

What drives FDI in the Asia Pacific Region?

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The Asia Pacific region is witnessing economic growth despite the ongoing tensions between China and the smaller Asian nations in the South China Sea. Countries such as Cambodia, Vietnam, the Philippines and Singapore are experiencing a surge in foreign direct investment (FDI) from nations including Australia, Germany, Spain and the US.



Investment is particularly noticeable in sectors such as high technology and semiconductors in Cambodia and Vietnam, minerals in the Philippines, and an increase in international law firms establishing themselves in Singapore.

Distance means nothing in today's global market and despite the conflict in Ukraine, Russia too is seeking to find favour in the Asia Pacific region. Russia is regaining influence in Southeast Asia, presenting itself as a partner to the Global South, exploiting anti-Western sentiment. Despite sanctions, Russia is appealing to regional nations by avoiding territorial disputes and offering military and energy partnerships. Countries like Vietnam, Indonesia and Malaysia see strategic value in maintaining ties with Moscow, particularly as they navigate between US-China rivalry.

Sectors of interest

The shifting landscape has seen many US legal firms relocating from China to regions like Singapore and Seoul (South Korea). This change is driven by concerns over local laws affecting data protection, piracy, espionage and potential retaliatory measures following proposed tariffs by the US President Trump against China.

These recent developments have shown resilience amid challenges. The closure of 15 international law firm offices in China has led to the emergence of new opportunities for the legal sector and is seen as a positive step for its future success.

Businesses from the EU and US are also moving increasingly into the Asia Pacific region, anticipating substantial growth in the hi-tech industry, semiconductor manufacturing, mining and mergers and acquisitions (M&A) by 2025. Major US semiconductor companies, such as Intel, Ampere, and Skyworks, are showing keen interest in Vietnam's burgeoning semiconductor industry, reflecting a deepening partnership between Vietnam and the US.

Apple too is investing US\$1 billion in a new AirTag vendor factory in Batam. This project, the initial phase of Apple's investment in Indonesia, is scheduled to be completed by early 2026, creating up to 2,000 jobs.

The UK's membership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership is expected to bolster its economy by approximately £2 billion (US\$2.53 billion) annually. This trade bloc, comprising 12 nations across three continents with a combined GDP of £12 trillion (US\$15.2 trillion), will lower tariffs and reduce trade barriers. This represents a significant economic opportunity for UK businesses. Sectors to benefit include financial services, manufacturing and food and drink.

Thailand and Mongolia are also pushing to enhance trade relations, with a goal of increasing bilateral trade to 3.1 billion baht by 2027. Thai Commerce Minister, Pichai Nariphaphan, has initiated discussions with the Mongolian ambassador to explore trade co-operation.

In addition, as part of Cambodia's trade and competitiveness program, it too is fast-growing and benefitting from a significant amount of FDI, as well as a recently approved US\$50 million loan provided by the Asian Development Bank. Cambodia is now set to strengthen its trade and investment ties with Turkey.

In Vietnam, investors are optimistic about the proposed changes to the IPO market, aiming to shorten the listing process from 90 days to just 30 days.

This change may encourage more businesses to enter the public market, stimulating economic growth. Recent private sector IPOs, such as DNSE Securities, highlight market adaptability, while proposed legal revisions promise improved investor rights, transparency and efficiency.

Vietnam's stock market saw remarkable growth in 2024, with over two million new accounts opened, bringing the total to 9.2 million - surpassing the country's 2025 target a year early.

Geopolitical volatilities

However, amid these developments, serious security concerns persist. A Chinese report has outlined potential targets for US naval forces, including radars and sensors, in the event of future conflict. This has raised alarms regarding the capabilities of the People's Liberation Army (PLA) and its electronic warfare unit.

The Philippines is working to enhance its coastguard capabilities by acquiring 46 new ships over the next five years, supported by FDI from Japan and France. However, analysts caution that without concrete results against Chinese provocations, the effectiveness of this initiative may be limited in addressing public sentiment and regional stability.

Additionally, China has intensified its coastguard patrols around Taiwan, applying pressure on the island while avoiding open conflict. These operations are aimed at safeguarding maritime rights and supporting the welfare of fishermen, reflecting a more co-ordinated strategy from the PLA.

Vietnam's hesitation to join the expanded BRICS bloc reflects a strategic effort to balance its growing ties with the US against potential benefits of aligning with a grouping seen as a counterweight to US-led global influence. While other Southeast Asian nations such as Indonesia, Malaysia and Thailand accepted BRICS partnership offers, Vietnam (along with Algeria, Nigeria and Turkey) has yet to respond.

Analysts attribute this caution to Hanoi's prioritisation of economic opportunities from Washington's friendshoring policy, which positions Vietnam as a potential hub for hi-tech and semiconductor industries in global supply chains.

Vietnam's decision is also influenced by geopolitical considerations, including the dominant role of China in BRICS and its assertiveness in the South China Sea, where Vietnam has territorial disputes. A Donald Trump administration and its threats of high tariffs on BRICS nations further complicate the decision. While Vietnam remains interested in joining BRICS, evidenced by Prime Minister Pham Minh Chinh's attendance at the 2024 summit, it appears to be cautiously navigating its strategic partnerships, mindful of the economic and security implications tied to its Comprehensive Strategic Partnership with the US and regional multilateral frameworks like ASEAN.

Furthermore, it is important not to forget the inevitable cyberwarfare. China's National Computer Network Emergency Response Technical Team has accused the US of cyberattacks targeting a Chinese research centre and a high-tech enterprise, allegedly stealing business secrets through sophisticated breaches.

Simultaneously, the US has launched a national security investigation into TP-Link, a Chinese router manufacturer, following allegations of its involvement in cyberattacks.

Conclusion

The Asia Pacific region is a complex landscape of economic growth, legal developments and security challenges. While significant opportunities for investment and collaboration continue to appear, persistent tensions in the region emphasise the need for careful navigation of this region.

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