand, Indonesia, and the Philippines), known as newly industrialized economies with a mix of competitiveness. Finally, the third category includes the CLMV group (comprising Cambodia, Laos, Myanmar, and Vietnam), which holds appeal for companies primarily seeking cost reduction.

The supply chains of ASEAN are deeply integrated with the neighboring countries in Northeast Asia. Economists often use the “flying geese” pattern to explain the division of labor in the region, where Japan serves as the technology leader against newly industrialized economies and developing countries.

In the network of Multinational Enterprises (MNEs), and in the pursuit of maximizing competitiveness in terms of cost and technology and cross-border transportation of a product throughout its production life cycle, regional supply chains dynamically evolve.

Due to its significant impact in the electronics and automotive industries, ASEAN will play a greater role in reshaping global value chains to enhance the flexibility of supply chains. Also, due to the cohesive regional division of labor, we witness the expansion of Japanese, South Korean, and Chinese multinational companies as strong (and shifting) leaders, similar to what happens in the flying geese pattern. However, the industry in Southeast Asia, facing the industrialization puzzle led by FDI, mainly based on technology input and the supply chain network of multinational corporations rather than competitive local companies, has encountered challenges.

Shift of electronic industry to ASEAN

The electronic industry, due to its reliance on modular technology, standardization, and high value-to-weight ratio, is significantly dispersed internationally and well-integrated into global and regional networks. This sector represents the largest export industry, allocating 29% of the total export value of the Southeast Asian region in 2022, varying between 20% and 50% in each country within the ASEAN region. With a share of \$268 billion in regional gross domestic product, it guides the region’s economic growth, and created over 4.2 million jobs in 2019. Over the past three decades, ASEAN’s participation in the global value chain for the electronic industry has decreased from 3.74% to 68.9% of the value-added of exports. Meanwhile, its regional value chain participation has doubled from 7.8% to 8.17%, indicating a stronger regional production network.

Currently, the average foreign value-added in ASEAN’s export sector is around 53%, with major contributors being China, Japan, the United States, and Germany. Historically, China has surpassed Japan as the largest contributor, reflecting the relocation of multinational corporations and their shift to China, elevating

China in the value chain from “final assembly” to “provider of intermediate goods” and, in some cases, to “leading companies”. The foreign value chain participation in the electronic industry is higher in certain countries, such as those with significant investments in advanced technologies like Singapore and Malaysia, compared to others mostly involved in final assembly, like Thailand, the Philippines, and Vietnam. In Laos, Cambodia, and Myanmar, this share is lower due to their status in initial labor-intensive processes. Meanwhile, Indonesia’s industry is focused on the domestic market, while Brunei remains an economy heavily reliant on fossil fuels.

Obstacles

Numerous obstacles lie ahead on the path for Southeast Asia to become an immediate substitute for China as the world’s factory. For this shift to happen, supply chains in this region need to become much more efficient and integrated. Currently, trade between countries in ASEAN faces significant challenges. On one hand, the lack of quality infrastructure hinders the seamless flow of goods from the outset. On the other hand, fundamental regulations and legal agreements between countries are absent, as regional differences and national ambitions stand in the way of forming a beneficial consensus. Moreover, a strong dependence on Chinese goods poses another obstacle for the region’s ability to transform into a new global production hub. Similarly, the transition to a low-carbon economy is a major challenge for Southeast Asia. If these challenges are not addressed rapidly and sufficiently, the region’s competitive advantages may quickly diminish, solidifying the possibility of losing competitiveness in Southeast Asia.

Center for Strategic Studies of Entrepreneurship in Iran



The gradual rise in economic power in East Asia as a new production hub presents new opportunities for Iran.

Iran’s strategic position and emerging Asian Century



At the end of the 20th century, the unipolar world and the Western international system underwent extensive changes; changes that led to the decline of the West and the rise of Asia. The 21st century, or more aptly, the Asian Century, marks a shift in global power from the West to the East. Moreover, with the beginning of this century, we are witnessing the gradual rise of East Asia’s economic power worldwide.

This gradual rise in economic power in East Asia as a new production hub presents new opportunities for Iran. Considering that in August 2018, Iran signed the document of accession to the Treaty of Amity and Cooperation in Southeast Asia (TAC) in Singapore, the country can secure a significant share of this change in the center of power and seize a significant portion of this emerging power with the help of its economic drivers and industries.

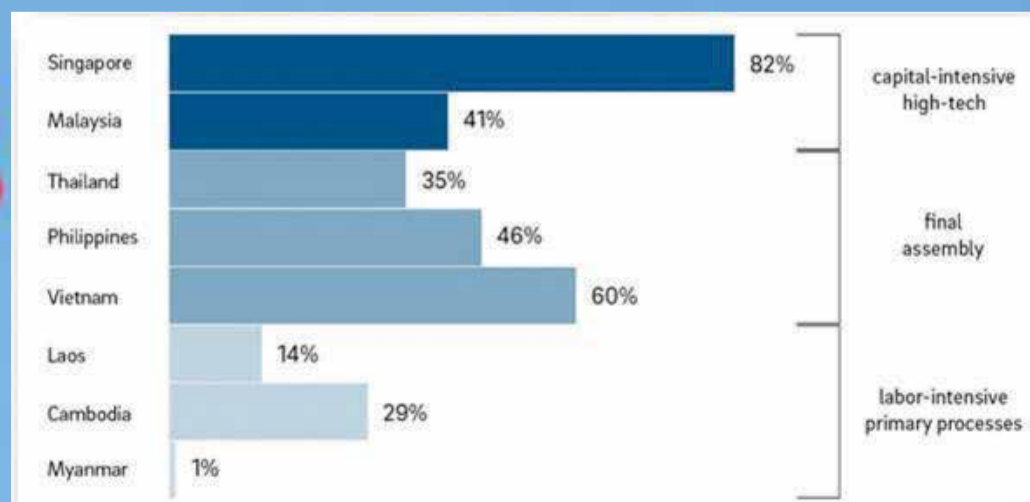
The geopolitical and strategic position of Iran in the region, coupled with its accession to ASEAN’s TAC in Singapore, involving influential East Asian countries such as the Philippines, Singapore, Thailand, Vietnam, Brunei, Laos, Malaysia, Myanmar, and Cambodia, renders Iran as a key player in this changing landscape.

Iran, with its significant potential in various areas, including access to the Caspian Sea and the Persian Gulf, valuable oil and gas reserves, and advancements in technology, especially in the past decade, must leverage these assets. Establishing constructive and multi-faceted interactions could help overcome the weaknesses and setbacks of recent years, enabling Iran to attain the level of the ASEAN economic bloc.

According to international relations experts, Iran needs to revive its lost position in communication corridors, acting as a crucial bridge between the markets of East Asia and the West. In recent decades, East Asia has successfully positioned itself as a primary rival to the United States and prominent Western powers through long-term strategic planning.

This strategic planning and proper management have led Asian countries not to be dependent, weak, and passive players in the international arena anymore. Instead, gradually, these countries have transformed into executors who, with independent actions, claim leadership ahead of dominant power-seeking states.

Iranian Entrepreneurs Association



Diversification into Specialized Sectors - Share of foreign value-added in electrical and electronic equipment, 2017 [Percentage Share]