Capital and Investment Shifts to Asia

Where the Money is Going and Why

→ The moderate movement of capital from U.S. markets toward select Asian economies reflects an incremental reweighting rather than systemic transformation.

→ The reallocation also signals the rise of distinct Asian investment clusters in manufacturing, technology, and capital intermediation that are steadily attracting marginal global flows.

Introduction

Since the passage of the "Big Beautiful Bill" in July 2025, a moderate reallocation of capital has moved from U.S. markets to select Asian —including portfolio flows to Japan and financial centers such as Singapore and Hong Kong, supply-chain FDI into manufacturing bases such as Vietnam and Malaysia, and innovation and startup investment in ecosystems such as Singapore and India.

Since the passage of the "Big Beautiful Bill" in July 2025, a moderate reallocation of capital has moved from U.S. markets to select Asian economies

This shift does not represent a systemic challenge to U.S. financial dominance. Rather, it reflects tactical portfolio rotation, supply-chain diversification, and the strengthening of specific Asian innovation and manufacturing clusters.

The relevant question is not whether U.S. financial centrality is eroding, but where capital moving toward Asia is concentrating, and what structural forces are driving those allocations.

This paper examines the sectoral, geographic, and institutional destinations of capital flows into Asia and distinguishes between cyclical rotation and longer-term structural repositioning.

Distinguishing the drivers

In assessing current capital and investment shifts, it is important to distinguish between temporary market ebbs and permanent shifts in financial gravity. Some drivers, such as interest-rate expectations, are cyclical, while others, such as supply-chain reconfiguration, are structural.

Cyclical drivers can be considered tactical rotation. Recent shifts to Asia have been partially fueled by monetary policy expectations (rate normalization in Japan *vs.* easing in the West), relative equity valuations, and currency fluctuations.

On the other hand, structural drivers can be considered a regime change. The long-term pivot is anchored in fundamental demographic momentum, industrial clustering (particularly in semiconductors and AI), and a "China Plus One" supply chain strategy that seeks to hedge geopolitical risks through diversification.

Evidence of shifts to Asia

Investment operates across distinct time horizons, with different levels of volatility and distinct drivers

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Financial portfolio rebalancing

Portfolio rebalancing toward Asia partly reflects expectations of U.S. monetary easing, relative valuation gaps, dollar cycle positioning, and strengthening economic resilience in key markets.[1]

Japan has seen renewed interest from foreign investors following corporate governance reforms and improved shareholder returns.[2] Singapore and Hong Kong continue to function as regional wealth-management hubs, with Asia-Pacific now accounting for a rapidly growing share of global high-net-worth assets.[3] Singapore has become the fourth-largest global startup ecosystem, offering a stable, low-friction environment for wealth management and institutional flows. And in February, hedge funds recorded their largest net purchases of Asian stocks since 2016.[4]

These flows primarily reflect cyclical positioning and relative valuations rather than permanent structural change.

Portfolio flows remain highly sensitive to global liquidity conditions. Cross-border portfolio flows tend to reverse when U.S. rates rise, or global risk sentiment deteriorates.[5]

Supply chain FDI relocation

Unlike portfolio flows, FDI reflects multi-year commitments tied to production networks and labor markets. FDI relocation is driven by labor-cost differentials, demographic expansion, trade diversification, tariff risk management, and industrial policy competition.

Geopolitical hedging and "China+1" strategies are risk-management approaches that diversify supply chains away from China, often into Southeast Asia or India, while maintaining a presence there.[6] This approach aims to mitigate risks from U.S.-China trade tensions, rising costs, and disruptions.

Vietnam and Malaysia have benefited from these supply-chain diversification strategies.[7] Vietnam is emerging as a premier manufacturing destination, with FDI inflows approaching $40 billion in 2025.[8] Malaysia is successfully positioning itself as a hub for semiconductor diversification.[9]

These adjustments are not easily reversible. Once manufacturing ecosystems cluster, network effects reinforce location decisions. FDI shifts, therefore, signal durable changes in the geography of production.

Innovation and startup ecosystems

A third layer involves where startups incorporate, raise capital, and build technology platforms. Startup location decisions reflect regulatory predictability, talent pools, access to regional consumer markets, and government incentives.

Singapore has emerged as a regional venture capital hub, supported by strong rule-of-law institutions and tax clarity.[10] India's startup ecosystem is now among the world's largest by number of unicorns.[11] And South Korea and Taiwan continue to be the global leaders in advanced semiconductors, controlling most cutting-edge chip production and high-end memory.[12]

These ecosystems exhibit medium- to long-term stickiness. However, they remain sensitive to global venture capital cycles, placing this layer between the liquid portfolio flows and the structural FDI.

Interplay
The three categories reinforce each other and accelerate the shift of capital towards Asia. The FDI provides the physical infrastructure and demand; the startup ecosystem provides technological efficiency and Industry 4.0 growth; and the portfolio flows provide the broad-based liquidity and valuation support.

However, these layers operate on different time horizons and are driven by different incentives. Portfolio flows can reverse quickly in response to global liquidity tightening without necessarily disrupting embedded manufacturing capacity or innovation clusters. Venture capital cycles may slow as FDI continues to expand. This reflects a partial overlap rather than self-sustaining momentum.

Durability of current shifts
The most compelling evidence of sustained reallocation is visible in production geography rather than in equity fund flows. Portfolio reallocations may normalize if U.S. valuations compress or growth reaccelerates. FDI and supply-chain restructuring, by contrast, reflect multi-year corporate planning decisions.

Investment clusters
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Advanced technology hubs: Taiwan, South Korea, Japan
These economies specialize in semiconductors, advanced manufacturing, robotics, and AI hardware. They benefit from industrial depth and supply-chain clustering.

Financial and governance hubs: Singapore, Hong Kong
These hubs serve as centers of capital intermediation. Institutional quality, legal predictability, and wealth management ecosystems are primary drivers.

Demographic and supply-chain growth hubs: Vietnam, Malaysia, India
These countries attract FDI due to labor-force expansion and integration into global manufacturing networks.

Implications for the West

Although capital has reallocated toward selected Asian markets, the scale remains insufficient to challenge U.S. financial dominance materially

Although capital has reallocated toward selected Asian markets, the scale remains insufficient to challenge U.S. financial dominance materially. No Asian currency yet offers comparable depth, liquidity, and legal infrastructure, and the structural foundation of continued U.S. centrality remains strong.

The dollar continues to anchor global reserves. The U.S. dollar remains dominant in global reserves, accounting for approximately 57% of foreign exchange reserves.[13] U.S. capital markets also retain unmatched depth and liquidity. The Treasury market functions as the global risk-free benchmark; legal predictability and property-rights enforcement remain strong; and the United States continues to anchor global technology ecosystems, particularly in AI.

Current movements represent diversification at the margin rather than systemic displacement.

Conclusion

Capital is reallocating to Asia in measurable but differentiated ways. Portfolio flows reflect cyclical positioning; supply-chain FDI signals for longer-term industrial diversification; and innovation ecosystems are deepening in selected technology hubs.

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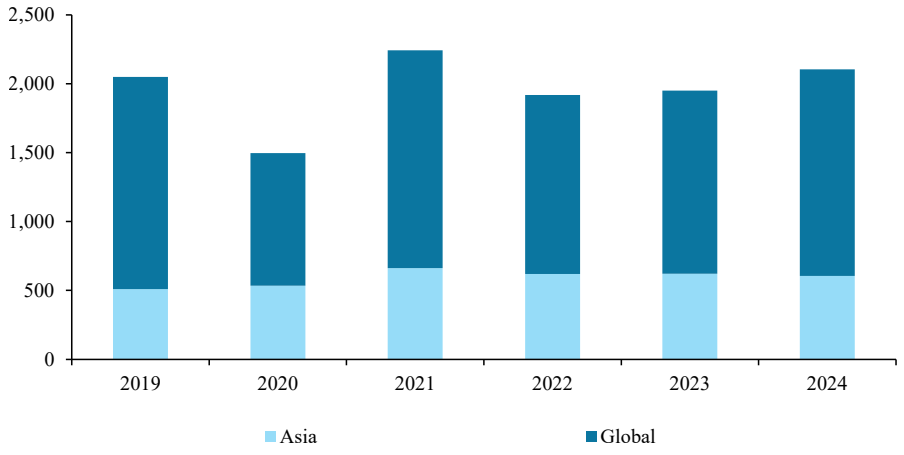
The evidence points to incremental reweighting rather than systemic transformation. The central development is not the decline of U.S. dominance, but the strengthening of distinct Asian investment clusters that are attracting marginal capital flows.

EXHIBIT 6.0 – FDI INFLOWS TO ASIA AND GLOBALLY, 2019-2024, USD BILLION



Source: UN Trade and Development.

EXHIBIT 7.0 – TIME HORIZON, VOLATILITY, AND DRIVERS OF DIFFERENT KINDS OF CAPITAL

	Time Horizon	Volatility	Drivers
Portfolio flows	High	High	Rates, valuations
Supply chain FDI	Low	Low	Supply chains, labor, policy
Startup ecosystems	Medium/Long	Mixed	Ecosystems, regulation, talent

Source: Funcas.

Notes

[1] https://www.pinebridge.com/en/insights/2026-asia-equity-outlook

[2] https://www.boj.or.jp/en/research/brp/fsr/

[3] https://worldwealthreport.com/

[4] https://in.investing.com/analysis/7-signals-behind-hedge-funds-record-asian-buying-spree-in-2026-200634747

[5] https://www.bis.org/publ/qtrpdf/r_qt2309.htm

[6] https://www.isis.org.my/wp-content/uploads/2025/05/Driving-factors-of-China-Plus-One.pdf

[7] https://www.sourceofasia.com/china-plus-one-strategy-vietnam/#:~:text=The%20Covid%2D19%20pandemic%20exposed,low%2D%20and%20mid%2Dtech%20manufacturing

[8] https://www.vietnam-briefing.com/news/vietnam-economy-gdp-fdi-and-trade-2025.html/

[9] https://www.reuters.com/plus/malaysia-a-soaring-semiconductor-opportunity

[10] https://www.consultancy.asia/news/6470/singapore-a-key-business-hub-for-scaling-across-asias-fast-growing-markets#:~:text=Singapore's%20strategic%20location%2C%20robust%20legal,in%20an%20otherwise%20fragmented%20landscape.

[11] https://www.bain.com/insights/india-venture-capital-report-2024/

[12] https://www.euronews.com/business/2026/02/24/why-are-emerging-markets-rallying-in-2026

[13] https://data.imf.org/COFER