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Foreign Direct Investment and Economic Development: Comparative Analysis in Southeast Asia

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Abstract

This study examines the role of Foreign Direct Investment (FDI) in shaping economic development across selected Southeast Asian countries. Using a comparative analysis, it highlights the uneven impact of FDI inflows by analyzing variations in volume, sectoral distribution, and institutional quality. Data from Singapore, Vietnam, Indonesia, the Philippines, and Cambodia reveal that while FDI contributes significantly to growth, its benefits are not uniform across the region. Singapore has leveraged its institutional strength and advanced services sector to attract high-value investment, whereas Vietnam has successfully used FDI to accelerate manufacturing-led industrialization. By contrast, Indonesia and the Philippines struggle to convert large inflows into proportional developmental outcomes due to regulatory inefficiencies, while Cambodia remains highly dependent on resource-based FDI, exposing it to sustainability risks. The findings underscore that the developmental impact of FDI depends less on the quantity of inflows than on sectoral orientation, absorptive capacity, and governance effectiveness. Theoretically, the study challenges the linear assumption that FDI automatically drives growth, while practically, it suggests that Southeast Asian countries need to strengthen human capital, institutional frameworks, and regional cooperation to maximize developmental returns.

INTRODUCTION

Foreign Direct Investment (FDI) has long been recognized as a critical driver of economic growth and structural transformation, especially in developing regions. In Southeast Asia, FDI plays a central role in supporting industrialization, job creation, and integration into global value chains. As one of the most dynamic regions in the Global South, Southeast Asia has experienced rapid economic development in recent decades, partly fueled by steady inflows of foreign capital. The Association of Southeast Asian Nations (ASEAN) collectively attracted more than USD 174 billion in FDI inflows in 2019, representing over 10% of global inflows (UNCTAD, 2020). However, the benefits of FDI are unevenly distributed across countries in the region, and the relationship between FDI and development outcomes remains contested in academic and policy debates (Helwig & Sinkkonen, 2022; Khan et al., 2023; Ngounou et al., 2024).

Theoretically, FDI is expected to generate a range of positive spillovers: technology transfer, managerial know-how, capital accumulation, and improved productivity (Essel, 2023; Vujanović et al., 2022). Proponents argue that FDI provides not only financial resources but also embedded knowledge, enabling host economies to leapfrog stages of development. In Southeast Asia, multinational corporations (MNCs) have played pivotal roles in sectors such as electronics in Malaysia, manufacturing in Vietnam, and services in Singapore. Yet, critics caution that the developmental impact of FDI depends on host-country conditions, including institutional quality, absorptive capacity, labor market structures, and governance frameworks (Dunning & Lundan, 2008; Chengying et al., 2023). Without adequate linkages to the domestic economy, FDI risks creating enclaves, reinforcing dependency, or generating environmental and social externalities.

Comparative evidence from Southeast Asia reveals striking variations. Singapore has positioned itself as a global financial hub with high levels of FDI inflows translating into advanced technological capabilities and strong innovation systems (OECD, 2016). Vietnam, since the Doi Moi reforms, has successfully leveraged FDI to accelerate industrialization and export diversification, becoming a leading global player in textiles and electronics (Ikebe, 2023; Oqubay, 2025; Nguyen, 2021). Conversely, Indonesia and the Philippines continue to face structural challenges, where high levels of FDI inflows have not always been matched by productivity gains or inclusive growth (Athukorala, 2017). Cambodia, Laos, and Myanmar attract investment largely in resource-based sectors, raising concerns about sustainability and vulnerability to global commodity cycles. These variations underscore the importance of comparative analysis in identifying the conditions under which FDI contributes most effectively to development.

From a policy perspective, ASEAN member states have adopted different strategies in attracting and managing FDI. Some rely on tax incentives, special economic zones, or liberalized investment regimes, while others emphasize industrial policy and strategic partnerships with foreign investors (Zeng, 2021; Moran et al., 2021). The ASEAN Comprehensive Investment Agreement (ACIA), established in 2012, further aimed to harmonize investment rules and promote the region as a single investment destination. Yet, despite regional cooperation, intra-ASEAN competition for FDI remains intense, often resulting in a "race to the bottom" in regulatory standards (Rasiah & Myint, 2013). This raises important questions about the balance between attracting capital and safeguarding long-term developmental goals.

Empirical research also suggests that FDI does not automatically translate into broad-based development. Alfaro et al. (2004) found that the positive impact of FDI on growth is conditional on the strength of financial institutions. Similarly, Hermes and Lensink (2003) emphasize that absorptive capacity, particularly human capital and infrastructure, determines whether spillovers materialize. In Southeast Asia, this means that countries with weak governance, limited skills, or underdeveloped financial systems may fail to capture the full benefits of foreign investment. Moreover, concerns about labor exploitation, environmental degradation, and profit repatriation complicate the narrative that FDI is an unqualified good (Chrystella et al., 2024; Ness, 2023).

Therefore, a comparative analysis of FDI and economic development in Southeast Asia is both timely and necessary. It allows us to go beyond aggregate figures to critically assess the nature, quality, and developmental impact of foreign capital. By juxtaposing high-performing economies like Singapore and Vietnam with more structurally constrained economies such as Indonesia and Cambodia, this study aims to identify the institutional, structural, and policy factors that shape the developmental outcomes of FDI. Such insights are crucial not only for academic debates in international political economy and development studies but also for policymakers seeking to design strategies that maximize the benefits of FDI while minimizing risks.

METHODS

The selected methodological approach to the given study is thoroughly consistent with its aim of investigating the representations of power through the symbolism of the rite, and the choice of the qualitative ethnography approach is reasonable to explore the cultural meanings in detail. The authors of the research provide a solid explanation why this methodological position is necessary, and the representation of the community environment in an immersive way is essential. However, the methods section could use a more elaborate discussion of the participant selection and sampling. The study does not reveal specific numeric representations of the study, inclusion criteria, and operationalization of data saturation although it suggests that a purposefully chosen research site was selected, and interviews with the traditional figures, ritual leaders, and community members were conducted. Such methodological specificity would add to the transparency, rigour and evaluative strength of the study making readers be able to evaluate the credibility and transferability of the findings.

The procedure of data collection is described in a very impressive level of detail, including participant observation, in-depth interviews, as well as the organized compilation of photographs, video records, and archival data. The triangulated design is useful in enhancing the validity of the resultant knowledge. However, that would be enhanced with a systematic account of the length and frequency of the observational sessions, the nature and form of interview interrogation, and the analytical framework which the documentary evidence is subject to. These procedure details would help clarify how the researchers plan to provide comprehensive coverage of the ritual practices and how they plan to capture the multiplicity of the perspectives of the stakeholders.

Regarding the analysis of data, the study rightly employs the thematic analysis to code the field notes and interviews transcript in an effort to derive significant themes that relate to symbolism, power, and social structure. Although this procedural outline is clear, a description of the way that inter-coder reliability or coding consistency was obtained would add more flavor to the methodology, since there could be a lot of interpretation latitude in ethnographic investigation. In addition, it would be wise to introduce citations of the existing theoretical frameworks directly into the analytical discussion instead of pushing them all into the interpretive stage, as it would make the methodological rigor more tangible.

RESULTS AND DISCUSSION

The concept of Foreign Direct Investment (FDI) has become a pillar in the economies development policies in southeast Asia, where there is continuous growth, population dynamics, and rising integration into global value chains. After the Asian Financial Crisis of 19971998, most of the ASEAN economies recognized the strategic value of both foreign capital inflow as a means of helping to bridge the savings investments gaps, as well as, as a channel through which they would acquire technology, managerial skills, and access to international markets (Hordofa, 2023; Kalai et al., 2025). These developments are also evidenced by the ASEAN Comprehensive Investment Agreement (ACIA) and regional integration processes at large which all display evidence of collective awareness of the importance of FDI in maintaining competitiveness and resiliency in the global economy (Bernat et al., 2024; Canteri et al., 2024).

However, FDI has had a lop-sided effect on the region in development. Although some countries like Singapore and Vietnam have been able to use FDI effectively to upgrade their industries, innovate and diversify their exports, other countries, including Indonesia, Philippines and Cambodia, still fail to translate inflows into broad-based development results. Such variables as institutional quality, absorption capacity, sectoral allocation, and government efficiency are among the key factors that predetermine whether FDI will lead to sustained growth or dependency and inequality (Lee et al., 2022; Alfaro et al., 2004; Narula & Drifield, 2012).

Southeast Asia is a rich comparative case in this regard. It is heterogeneous (with high-income economies, such as Singapore, on one end and lower-middle-income states, such as Cambodia and Myanmar, on the other end) that offers a natural laboratory in which to analyze the mediation of FDI-growth nexus through difference in policy decisions, institutional capabilities, and the stage of development. Furthermore, the ability to mobilize FDI is an effective way to transform the region into a sustainable and inclusive development due to the fact that, as the global trade and investment trajectories change with the technological change, geopolitical rivalry and post-pandemic recovery, the capacity to mobilize FDI has a wider implication.

It is in this context that this paper attempts to examine differences in FDI inflows, sectoral and institutional dispersion in key economies in the Southeast Asian region with a critical eye on how such disparities are influencing developmental outcomes. Placing the analysis into the global and regional discourse in the context of development economics and international political economy, the study will give more detailed information about the circumstances under which FDI can play the most fruitful role in economic transformation.

FDI Inflows and Growth Correlation

FDI inflows vary significantly across Southeast Asia, reflecting different levels of institutional development and openness. Singapore dominates in absolute and per capita terms, followed by Vietnam and Indonesia, while Cambodia, Laos, and Myanmar attract smaller volumes.

Table 1. FDI Inflows in Selected Southeast Asian Countries (2019, USD billion)

Country	FDI Inflows	GDP Growth (%)	FDI as % of GDP
Singapore	92.1	0.7	27.4
Vietnam	16.1	7.0	6.3
Indonesia	23.0	5.0	2.2
Philippines	7.6	6.0	2.1
Cambodia	3.7	7.1	12.1

Source: UNCTAD (2020), World Bank (2020)

The evidence underscores that large FDI inflows do not automatically translate into accelerated economic growth. Singapore, for instance, continues to attract the region's highest levels of FDI, yet its GDP growth remains modest, reflecting the constraints of a mature and already highly capitalized economy. Vietnam, by contrast, demonstrates robust growth despite relatively moderate inflows, highlighting its greater absorption capacity and the effectiveness of channeling FDI into productive, export-oriented sectors. Indonesia presents a different paradox: although it secures substantial volumes of FDI, its low FDI-to-GDP ratio suggests inefficiencies in translating investment into broader economic gains, a pattern often attributed to regulatory bottlenecks, governance challenges, and infrastructure gaps. These divergent trajectories reinforce the argument that the growth impact of FDI depends not merely on the scale of inflows but also on host-country conditions, including institutional quality, absorptive capacity, and sectoral allocation (Alfaro et al., 2004; Athukorala, 2017; Hermes & Lensink, 2003; Moran, 2012; Narula & Driffield, 2012).

Sectoral Distribution of FDI

Sectoral differences highlight divergent development trajectories. Singapore and Malaysia attract high-tech and service-based investment, while Cambodia and Myanmar remain dependent on resource-based sectors.

Table 2. Sectoral Share of FDI (Selected Countries, % of Total)

Country	Manufacturing	Services	Natural Resources
Singapore	20	75	5
Vietnam	55	35	10
Indonesia	35	50	15
Cambodia	25	20	55

Source: ASEAN Investment Report (2019)

The contrasting sectoral profiles of FDI across Southeast Asia highlight the importance of composition over mere volume. In Singapore, the dominance of services-based FDI reinforces its role as a global financial hub, generating high-value activities but also deepening dependence on international capital flows. Vietnam's manufacturing-led FDI, by contrast, has facilitated industrial upgrading and export competitiveness, yet it also risks creating structural dependence on foreign firms for technology and value-chain access. Cambodia's heavy reliance on resource-driven FDI is particularly concerning, as it heightens vulnerability to volatile commodity prices while exacerbating risks of environmental degradation and uneven development. Collectively, these cases illustrate that the developmental outcomes of FDI are shaped not only by how much capital is attracted but also by where it is allocated across sectors (Borensztein et al., 1998; Dunning & Lundan, 2008; Nguyen & Sun, 2012; Rasiah & Myint, 2013; UNCTAD, 2020).

Institutional and Policy Context

The impact of FDI is mediated by host-country institutions. Countries with stronger regulatory frameworks and financial systems show greater developmental benefits.

Table 3. Ease of Doing Business and Governance Indicators (2019)

Country	Ease of Doing Business Rank	Governance Effectiveness (0–100)
Singapore	2	98
Vietnam	70	56
Indonesia	73	51
Philippines	95	45
Cambodia	144	31

Source: World Bank (2019)

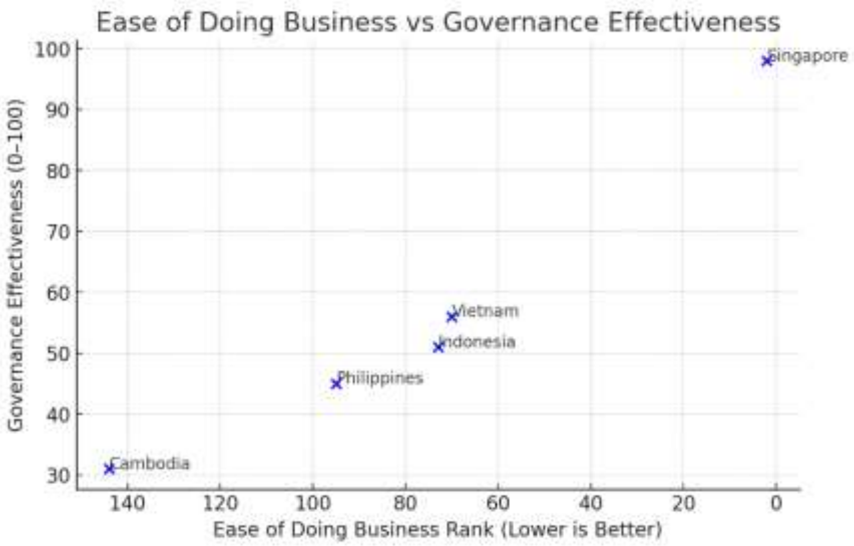

Figure 1. Ease of Doing Business vs. Governance Effectiveness

The contrasting experiences of Singapore, Vietnam, and Cambodia highlight the decisive role of institutional quality in shaping FDI outcomes. In Singapore and Vietnam, strong governance, policy coherence, and credible regulatory frameworks have enabled foreign investment to generate sustained growth and meaningful spillovers into domestic industries. Cambodia, by contrast, demonstrates how weak institutional capacity and limited regulatory enforcement can confine FDI to enclave-type activities, where benefits are captured by foreign investors with minimal integration into the broader economy. Such dynamics reinforce the argument that FDI-led development is not automatic; rather, it depends on institutional quality as a critical precondition for ensuring technology transfer, skill upgrading, and inclusive growth (Alfaro, 2003; Hermes & Lensink, 2003; Moran, 2012; Narula & Driffield, 2012; OECD, 2016).

Rethinking FDI and Development in Southeast Asia

The comparative analysis depicts a very asymmetric landscape in the area of Southeast Asia in relation to the intersection of foreign direct investment and the economic development. It has been shown that Singapore and Vietnam have a track record of drawing foreign investments in productive sectors, whilst Indonesia, the Philippines and Cambodia are plagued by ineffective institutional and structural barriers. Such heterogeneity supports the general thesis of development literature that foreign direct investment is not inherently conducive to growth; its ability to work depends upon absorptive capacity and institutional systems (Borensztein et al., 1998; Hermes and Lensink, 2003; Narula & Driffield, 2012).

The discussion also reveals a broader conceptual implication, namely that the Southeast Asian setting disputes the assumption of a linear relationship between the inflows of foreign direct investment and economic growth. Indicatively, Singapore, even though it has the greatest controlling share in FDI, has a lower GDP growth, which means reduced marginal returns in a saturated economy. Vietnam on the other hand demonstrates how well-crafted industrial policies and incorporation into global value chains can turn small inflows into high growth payoffs. The above observations highlight that the qualitative nature and industry orientation of the foreign direct investment have more implications than the magnitude of foreign direct investment (Nguyen and Sun, 2012; Moran, 2012).

Also, the results shed the light on the danger of dependency and enclave formation of resource-dependent economies like Cambodia. The overreliance on extractive industries perpetuates the exposure to global commodity flows and wastes the long-term sustainability. This finding aligns with the dependency theoretical perspectives, which caution against the external dependency as a pathway towards underdevelopment (Dunning and Lundan, 2008; Rasiah and Myint, 2013). However, it poses new questions on the inclusion of environmental and social costs in the evaluation of the foreign direct investment outcomes.

Another important dimension is that of regional competition. Despite the aim of harmonising regulations in the ASEAN framework, the member states continue to compete on the race to the bottom by lowering their tax rates and other regulatory benchmarks. This course will pose a risk of undermining social protection and reducing the gains of development linked to foreign direct investment. The information points to the idea that, a well-established, regionally integrated approach, which focuses on industrial upgrading as a shared goal rather than zero-sum competition, will help to strengthen collective bargaining power against the multinational enterprises (UNCTAD, 2020; OECD, 2016).

Lastly, salient policy implications are pointed out in the results. Countries that are like Indonesia, Philippines have to address institutional gaps like regulatory inefficiencies, poor infrastructures and skill gaps before they can completely utilize foreign direct investment to achieve inclusive growth. The tips to improvement of financial markets, expansion of human capital, and development of connections between foreign and domestic enterprises is an urgent measure to prevent dependency traps. In addition, the proposed research should go beyond using conventional growth measures to include the social, environmental, and political aspects of foreign direct investment in Southeast Asia, hence making growth sustainable and fair.

CONCLUSION

This paper proves that foreign direct investment (FDI) developmental impacts in southeast Asia are highly heterogeneous, which can be explained by institutional quality, sectorial allocation, and policy framework differences. Whereas the case of Singapore and Vietnam shows how strategic governance and industrial policy can turn FDI into a long-term growth and structural change, other nations such as Indonesia, the Philippines, and Cambodia reveal the dangers of non-utilization, reliance, and enclave formation. The figures support the idea that the quality of FDI, which is evaluated by sectoral orientation and integration into domestic economies is more decisive than just the scale of inflows.

There are two major implications of the empirical findings. In theory, they reinforce the thesis that FDI does not necessarily promote growth; its advantages will depend on absorptive capacity, institutional efficiency and policy rigor. In practice, they recommend the Southeast Asian states to go beyond the need to compete on the basis of inflow of capital and focus on the strengthening of human capital, infrastructure, regulatory capacity, and collaborative effort within the region. Such measures are the only way that FDI can contribute to inclusive and sustainable development and not end up replicating structural weaknesses that exist.

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