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CARI POLICY BRIEF

GREENING ASEAN – PAPER 3: REVIEW AND RECOMMENDATIONS FOR OVERSEAS INVESTMENTS

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CARI Policy Brief: Greening ASEAN - Paper 3: Review and Recommendations for Overseas Investment

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Synopsis

The *CARI Policy Brief: Greening ASEAN - Paper 3: Review and Recommendations for Overseas Investments* reviews ASEAN countries' stimulus packages and investment related instruments that have been announced in response to the pandemic and identifies areas which can be supplemented with green measures that would lead the country towards a low carbon economic recovery pathway. These are presented in a list of recommendations which can be implemented as part of ongoing and/or future stimulus packages.

The main points of this article are presented in the following sections:
(Click any topic to read the related section)

1. Context

- 1a: Pandemic drove ASEAN FDI down in the short term. However, FDIs have been identified as key drivers of recovery with green initiatives a must to ensure a resilient and sustainable recovery.
- 1b: Existing and newly signed International investment agreements (IIAs) and FTAs involving ASEAN will influence transnational investment activities, but minimal evidence of environmental protection provision is present.
- 1c: Despite the drop in FDIs, green investments have picked up in ASEAN, driven by funding from international green funds.

2. Assessment and Opportunities to Act

3. Conclusion

1. Context

Key observation 1a:

Pandemic drove ASEAN FDI down in the short term. However, FDIs have been identified as key drivers of recovery with green initiatives a must to ensure a resilient and sustainable recovery.

a. FDI flows to ASEAN hit significantly by the pandemic

Southeast Asia, which saw a record FDI inflow in 2019, has experienced a major economic slowdown in 2020, in part due to major disruptions of production and supply chains.

- Foreign direct investments (FDI) inflows to ASEAN reached US\$160.6 billion in 2019,¹ of which 13.9% was intra-ASEAN.² By the end of the second quarter of 2020, based on preliminary data, **ASEAN's FDI inflows fell by 31.5% compared to the previous year.**³
- While countries are tightening their foreign investment laws to protect businesses in distress from being acquired without appropriate oversight, most **ASEAN member states (AMS) have generally not changed their FDI policies.**
- On the contrary, countries like Indonesia, Malaysia, and Thailand have issued packages for investors in the form of tax relief, business licensing facilities, and opening up of more sectors to foreign ownership to further attract foreign investors (more details in section 3).
- The Asian Development Bank's GDP forecasts for Southeast Asia show 4.4% contraction in 2020 and 5.2% growth in 2021.⁴
- FDI to developing economies in Asia, hit hard by the economic downturn caused by the coronavirus pandemic, are projected to decline by up to 45% in 2020, according to UNCTAD's World Investment Report 2020.⁵
- The hit to the manufacturing sector, in particular, is expected to continue affecting investments through 2021, with announced greenfield investments in automotive

¹ CARI, [CARI Captures 460](#), 16 June 2020.

² ASEAN, [ASEAN KEY FIGURES 2020](#), December 2020.

³ Ibid.

⁴ Asian Development Bank. 2020. [Asian Development Outlook 2020 Supplement: Paths Diverge in Recovery from the Pandemic](#). December 2020.

⁵ UNCTAD, [World Investment Report 2020](#).

production in the first quarter of 2020 projected to fall by 67% as compared to the 2019 quarterly average, while the computer and electronics industry will see a drop of 36%.

- Mergers and acquisitions (M&A) sales also dropped by 87% in the first three months.⁶
- The number of announced greenfield investment projects in Singapore in the first quarter of 2020 fell by 20%;
- While investment commitments into Indonesia and Vietnam declined by 10%.

b. ASEAN Comprehensive Recovery Framework (ACRF)⁷ focused on saving livelihood and a stable recovery, and green investments are critical in ensuring sustainable and resilient recovery.

International trade and foreign direct investment (FDI) have increasingly become key underpinning factors in the region's economic development. The sustainability agenda has also seen an increased uptake in visibility at both national and ASEAN levels. The ACRF adopted at the 37th ASEAN Summit may encourage member states to intensify intra-ASEAN trade and investment while focusing on achieving sustainability in ASEAN in all dimensions, particularly in investment, energy, agriculture, green infrastructure, disaster management, and sustainable financing.

The obvious presence of provisions addressing sustainability in Broad Strategies 3 and 5 reaffirms ASEAN's focus on a green recovery.

- **Broad Strategy 3: Maximizing the Potential of Intra-ASEAN Market and Broader Economic Integration**
 - Keeping the ASEAN market open for trade (goods and services) and investment requires effective implementation of the three core agreements:
 1. ASEAN Trade in Goods Agreement (ATIGA) [be superseded by the ASEAN Trade in Services Agreement (ATISA)]
 2. ASEAN Framework Agreement on Services (AFAS) [be superseded by the ASEAN Trade in Services Agreement (ATISA)]
 3. ASEAN Comprehensive Investment Agreement (ACIA)
 - The section recognises the need for ASEAN to remain on top of these changing market dynamics and ensure that existing agreements and rules are relevant and responsive to accelerating economic and business trends.

⁶ Ibid

⁷ ASEAN, https://asean.org/storage/FINAL-ACRF_adopted_37th-ASEAN-Summit_18122020.pdf, November 2020.

- Broader economic integration through intra-ASEAN trade and investment has been identified as key to maximising the potential of the internal market and increasing the competitiveness of the ASEAN markets.

- **Broad Strategy 5: Advancing towards a More Sustainable and Resilient Future**

To support the attainment of this strategy, the priorities will focus on achieving sustainability in ASEAN in all dimensions, particularly in investment, energy, agriculture, green infrastructure, disaster management, and sustainable financing.

Key observation 1b:

Existing and newly signed International Investment Agreements (IIAs) and FTAs involving ASEAN will influence transnational investment activities, but minimal evidence of environmental protection provision is present.

a. FTAs and IIAs will be a key driver for foreign investments to ASEAN's economic development however, these trade pacts need to be climate aligned.

Foreign investment, especially foreign direct investment (FDI), plays an important role in economic development at national and international levels, especially developing countries like most AMS. While FDI helps promote the economic development of the recipient countries, transnational investment activities may also give rise to sustainable development challenges.⁸

- To ensure that transnational investment activities are aligned in a way consistent with and conducive to sustainable development, IIAs need to be made sustainable development-oriented. Such IIAs are expected to play a facilitative and promoting role in ensuring that transnational investment activities will not harm the environment and social development of the recipient countries, while contributing to the economic growth of these countries.
- Transnational investment activities are essential to the achievement of sustainable development, and that there is an urgent need to confront the sustainability challenges associated with such activities.⁹

⁸ See, generally, Hindelang S. and Krajewski, M., eds., 2016. *Shifting Paradigms in International Investment Law: More Balanced, Less Isolated, Increasingly Diversified* (Oxford, Oxford University Press).

⁹ See Segger, M. C. C., and Gehring, M. W. and Newcombe, A., eds, 2011. *Sustainable Development in World Investment Law* (Alphen aan den Rijn, Kluwer Law International), pp.4-5.

- In Laos, the Global Green Growth Institute (GGGI) has been assisting in policy direction on the mainstreaming of green growth into national, sub-national, and sector strategies and policies.¹⁰¹¹

b. Eleven large scale bilateral or multilateral FTAs and Treaties were signed from 2018-2020 involving ASEAN which included Investment Provisions (TIPs) and three containing sustainability provisions.

Treaties with Investment Provisions

There are at least eleven new TIPs involving ASEAN or AMS that were either signed or entered into force between January 2018 to December 2020. Countries in the region continued their efforts to conclude several large-scale TIPs (Table 1). Most notable among them is the **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)** and the **Regional Comprehensive Economic Partnership (RCEP)**.

- The CPTPP entered into force on 30 December 2018.¹² Seven of the eleven signatories to the CPTPP are from the Asia-Pacific region, i.e., Australia, Brunei Darussalam, Japan, Malaysia, New Zealand, Singapore, and Vietnam.
- The CPTPP represents a significant step towards forging closer trade and investment ties, and therefore also higher levels of both trade and investment among participating countries.
- While the CPTPP extends beyond the Asia-Pacific region, RCEP is a free trade agreement including all 10 ASEAN member states as well as five dialogue partners, namely Australia, China, Japan, New Zealand and the Republic of Korea. The RCEP agreement was recently signed on 15 November 2020.

¹⁰ GGGI, [Lao PDR — Countries](#), Accessed 2020.

¹¹ Xin Hua Net, [Green growth the healthy path to development for Laos](#), March 2020.

¹² [FOREIGN DIRECT INVESTMENT AND SUSTAINABLE DEVELOPMENT IN INTERNATIONAL INVESTMENT GOVERNANCE](#).

Table 1: New TIPs by Asian-Pacific countries, 2018-2020

Treaties with Investment Provisions (short title)	Signatories from ASEAN	Signatories from non-ASEAN region	Date of signature	Date of entry into force
Regional Comprehensive Economic Partnership (RCEP)	ASEAN member states (AMS)	Australia, China, Japan, Republic of Korea, New Zealand	15/11/2020	
United Kingdom-Singapore Free Trade Agreement (UKSFTA)	Singapore	United Kingdom	10/12/2020	
United Kingdom-Vietnam Free Trade Agreement (UKVFTA)	Vietnam	United Kingdom	11/12/2020	
Armenia-Singapore Agreement on Trade in Services and Investment (2019)	Singapore	Armenia	10/01/2019	
EU-Vietnam Investment Protection Agreement (2019)	Vietnam	European Union	30/06/2019	
Australia-Indonesia Comprehensive Economic Partnership Agreement (CEPA) (2019)	Indonesia	Australia	03/04/2019	
EFTA States - Indonesia Economic Partnership Agreement (EPA) (2018)	Indonesia	EFTA (European Free Trade Association)	16/12/2018	
EU - Singapore Investment Protection Agreement (2018)	Singapore	European Union	15/10/2018	
Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (2018)	Brunei Darussalam, Malaysia, Singapore, Vietnam	Australia, Japan, Canada, Chile, Mexico, New Zealand, Peru	08/03/2018	30/12/2018
Singapore - Sri Lanka FTA (2018)	Singapore	Sri Lanka	23/01/2018	01/05/2018
ASEAN - Hong Kong, China SAR Investment Agreement (2017)	ASEAN	Hong Kong, China	11/12/2017	17/06/2019

Source: UNCTAD International Investment Agreement Navigator database¹³

¹³ UNCTAD [International Investment Agreement Navigator database](#), October 2020.



Sustainability Provisions in International Investment Agreements (IIAs) and FTAs

A scan of the major FTAs and IIAs found that sustainability provisions are present in some of ASEAN agreements.

- A sample of active FTAs/IIAs found **CPTPP** to contain provisions for the environment, among which include commitments by signatory parties to strive for high levels of environmental protection, to facilitate public participation and ensure domestic proceedings are available to remedy violations of environmental law, to cooperate in transitioning towards a low emission and resilient economy, and recognition of the importance in promoting trade and investment in environmental goods and services. The agreement also includes an environmental committee composed of senior government representatives established to oversee the implementation of the environmental provisions¹⁴
- The **EU-Singapore Bilateral Investment Treaty (BIT)** mainly aims at confirming or recognising that the contracting states shall bear obligations to take necessary measures for protecting the environment, human, animal or plant life and public safety and health under national or international laws but also contains provisions that are exceptive, exempting the contracting states of their state responsibility for taking environmental measures that are otherwise inconsistent with their IIA obligations.

¹⁴ Government of Canada, [How to read the Comprehensive and Progressive Agreement for Trans-Pacific Partnership \(CPTPP\)](#), 12 February 2020.

Table 2: Sustainability Provisions in FTAs and IIAs

Instrument	Year	Sustainable Provisions Included
China-ASEAN Investment Agreement ¹⁵	2009	General provisions Environmental provisions Procedural transparency provisions
EU-Singapore BIT ¹⁶	2018	General provisions Environmental provisions (Conditional and exemption provisions) Substantive transparency provisions Procedural transparency provisions
EU-Vietnam Free Trade Agreement (EVFTA)	June 2019, ratified 2020 in the EU and Vietnam	Guarantees of respect for labour rights, environmental protection and the Paris Agreement on climate, through strong, legally binding and enforceable provisions on sustainable development. ¹⁷

c. RCEP¹⁸ will be an important catalyst in reviving trade and investment flows, supporting incomes and employment across the region however it lacks environmental protection provision.

The Regional Comprehensive Economic Partnership (RCEP)¹⁹ Agreement was signed on 15 November 2020 between ASEAN and five dialogue partners, and is the largest free trade agreement in the world.

- Besides the traditional clauses, the RCEP agreement contains **extra provisions covering emerging areas in trade like Intellectual Property (Chapter 11), Government Procurement (Chapter 16), E-Commerce (Chapter 12) and Competition (Chapter 13).**
- In addition, **Chapter 10: Investments also includes a "ratchet-mechanism"** whereby future unilateral liberalization for selected sectors is locked in, allowing for the reduction of barriers to services and investment trade over time.

¹⁵ UN ESCAP, [FOREIGN DIRECT INVESTMENT AND SUSTAINABLE DEVELOPMENT IN INTERNATIONAL INVESTMENT GOVERNANCE](#), 2019.

¹⁶ Ibid

¹⁷ European Commission, [EU-Vietnam trade agreement enters into force](#), 3 August 2020.

¹⁸ ASEAN Secretariat, [RCEP legal text](#), 15 November 2020.

¹⁹ Ibid

- **It does not, however, cover areas related to environmental protection and government subsidies.**²⁰²¹²²
- Countries like Cambodia, Laos and Myanmar are expected to see an increase in investment linked to manufacturing once the RCEP agreement is ratified. For manufacturers that involve processes that need careful labour-intensive involvement, such as finishing garments, the unified rules of origin regulations under RCEP will motivate an increase of manufacturing investment as concerns finishing of products. This will see **investment interest increase in countries with lower-cost and lesser-skilled workers such as Cambodia, Laos, and Myanmar**, and will be of special interest to manufacturers from Australia, Japan, New Zealand, Singapore, and South Korea where production costs are higher.²³
- RCEP could potentially build investor confidence due to the extended protection under Chapter 10 for investor aftercare and a built-in work programme on investor-state dispute settlement provisions.

d. ASEAN needs to extend the common understanding of the comprehensive environmental and social (E&S) risks on sustainable infrastructure and harmonise the use of sustainability standards in project assessment.

A report by the Singapore Institute of International Affairs²⁴ found that financial institutions in ASEAN generally consider the following five environmental and social (E&S) factors when making decisions about infrastructure financing in Southeast Asia.

1. loss of biodiversity (E)
2. greenhouse gas emissions (E)
3. resettlement and compensation (S)
4. workers' health and safety and working conditions (S)
5. inclusion of marginalised groups. (S)

The understanding and management of key E&S risks are influenced by the choice of standards, frameworks and principles used. The common international standards referenced are:

- The ADB's Safeguard Policy Statement,
- The International Finance Corporation (IFC)'s Performance Standards on Environmental and Social Sustainability

²⁰ Australian Fair Trade and Investment Network (AFTINET) [Regional Comprehensive Economic Partnership \(RCEP\)](#)

²¹ The Brookings Institute, [RCEP: A new trade agreement that will shape global economics and politics](#), November 2020

²² European External Action Service (EEAS), [The Regional Comprehensive Economic Partnership – what does it mean for the EU?](#), November 2020.

²³ ASEAN, [New RCEP Free Trade Agreement Rules of Origin to Boost Finishing of Products Investment into Cambodia, Laos & Myanmar](#), 1 November 2020.

²⁴ Singapore Institute of International Affairs, [Funding Sustainable Infrastructure in ASEAN](#), April 2020.

- Standards developed in-house by ASEAN financial institutions fall across a spectrum, with most of them referring to the UN Sustainable Development Goals.



Key observation 1c:

Despite the drop in FDIs, green investments have picked up in ASEAN, driven by funding from international green funds.

a. Clean energy transition not a priority area in the short term regional recovery response

In the energy sector, the ASEAN Plan of Action for Energy Cooperation (APAEC)²⁵ recognised the need for a clean energy transition and have set an aspirational renewable target of 23%. The current target under APAEC however is not tied to the regional COVID-19 recovery response, nor has ASEAN recognised clean energy transition as a key to enhance regional energy security and accessibility in the time of COVID-19.²⁶

b. In the medium to long term, Renewable Energy, Gas and Agriculture are key areas of interest in ASEAN green financing

- In November 2020, ASEAN Energy Ministers have agreed to set a new target of 35% renewable energy (RE) in installed power capacity by 2025 under the ASEAN Plan of Action for Energy Cooperation (APAEC) Phase 2.²⁷
- Governments have an unprecedented opportunity to accelerate clean energy transitions and several AMS has taken advantage of this by including investments in renewable energy as a key part of their medium to long term recovery plans.²⁸
- The Indonesian government plans to increase the share of renewable energy in the total energy mix to 23% by 2025. Expanded electrification in eastern Indonesia is a key part of the government's infrastructure investment plan, with the goal of electricity for all by 2024.²⁹ In November 2020, The Asian Development Bank (ADB) approved a US\$600 million loan to help the state-run power producer PT Perusahaan Listrik Negara (PLN), to expand electricity access and promote renewable energy in eastern Indonesia.³⁰
- The World Bank said in May 2020 that its board had approved US\$350 million in credit from the International Development Association (IDA) to increase the output and efficiency of power generation and improve the resilience of Myanmar's electricity system to climate change and disasters.³¹

²⁵ ASEAN, (2016-2025) [ASEAN Plan of Action for Energy Cooperation \(APAEC\)](#).

²⁶ ASEAN, [ASEAN's Road to a Green Economic Recovery](#), 14 September 2020

²⁷ ASEAN, [Joint Ministerial Statement of the 38 ASEAN Ministers On Energy Meeting - ASEAN | ONE VISION ONE IDENTITY ONE COMMUNITY](#), November 2020.

²⁸ ASEAN, [ASEAN's Road to a Green Economic Recovery](#)

²⁹ ADB, [\\$600 Million ADB Loan to Expand Energy Access in Eastern Indonesia](#), 24 November 2020.

³⁰ Ibid

³¹ World Bank, [Myanmar: Power System Efficiency Project Brings Country Closer to Universal Electricity Access](#), 29 May 2020.

- Other examples of recent initiatives included the opening of 1GW of Large-Scale Solar (LSS) in Malaysia³² and the invitation of investment in renewable energy projects under COVID-19 Economic Relief Plan (CERP) in Myanmar³³.



c. ASEAN's massive infrastructure gaps can be bridged by green and sustainable investments.

The infrastructure sector in ASEAN holds one of the largest green finance opportunities in the region, estimated at US\$1.8 trillion from 2016 to 2030.³⁴ With the acceleration and need for digitalisation due to the pandemic, the gap in infrastructure development is more acute, which hinder rapid economic growth. At the same time, heightened global attention on climate change and international awareness of human rights issues have also shaped how stakeholders view and finance long-term projects like infrastructure.

Green and sustainable financing can help address both economic and sustainability challenges, as it promotes the efficient flow of capital towards activities and projects that are more sustainable and responsive to climate concerns.

³² Renewables Now, [Malaysia opens 1-GW solar tender under COVID-19 recovery plan](#), June 2020.

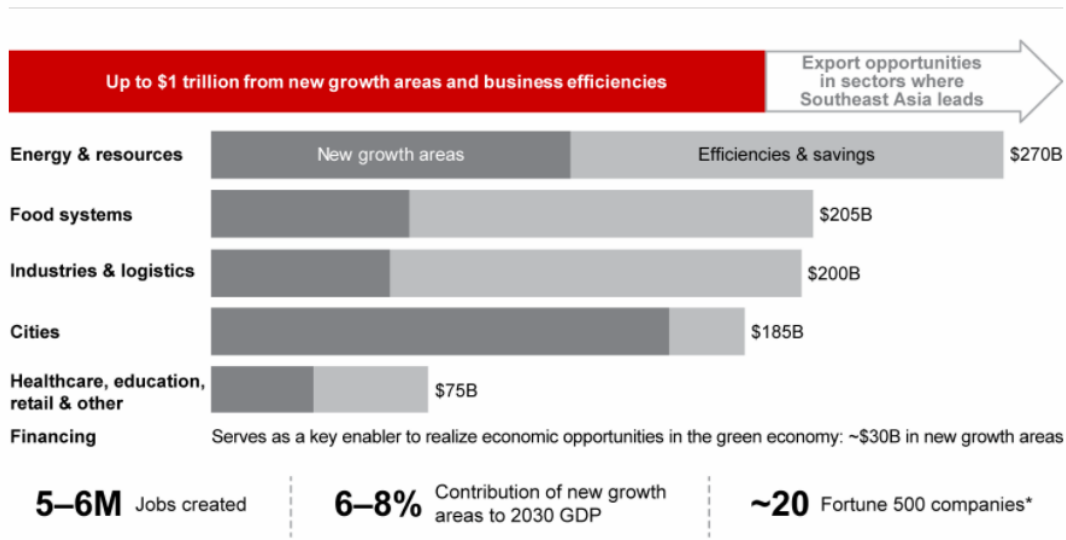
³³ Global Compliance News, [Myanmar: The COVID-19 Economic Relief Plan](#), May 2020.

³⁴ Singapore Institute of International Affairs, [Funding Sustainable Infrastructure in ASEAN](#), April 2020.

d. ASEAN’s growing population and natural resource reserves present huge opportunities for green investments in multiple sectors.

According to Bain and Company, developing South-East Asia's green economy could provide up to US\$1 trillion in annual economic opportunities by 2030, with financial services acting as a key enabler in realising economic opportunities in the green economy.³⁵

Southeast Asian economies could experience up to \$1 trillion in annual economic opportunities by 2030



*The equivalent number of highly valued companies was calculated using weighted average P/S ratio of Fortune 500 companies (~1.9); the average market capitalization of Fortune 500 companies is about \$54.3 billion
 Note: The 6% to 8% contribution to GDP includes additional growth areas as a proportion of 2030 GDP
 Source: Bain analysis

Source: Bain and Company, [Southeast Asia's Green Economy: Pathway to Full Potential](#), November 2020

³⁵ Bain and Company, [Southeast Asia's Green Economy: Pathway to Full Potential](#), November 2020.

2. Assessment and Opportunities to Act

a. Assessment

Green policies are not a priority in ASEAN's present investment-related policy responses to the COVID-19 pandemic, with most focusing instead on the following areas:

1. Green policies are not a priority in ASEAN's present investment-related policy responses to the COVID-19 pandemic, with most focusing instead on the following areas:
 - **Investment-incentives by investment promotion agencies (IPA):** The greater facilitation of investments by IPAs through mechanisms such as greater digitalisation.
 - **Public health-related investment incentives:** Incentives for the production of medical-related equipment through the acceleration of relevant licensing or tax incentives.
 - **Support for small and medium enterprises (SMEs):** Financial or fiscal support for local SMEs and supply chains to keep trade and investments in the region open.
 - **Incentives for enhancement of affected industries:** financial or fiscal support for the tourism, commodities and aviation industry into investment into digital adoption and capacity building.
2. Minimal green policies were found among ASEAN countries' investment-related policy responses in the short term with the exception of the following:
 - **Myanmar:** the Ministry of Planning and Finance plans to cooperate with other ministries to promote investments in renewable energy projects and strategic infrastructure projects before the end of 2020.
 - **Thailand:** small public projects approved by the government as part of their job creation and economic recovery initiatives have included water management projects, smart farming projects, organic agriculture, and developing farming technology.



b. Opportunities to Act

Given the assessment above, more aggressive actions in incorporating environmental and climate action into investment-related recovery policies must be undertaken. Below is a summary of the proposed climate actions that can be incorporated into overseas investment related agenda to ensure a climate-aligned approach and quick policy wins to investing in ASEAN member states.

- Provide incentives and **blended financing approaches to attract foreign investments into ASEAN**, such as de-risking mechanisms³⁶. For example, in addressing the shortfall of funds in ASEAN infrastructure projects, the ADB's ASEAN Catalytic Green Finance Facility (ACGF)³⁷ encourages private participation into green infrastructure projects but diluting the perceived high-risk of such ventures through co-financing with public financing. It then provides ASEAN member governments with technical assistance and access to over \$1 billion in loans from co-financing partners.
- **Tax incentives or the expediting of business licenses**, should focus on attracting the manufacture of **green technologies and green infrastructure**.
- **Public works and infrastructure projects** for government economic recoveries and job creation initiatives **should focus on green infrastructures such as energy efficiency and employee health related retrofits for buildings or natural capital projects**.
- Financial support to the struggling aviation industry is not enough. **Efforts should also be made in diffusing sustainable technologies throughout the industry though incentivising more foreign investments into relevant green aviation technologies in the forms of R&D, production, and commercialisation**.
- **Worker reskilling schemes should focus on job creation in sustainability-related sectors such as renewable energy and green financing**. This could include biofuels and strategies for reducing carbon footprints as this is a megatrend in the Aviation sector.³⁸
- Financial support for the struggling tourism industry is not enough. **Policymakers should look at ensuring future sustainable foreign investments into ASEAN's tourism industry**. Low impact eco tourism is the most suitable strategy to diffuse COVID infection risk which is highest in densely packed indoor environments.
- **Financial and fiscal support to micro, small and medium enterprises (MSMEs)** should be specifically directed towards **local businesses heavily interlinked with sustainability-focused foreign investors to uphold regional supply chains**.

³⁶ ADB, [ASEAN Catalytic Green Finance Facility Operations Plan 2019–2021](#), February 2020.

³⁷ ADB, [Overview: ASEAN Catalytic Green Finance Facility \(ACGF\)](#), Accessed December 2020.

³⁸ IATA, [Climate Change: Working Towards Ambitious Targets](#).

- **Sustainability reporting requirements as a condition for investment** can encourage companies to disclose their environmental performance and implement improvements that provide sustainability, resource efficiency, and cost saving benefits.
- **Regional companies which conduct green investments in the region for the purpose of diversification should be incentivised.** One such example is the expanding investment into wind energy in Vietnam by the Philippines company AC Energy which is part of Ayala Corp.³⁹
- **ESG rating agencies and investment funds** are expanding rapidly and they apply strong environmental and social criteria for their screening of listed companies. This investment driver has very comprehensive criteria which are based on what is considered material for each sector in terms of actual significant and relevant environmental and social (sustainability) issues, and should be considered by adoption.

In terms of what region-wide initiatives ASEAN could undertake regarding attracting sustainable private investments, the four transformative actions provided below could provide a long-term framework for ASEAN governments to ensure the integration of sustainable practices into ASEAN's future investment ecosystem:

- Facilitating the scaling and the use of the Guidelines for the Promotion of Inclusive Business (IB) in ASEAN ([see ASEAN recommendation 1](#))
- Mainstreaming sustainability into national investment policy frameworks by **setting minimum regional environmental and social standards.** ([see ASEAN recommendation 2](#))
- Revamping international investment treaty regimes for contemporary environmental challenges. ([see ASEAN recommendation 3](#))
- Establishing monitoring systems to assess the effectiveness of investment promotion schemes for sustainable development. ([see ASEAN recommendation 4](#))
- For financial regulators: deepening the integration of ESG into financial markets by establishing an ASEAN-wide monitoring mechanism with a harmonised approach to disclosure. ([see ASEAN recommendation 5](#))
- Developing a common understanding of sustainable infrastructure and harmonising various sustainability standards used in environmental and social assessment of projects. ([see ASEAN recommendation 6](#))

³⁹ Philstar, [AC Energy investing in new wind power plant in Vietnam](#), 9 June 2020.

Table 3: Key opportunity areas for Green Investment



Renewable Energy (RE): Shifting to sustainable energy consumption and resource extraction will present US\$202.8 billion in annual economic opportunities by 2030.⁴⁰ These include shifting to renewables and alternative fuels, rethinking operations, and adopting circular economy practices.

- Areas of high potential for green investing in RE include **biodiesel** and **photovoltaic (PV) manufacturing**. Indonesia is currently the world leader in production⁴¹ and Malaysia and Vietnam are growing rapidly in solar PV manufacturing.
- **Solid biomass** sectors have also recently gained attention due to the need to manage waste in the region.
- Southeast Asia is home to 25% of the world's **geothermal** generation capacity, with most of the resource concentrated in the Philippines and Indonesia due to its location along the Ring of Fire zone of Pacific volcanoes.⁴²
- **Wind power** however has not picked up as a viable RE source despite initiatives to commercialise the source in the Philippines and Vietnam.⁴³ The abundance of coastlines in ASEAN, however, still make wind power a good potential of RE source if offshore turbines could be utilised to avoid backlash from local communities, and the cost of production could be improved at a competitive level with the other energy sources.⁴⁴

Supply Chain provides US\$200 billion in opportunities for ASEAN by 2030⁴⁵ through digitising supply chains, standardising regulations and reducing carbon footprint. Other pathways include building efficient manufacturing systems by adopting Industry 4.0 practices and developing sustainable packaging.

⁴⁰ Ibid.

⁴¹ IRENA, [Renewable Energy and Jobs – Annual Review 2020](#), September 2020.

⁴² ASEAN Post, <https://theaseanpost.com/article/revamping-geothermal-philippines>, March 2020.

⁴³ CNA, [Commentary: Southeast Asia wants to love wind energy but shouldn't bank on it](#), October 2020.

⁴⁴ Ibid.

⁴⁵ Bain and Company, [Southeast Asia's Green Economy: Pathway to Full Potential](#), November 2020.

- As per the rest of the world, supply chain networks and infrastructures were greatly interrupted during the pandemic. This highlighted the need for smart supply chain systems in the region to ease trade and the movement of goods to ensure a strong economic recovery in the region.
- The increased use of eCommerce, the digitalisation of supply chain through technology, and easing of both trade and non trade barriers could also act as an impetus for investment in this sector.
- In November 2020, the ACRF⁴⁶ established the relaxation of cross border documentation through ASEAN Trade in Goods Agreement (ATIGA) [to be superseded by ASEAN Trade in Services Agreement (ATISA)] to ensure that the market remains open for trade and investment.
- The identification of intra-ASEAN trade and investment as a driver for recovery growth highlights the importance of supply chain resilience and regional value chains for the future of ASEAN.
- This may call for a re-thinking of how supply chains should be organized and economic integration be further deepened by keeping markets open for trade and investment, intensifying trade and investment facilitation, cutting down on non-tariff barriers, and digitalisation of trade documents and processes, and open up investment opportunities in these areas.

Food and Agriculture provide US\$205 billion in annual opportunities by 2030.⁴⁷ With food security emerging as a key concern as a result of the pandemic, the opportunity

- Concerned with the potential impact of the COVID-19 outbreak on ASEAN cooperation in food, agriculture and forestry and the disruption of the food supply chain in the region, the ASEAN Ministers on Agriculture and Forestry (AMAF) issued a Joint Statement on 15 April 2020 reaffirming commitment to ensure food security, food safety and nutrition in the region during this outbreak.⁴⁸

Buildings and Green Urban Spaces: The retrofitting of buildings into spaces with improved energy efficiency and with more public health concerns taken into consideration (e.g. improved ventilation and better indoor air quality) offers US\$152 billion in investment opportunities. A joint report by the UN and Singaporean financial service provider DBS estimated that retrofitting residential and commercial buildings can provide returns at times exceeding 20%. Retrofitting buildings will play a significant role in ASEAN's goals of reducing its energy intensity by 30% by 2025 as compared to 2005 levels.⁴⁹

⁴⁶ ASEAN, [ASEAN Comprehensive Recovery Framework](#), November 2020.

⁴⁷ Bain and Company, [Southeast Asia's Green Economy: Pathway to Full Potential](#), November 2020.

⁴⁸ ASEAN, [Statement of ASEAN Ministers on Agriculture and Forestry in Response to The Outbreak of The Coronavirus Disease \(Covid-19\) to Ensure Food Security, Food Safety and Nutrition in ASEAN - ASEAN | ONE VISION ONE IDENTITY ONE COMMUNITY](#), April 2020.

⁴⁹ The ASEAN Post, Making the region's buildings energy efficient, December 2018.

Minerals: The ASEAN region is rich in mineral resources and has vast potential for new discoveries. In 2018, minerals trade registered an annual growth of 9%, valued at USD 249.8 billion, and accounted for 8.9% of ASEAN's total trade.⁵⁰ The demand for minerals in ASEAN is expected to increase despite the pandemic especially for AMS that relies heavily on natural resources for economic growth. The AMCAP-III: 2016-2025⁵¹ currently serves as the blueprint for minerals cooperation in ASEAN.

Transforming urban centres: With 90 million people expected to move to South-east Asian cities by 2030, transforming urban centres into green and connected cities offers US\$185 billion in opportunities by 2030.⁵² These opportunities include improving energy efficiency and connectivity, rethinking affordable housing and defining a new model for mobility services, integration of waste management solutions and redesigning cities using smart urban planning integration of waste management solutions and redesigning cities using smart urban planning.

⁵⁰ ASEAN Secretariat. 2019. ASEAN Integration Report 2019. pp. 107.

⁵¹ ASEAN, [ASEAN MINERALS COOPERATION ACTION PLAN 2016-2025 \(AMCAP-III\)](#), Accessed December 2020.

⁵² Bain and Company, [Southeast Asia's Green Economy: Pathway to Full Potential](#), November 2020.

Table 4: Regional green policy recommendations for overseas investment in ASEAN



1. Facilitating the scaling and the use of the Guidelines for the Promotion of Inclusive Business (IB) in ASEAN

The Guidelines for the Promotion of Inclusive Business (IB) in ASEAN was released by the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises in September 2020, which sets a minimum requirement for ESG compliance for IB accreditation and award.⁵³

Impact investors striving for financial returns and social impact represent a rapidly increasing new source of funding for companies in the region, and the scaling of the IB accreditation could encourage companies in developing IB models and growing them to increase financial viability and social impact. In ASEAN, it is further recommended to foster pioneering companies to develop and mature IB models on their own without government support.

Poor corporate governance: Investors cited inadequate corporate governance standards as a key factor limiting the flow of capital to impactful enterprises.⁵⁴ Many social enterprises have no board of directors to oversee management operations. Investors also suggested that, in most countries, entrepreneurs’ families are deeply involved in business decision-making, thus limiting the guidance and inputs sought from professional investors.

⁵³ ASEAN, [Guidelines for the Promotion of Inclusive Business in ASEAN](#), September 2020.

⁵⁴ Global Impact Investing Network, [THE LANDSCAPE FOR IMPACT INVESTING IN SOUTHEAST ASIA](#), August 2019.

Facilitating the scaling and the use of The Guidelines for the Promotion of Inclusive Business (IB) in ASEAN was released by the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises in September 2020, which sets a minimum requirement for ESG compliance for IB accreditation and award.⁵⁵

2. Mainstreaming sustainability into national investment policy frameworks

- **By setting minimum regional environmental and social standards, and**
- **To include natural capital accounting and valuation of ecosystem services which will inform investment planning to include costs or benefits to biodiversity and ecosystems.**

Comprehensive road maps for attracting investments into ASEAN economies should set minimum environmental and social standards. ASEAN should collaborate to set regional-wide minimum standards to prevent the present intra-regional competition for investments to devolve into a zero-sum game which discourages standards.

Investment promotion policies should also specifically be tailored towards Sustainable Development Goal sectors which individual countries view as most relevant to their specific needs. The specific energy needs of each ASEAN country would require a larger comprehensive understanding of the energy environment of each country - for instance, while Indonesia would struggle to implement a widespread adoption of wind and solar energy due to the country's status as a net exporter of coal, the Philippines may find it easier to adopt renewable energy due to it being a net importer of fossil fuels (and thus having a strategic requirement for securing domestic renewable sources of energy).⁵⁶

3. Revamping international investment treaty regimes for contemporary environmental challenges

At the extra-ASEAN level, sustainability should be a core objective in the negotiation of new international investment agreements as well as the revision of old ones. A 2019 report by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) stated that a vast majority of bilateral investment treaties (BITs) both signed and currently in force present little to no direct references to dimensions of sustainable development in their preambles, with sustainable development broken down by right to regulate (no reference at all), sustainable development (one BITs by Singapore referenced this), social investment aspects (17 BITs in total referenced this), and environmental aspects (12 BITs in total referenced this). The report called for the reconceptualisation of

⁵⁵ ASEAN, [Guidelines for the Promotion of Inclusive Business in ASEAN](#), September 2020.

⁵⁶ UNCTAD, 'World Investment Report 2020', 2020, The Diplomat, 'Is a Green New Deal on the Way in Southeast Asia?', September 2020

international investment agreements as instruments to promote sustainable investment through the inclusion entry of sustainable development provisions into the normative framework of investment treaties.⁵⁷ For example, investment treaties may benefit from integrating provisions the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), which provides a framework for addressing illegal trade and trafficking of wildlife, which is a notable issue for the AMS⁵⁸ and for addressing the root causes of the COVID-19 pandemic and other infectious disease outbreaks.

In a 2019 report by the Columbia Center on Sustainable Investment, it was noted that investor-state dispute settlement (ISDS) mechanisms made available in a significant number of bilateral and multilateral trade and investment agreements often undermine or discourage important environmental-related regulatory measures. Since government decarbonisation efforts will often impact the profitability of investments in carbon-intensive energy, the threat of litigation by investors granted to them by ISDS mechanisms can often delay or deter governments from following through with environmentally-necessary policies.⁵⁹

Contemporary investment governance - most notably the enforceable investor protections often embedded in them - should be revamped for the challenges facing ASEAN in the 21st century. A good benchmark would arguably be the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which includes an enforceable chapter on the environment enforceable in the CPTPP's dispute settlement mechanism.⁶⁰

4. Establishing monitoring systems to assess the effectiveness of investment promotion schemes for sustainable development.

Measurable Key Performance Indicators (KPIs) for national and regional investment promotion schemes should be developed in line with existing ASEAN obligations towards international climate action (especially in relation to the NDCs that the countries have developed) to ensure their effectiveness in drawing sustainable investments as well as the effectiveness of existing investments in meeting sustainability goals. There have already been attempts by external parties to measure ASEAN's efforts in meeting its sustainability commitments, such as UNESCAP's Asia and the Pacific SDG Progress Report 2019, which assesses the region's progress towards achieving the Sustainable Development Goals (SDGs) and the gaps which must be closed for these to be achieved by 2030. In

⁵⁷ UNESCAP, 'Studies in Trade, Investment and Innovation No. 90: Foreign Direct Investment and Sustainable Development in International Investment Governance', 2019

⁵⁸ CITES.org, [ASEAN member States pledge strong action against illegal trade in wildlife](#), March 2019

⁵⁹ Columbia Center on Sustainable Investment, 'Environmental Injustice: How treaties undermine human rights related to the environment', Sciences Po Legal Review, January 2020

⁶⁰ Ibid

October 2020, ASEAN launched the ASEAN SDG Indicators Baseline Report 2020. The report aims to establish the baseline information of the SDG indicators being tracked and measured in the region to aid future monitoring of the progress in achieving the SDGs as well as support relevant policy making at both the national and regional levels.⁶¹

5. Deepening the integration of ESG into financial markets by establishing an ASEAN-wide monitoring mechanism with a harmonised approach to disclosure

Singapore, Malaysia and Thailand currently have high levels of ESG reporting driven by the Stock Exchange requirements for disclosure. This has worked to attract foreign ESG fund investments. This effort should be replicated in other AMS.

The integration of ESG principles into financial markets should be boosted by pushing ASEAN monetary and financial authorities into implementing regional frameworks for addressing climate-related risks through a harmonised approach to disclosure and transparency. Such frameworks would make the disclosure of climate and other sustainability risks mandatory across the financial sector to help with better risk analysis; require financial institutions to conduct regular climate stress testing that considers multiple transition scenarios; and integrate climate-related financial risks into prudential supervision. It would also help promote greater regional investments and capital movements.⁶²

The credibility of sustainable financial products would be substantially strengthened through the development of sustainability assessment standards and the collation of reliable data.⁶³

6. Developing a common understanding of sustainable infrastructure and harmonising various sustainability standards used in environmental and social assessment of projects.⁶⁴

To harmonise sustainability project assessment in ASEAN, the following measures are recommended:

1. Convening on an Infrastructure Summit to emphasise the Master Plan on ASEAN Connectivity 2025 (MPAC 2025) as a regional blueprint for infrastructure projects in

⁶¹ ASEAN, "[ASEAN launches SDG Indicators Baseline Report, Online Database for SDG Indicators](#)," October 23, 2020.

⁶² UNCTAD, World Investment Report 202', 2020 and IMF, Investing in a Green Recovery, 2020

⁶³ UNCTAD, World Investment Report 2020, 2020

⁶⁴ Singapore Institute of International Affairs, [Funding Sustainable Infrastructure in ASEAN](#), April 2020.

ASEAN, and grow initiatives by each ASEAN member state and track sustainable finance flows to power and transport projects.

2. Training and equipping workers with sustainability skills and knowledge in the renewable energy and sustainable transport sectors by ASEAN governments, together with multilateral institutions and industry players.
3. The ASEAN Secretariat could take the lead in developing a directory of green and sustainable funds for infrastructure projects in the region.

3. Conclusion

Much of the recovery efforts and resources have been focused on saving livelihoods and investing in improving healthcare infrastructure and processes as a result of COVID-19 in 2020. Despite this, all AMS seem to have made much progress towards environmental protection and climate aligned initiatives. The newly released ASEAN framework bodes well for the future of climate control in the ASEAN region. Singapore and Vietnam seem to be leading the race in implementing environmental certification or assessment requirements on overseas investments, with Brunei having relatively recently embarked on sustainable initiatives.

ASEAN is a region rich in resources, and with huge reserves of underexplored mining potential in Cambodia, Vietnam and Myanmar, it is imperative that a sustainable framework ensuring resilience is adopted so that the economic benefits of mining are weighed in tandem with the environmental and social impacts.

Agriculture remains as one of the critical sources of economic growth in the region with much of the activity centred along the Mekong River. The Lower Mekong River Basin (LMB), comprising Cambodia, Laos, Thailand, and Vietnam, continue to be one of the regions most vulnerable to climate change. The economies of the LMB countries, their ecosystems, sustainability, and social harmony are all at risk. This further accelerates the need for FDI, sustainable partnerships, and adoption of climate-aligned technologies and processes to tackle the issue.