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ASEAN-5

Assessing FDI direction

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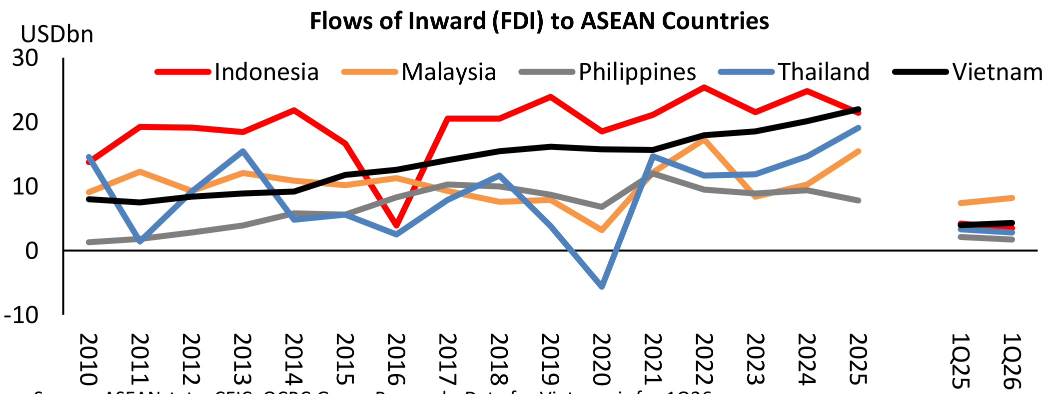
- FDI inflows into ASEAN remained resilient through 2025 and early 2026, supported by continued investment into manufacturing, financial services and AI-related sectors, although performance varied across individual economies.

- Manufacturing investment is becoming increasingly differentiated across the region, with Indonesia attracting metals-related investments, Malaysia strengthening its position in electronics and electrical products, and Thailand seeing growing momentum in digital infrastructure and data centres.

- While FDI fundamentals remain supportive due to the AI upcycle, China+1 diversification and ongoing reforms, governments are placing greater emphasis on investment quality, local economic benefits and sustainability, leading to more selective approval frameworks.

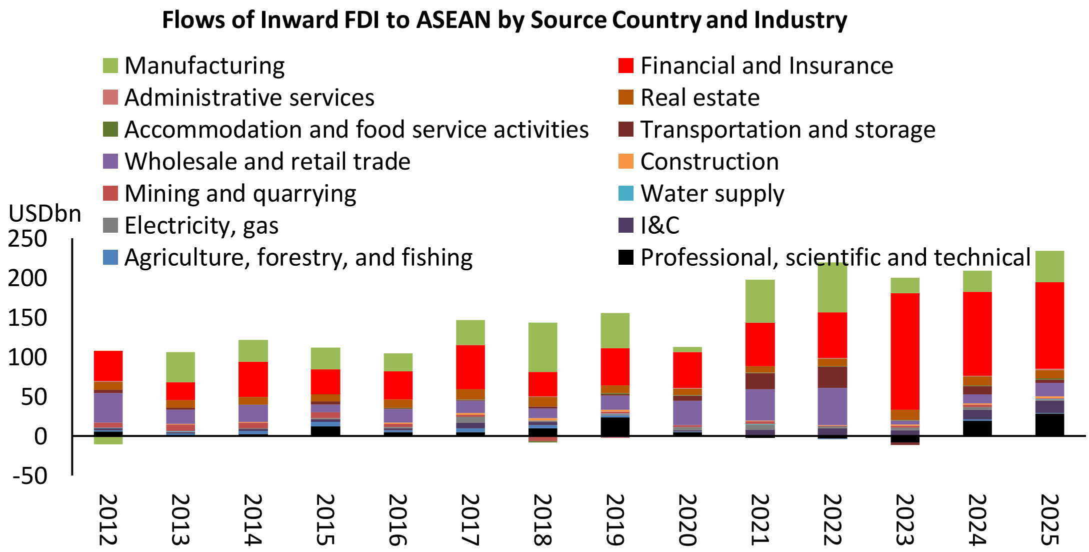
FDI trends across Southeast Asia

FDI inflows across Southeast Asia and India continued its upward in 2025 while early signs for 2026 remain encouraging. Total FDI inflows into ASEAN reached USD245.7bn in 2025 from USD223.1bn in 2024, with Singapore, Malaysia, Indonesia, Thailand, Vietnam and the Philippines accounting for USD236.7bn. Singapore alone accounted for USD151bn in 2025. For 1Q26, FDI inflows into Singapore, Malaysia, Indonesia, Thailand, Vietnam and the Philippines totalled USD60.9bn versus USD57.8bn in 1Q25, i.e. +5.5%YoY. Within this, the trend was mixed with FDI inflows lower for Indonesia, the Philippines and Thailand but higher for Singapore, Malaysia and Vietnam.



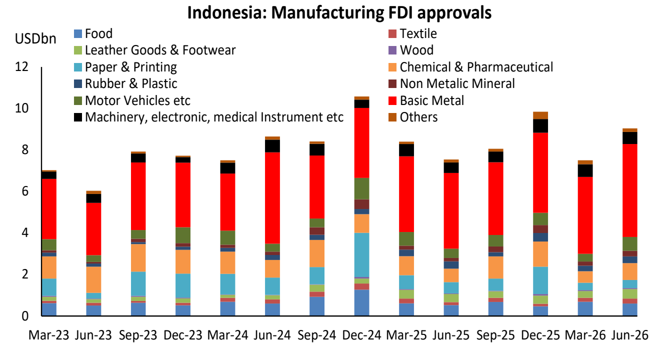
Source: ASEANstats; CEIC; OCBC Group Research. Data for Vietnam is for 1Q26.

For ASEAN, the services sector continued to attract the lion's share of FDI inflows, at ~USD200bn in 2025, with the financial and insurance sector, together with the wholesale and retail trade sector, accounting for 63.5% of total inflows into this sector. The manufacturing sector attracted USD39.5bn of inflows in 2025.

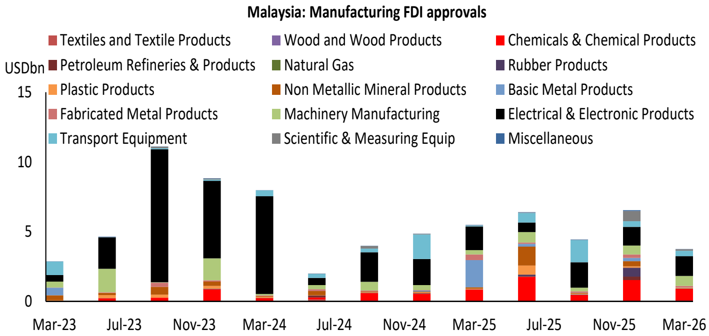


Source: ASEAN Secretariat; OCBC.

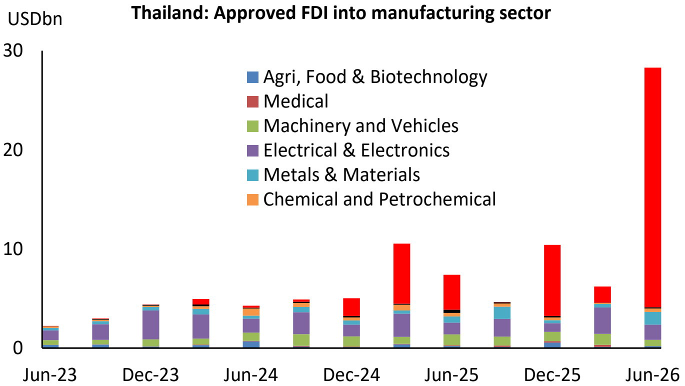
Country specific FDI approvals data into the manufacturing sector showed that inflows are becoming more distinct for each economy. Manufacturing FDI approvals for Indonesia were highest in basic metals, underscoring the economy's push to bolster down streaming and mineral processing capabilities, while for Malaysia, manufacturing FDI remained strong for electrical and electronic products (E&E) but was becoming increasingly broad-based across machinery, chemicals and basic metals. For Thailand, investment approvals into the digital sector jumped in 2Q26, with approvals for E&E and metals also picking up more gradually. Anecdotal evidence across the region suggests that companies are investing in data centres and the broader E&E sector across the region. Indeed, the pick-up into the digital sector in Thailand for 2Q26 is noteworthy but investment momentum has remained strong in Malaysia.



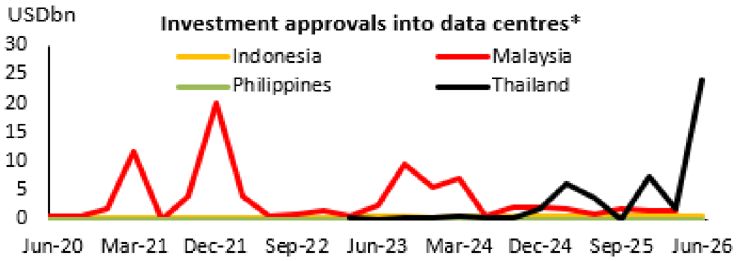
Source: CEIC; OCBC Group Research.



Source: CEIC; OCBC Group Research.



Source: CEIC; OCBC Group Research.



Source: CEIC; OCBC Group Research.
Note: *We use the best available proxies for each economy.
Indonesia: Machinery Industry, Electronic, Medical Instrument, Precision, Optical and Watch; **Malaysia:** Electrical & Electronic Products; **Philippines:** Info & Comm Technology: Manufacturing; **Thailand**: Digital; **India**: Inflow: Computer Software & Hardware

Some shifts in regulatory direction

Interestingly, we observe that government policy is becoming more mixed with regard to data centre applications. The authorities in Malaysia and Thailand are looking to implement more stringent regulations on data centre approvals, particularly with regard to water and electricity utilisation. There is also an implicit emphasis on domestic economic value-add through these investments rather than being treated as one-off investments.

More broadly, FDI inflows will be scrutinised with a focus on employment generation and economic benefits[1]. while Vietnam has reduced the lines of approval required for an application in the Investment Law 2025, which came into effect March 2026. The Vietnamese authorities have approved a green channel to fast-track strategic investments for the technology sector including semiconductors, AI- and data-related projects.

Data centre regulations across the region

	Key 2026 measure	Effective	Approval mechanism	Direction
Thailand	BOI amended the promoted business categories and conditions for data centres, creating a two-tier incentive structure	Jun-26	BOI data centre approvals	Conditional tightening
	The National Energy Policy Council agreed in principle to create a separate electricity user class for data centres, priced above other categories, with a power guarantee required before a power application is accepted	Jul-26	BOI data centre approvals	
Malaysia	MITI Data Centre Framework and sustainable development guideline	Oct-25	Minimum Power Usage Effectiveness (UE), Carbon EU and Water UE standards required for all new facilities.	Conditional tightening
			All new data centres in Peninsular Malaysia — regardless of category — must sit in a location with a water stress index below 0.8.	
			Operators must use ≥85% of declared electricity demand in the first four years or face a penalty of MYR8.50 per kW of shortfall per month on the electricity bill	

Source: Malaysia Ministry of Investment, Trade and Industry; Thailand Board of Investments; OCBC Group Research.

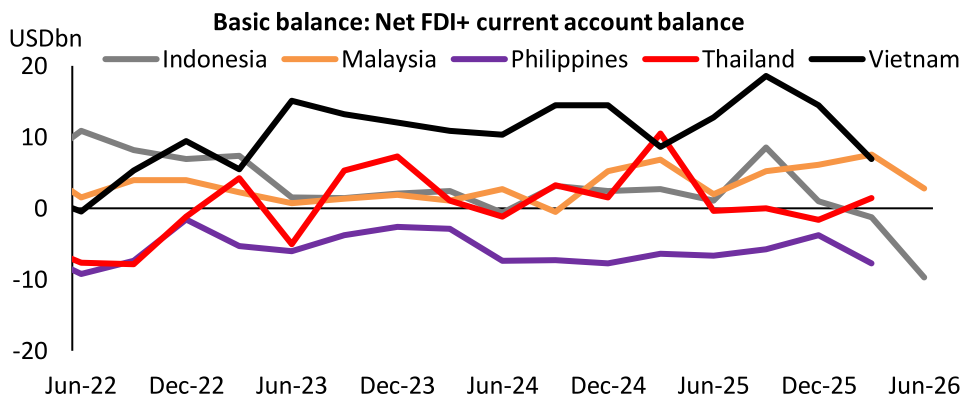
Fundamentals remain supportive of future inflows

The uptrend in FDI inflows will likely be sustained into 2026 and 2027. However, there is an increasing emphasis on the quality of FDI inflows, implying that the pace of increase could become more volatile in the coming quarters. The tailwinds from the AI cycle, a focus on reforms, the importance of the region to the 'China+1' agenda but also the region's deeper role in global supply chains suggest that inflows will continue into key manufacturing and services sectors. Authorities, albeit to varying degrees and contingent on domestic idiosyncratic political factors, continue to emphasise the need for reform and maintaining a healthy FDI pipeline.

Basic balance warrants monitoring across the region

[1] No more free rides: Malaysia starts stricter vetting of foreign investors to protect local jobs, malaymail, 20 August 2026.

The steady inflow of FDI is also crucial for balance of payments support, with the need to further support resilient inflows. Indeed, the basic balance (net FDI + current account balance) warrants monitoring as it is narrowing across most of the region, with volatile portfolio and other investment inflows necessary to plug the funding gap. The basic balance deficit was widest in Indonesia atUSD11.0bn in 1H26, in contrast to Malaysia's basic balance surplus of USD10.3bn. Meanwhile, the Philippines recorded a basic balance deficit of USD7.8bn in 1Q26and could sharply narrow for Thailand in 2Q26, from USD1.4bn in 1Q26, considering the wide current account deficit of USD17.7bn in 2Q26.Moreover, the volatile external backdrop, hawkish rhetoric from the US Federal Reserve and increasing differentiation in policy fundamentals across the region will make the steady inflow of longer-lasting FDI even more relevant.



Source: CEIC; OCBC Group Research.

Overall, FDI inflows into ASEAN should remain on an upward trajectory over the medium term, underpinned by supply-chain diversification, the expansion of AI- and data centre-related investment, and continued policy reforms. However, the focus is increasingly shifting from the quantity of investment towards its quality, with authorities seeking stronger domestic value-add, employment creation and sustainable resource utilisation. Against a backdrop of narrowing basic balances, volatile portfolio flows and a potentially tighter global monetary environment, maintaining a steady pipeline of long-term FDI will remain critical to supporting external stability and sustaining regional growth.

Monetary policy tightening still on the cards

The need to attract capital flows amid rising inflationary pressures and a resilient growth outlook suggest that the bias remains towards tighter monetary policy in the coming months. We continue to forecast higher policy rates across the region, albeit with a risk of more modest rate hikes as near-term currency depreciation pressures have eased. We continue to forecast a cumulative 50bp of rate hikes from Bangko Sentral ng Pilipinas (BSP) and 75bp from Bank Indonesia (BI) with the risk tilted towards fewer rate hikes in 2026. We expect the Reserve Bank of India (RBI) to undertake a shallow hiking cycle in FY27by 50bp, along with normalisation of policy rates for Thailand (+50bp) and Malaysia (+25bp) in 2027.

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