



ESG Investment

Towards Sustainable Development in ASEAN and Japan

**Environmental, Social, and Governance (ESG) Investment Forum
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ASEAN-Japan Centre

- The ASEAN Promotion Centre on Trade, Investment and Tourism
- Intergovernmental organisation established by the ASEAN Member States and Japan in 1981.
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Motivation

- Environmental, social, and governance investment (ESG investment) has gained momentum around the world and the trend is moving towards Asia, especially in ASEAN countries.
- Despite these promising developments, a lack of understanding of the importance of ESG investment still remains among investors and policymakers, both in Japan and in ASEAN countries.
- Debates persist on
 - The relationship between ESG investment and *economic* performance;
 - The optimal methods for integrating ESG factors into investment decisions.
- As the demand for ESG investment is growing around the world and ESG investment is associated with greater profitability, **understanding of ESG investment and the ways in which companies can utilise ESG factors is important.**

Objectives

- To encourage investors to invest responsibly by building basic understandings of ESG investment in the following aspects:
 - The essence of ESG investment;
 - Global ESG investment, trends, and prospects;
 - ESG investment performance in ASEAN enterprises and best practices; and
 - Recent policy developments and key issues.
- To enhance the capacities of and dialogues between investors and policymakers through better understandings of ESG investment in terms of the challenges and policy solutions.
- To contribute to a better, more sustainable investment environment and society among Japan and ASEAN countries.

Key Messages

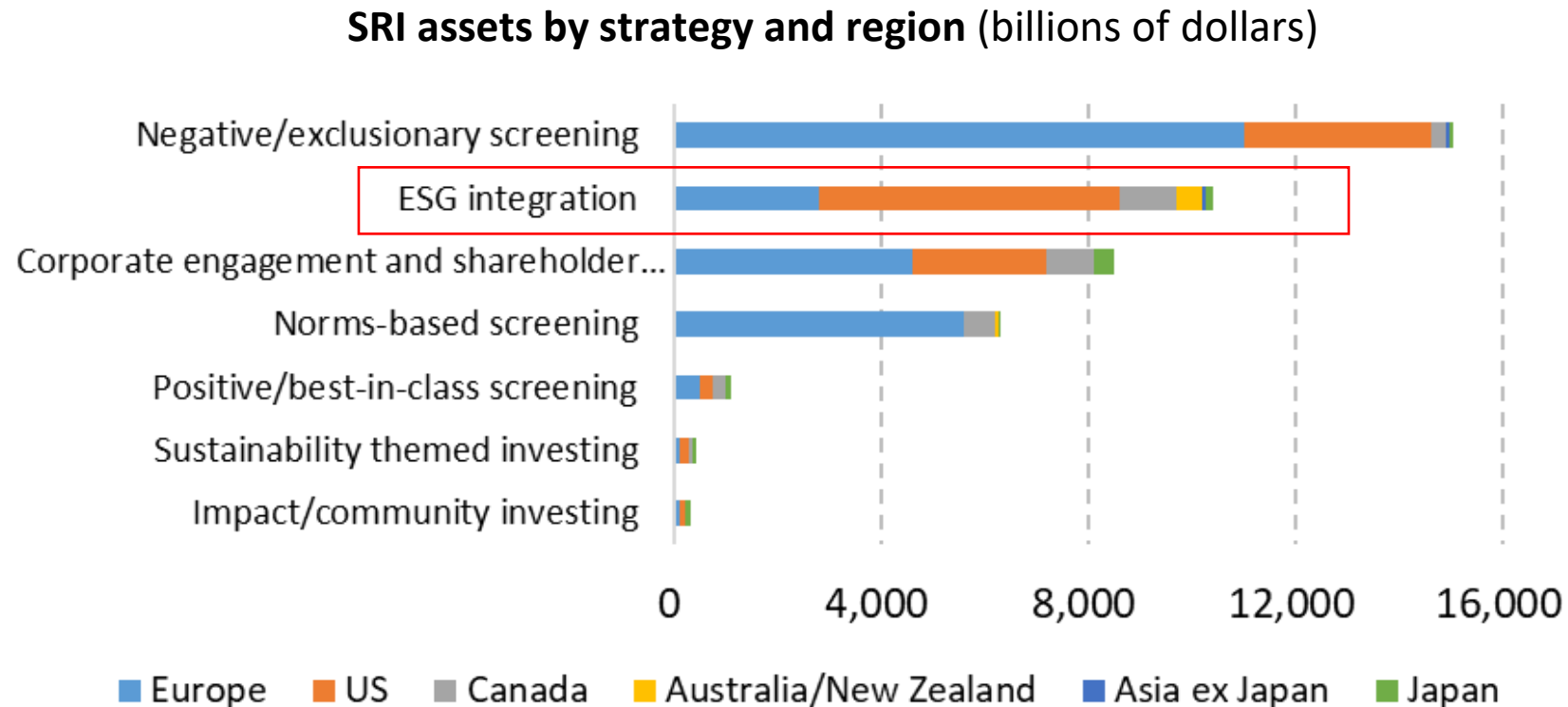
- ESG investment is for all investors;
- ESG investment is moving away from niche to norm;
- ESG investment associates with greater profitability;
- ESG investment has been only implicitly and unsystematically implemented among the ASEAN firms;
- ESG investment is implemented creatively and innovatively among ASEAN firms;
- ESG investment in ASEAN is promising; however, challenges remain;
- ESG investment can be fully integrated into core business strategies through practical steps; and
- ESG investment should be further promoted and supported by exchanges and the government.

Key Message I

- ESG investment is for all investors
 - Not only for the financial market, but also the real sector
 - Not only a signal for future risks, but also a profit maximiser
 - Not only for large companies, but also MSMEs

Key Message II

- ESG investment is moving away from niche to norm

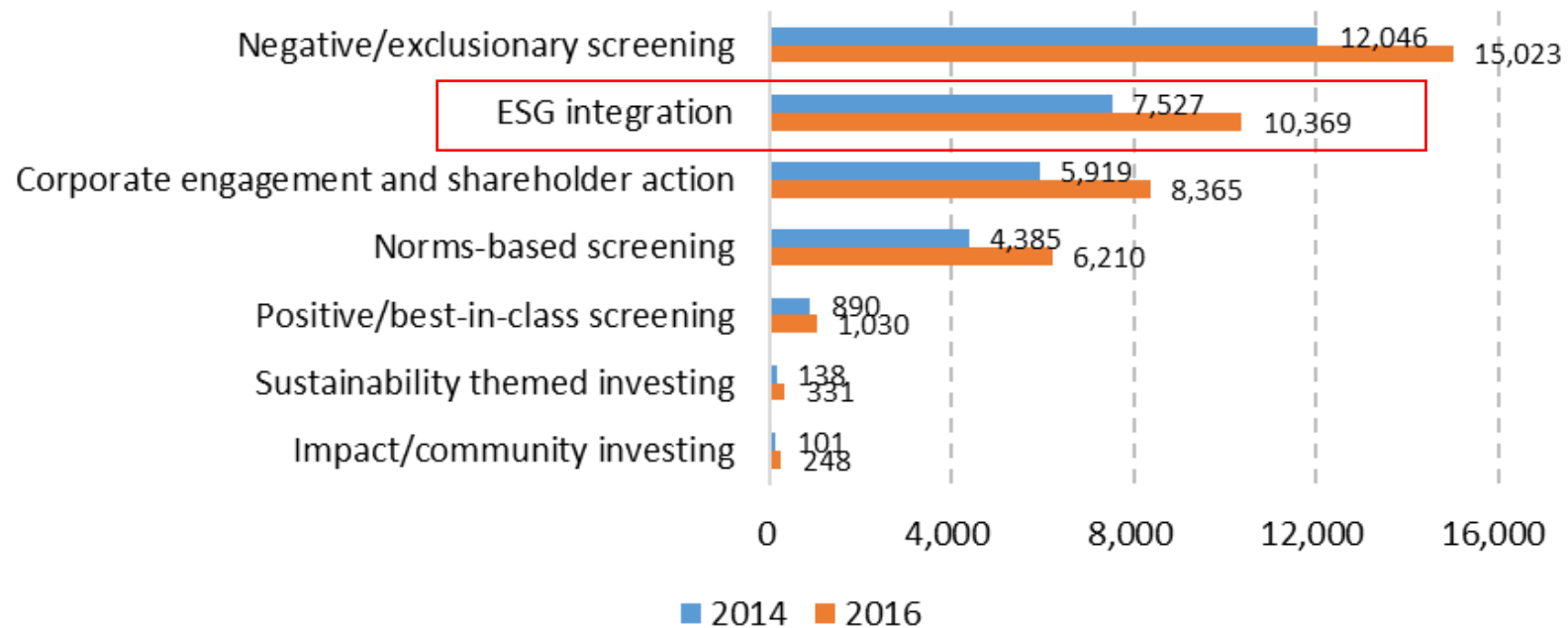


Source: Global Sustainable Investment Alliance (GSIA), 2016.

Key Message II

- ESG investment is moving away from niche to norm

Growth of strategies, 2014-2016 (billions of dollars)



Source: Global Sustainable Investment Alliance (GSIA), 2016.

Key Message II

- ESG investment is moving away from niche to norm

Growth of SRI assets by region, 2014–2016

Country/Region	SRI assets in 2014 (\$ billion)	SRI assets in 2016 (\$ billion)	Growth over period (%)	Compound annual growth rate (%)
Europe	10,775	12,040	11.7	5.7
US	6,572	8,723	32.7	15.2
Canada	729	1,086	49.0	22.0
Australia/New Zealand	148	516	247.5	86.4
Asia excluding Japan	45	52	15.7	7.6
Japan	7	474	6,689.6	724.0
Total	18,276	22,890	25.2	11.9

Source: Global Sustainable Investment Alliance (GSIA), 2016.

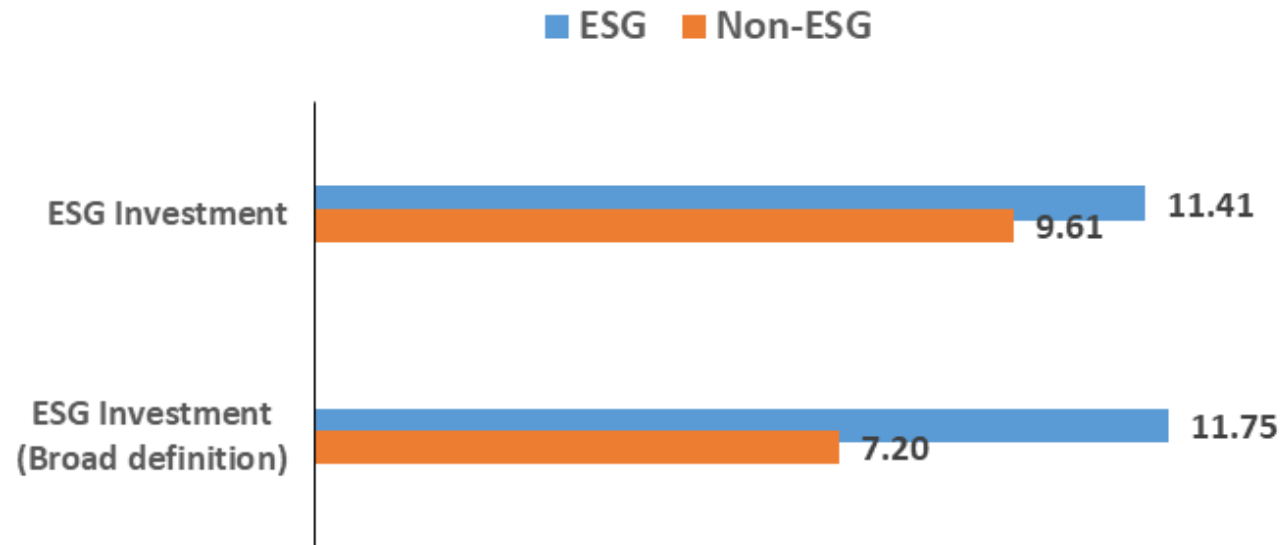
Key Message II

- ESG investment is moving away from niche to norm
- According to GSIA (2016), Malaysia is the largest market (30%) for sustainable investing in Asia excluding Japan and, therefore, among ASEAN Member States.
- During 2012–2014, Singapore and Indonesia experienced the fastest growth of sustainable investing in ASEAN
- Singapore is considered as a centre for technology and sustainable investment products while Indonesia is positioned as a hub of Islamic funds (GSIA, 2016).
- The Philippines is likely the least active of the ASEAN-5 members. Corporate governance has improved in the decades since the Asian financial crisis, but there is still much progress to be made.
- Recently, Thailand has emerged as one of the forerunners of ESG in ASEAN, and Thai companies comprise the highest share among ASEAN members in the Dow Jones Sustainability Indices. The country has among the highest levels of ESG disclosure in ASEAN and is another of the ASEAN Member States that has implemented mandatory reporting requirements.

Key Message III

- ESG investment associates with greater profitability

Average net profit margin of ESG versus non-ESG companies (Per cent)



Source: AJC's compilation.

Note:

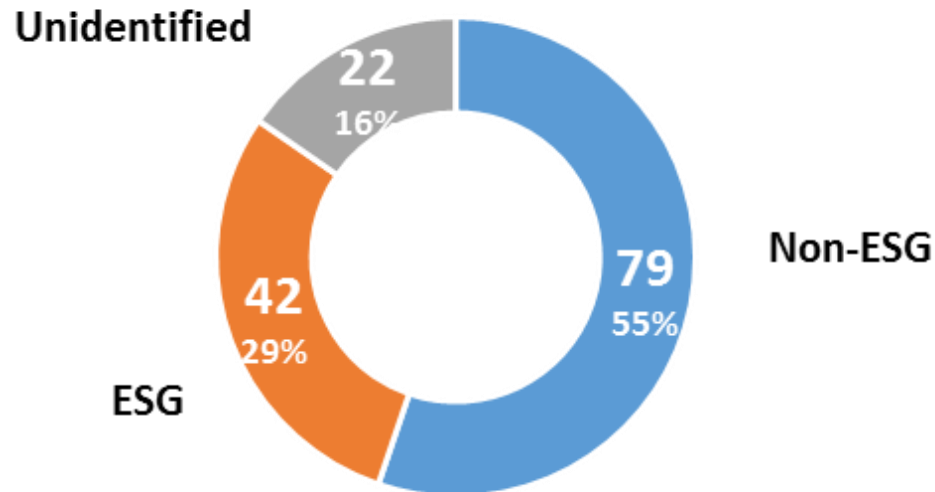
a. Net profit margin is calculated from net profit divided by total revenues. Net profit margin is averaged overtime (1990-2018) and across companies to obtain average profit margin of both ESG and non-ESG companies.

b. ESG companies are companies that either incorporate ESG factors in their strategies or have a section for ESG investment in their annual reports, sustainability reports, or their homepages. Otherwise, non-ESG companies. On the other hand, ESG investment with a broad definition includes a) ESG companies and b) companies that report activities related to sustainability, but do not explicitly include ESG perspectives in their strategies or have a section for ESG investment in their annual reports, sustainability reports, or their homepages.

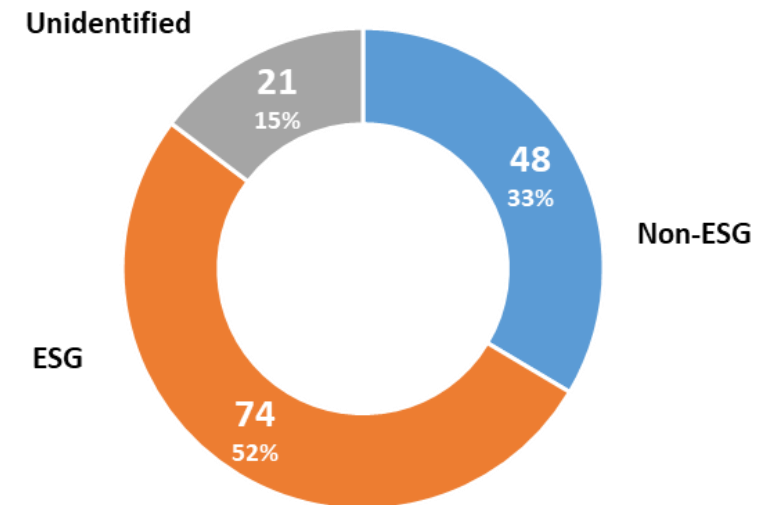
Key Message IV

- ESG investment has been only implicitly and unsystematically implemented among the ASEAN firms

ESG and non-ESG firms
(Number and per cent)



ESG and Non-ESG Firms with the broad definition
(Number and per cent)



Source: AJC's compilation.

Note: ESG companies are companies that either incorporate ESG factors in their strategies or have a section for ESG investment in their annual reports, sustainability reports, or homepages.

Key Message V

- **ESG investment** is implemented creatively and innovatively among ASEAN firms

Genting Berhad (Hotels, restaurants and leisure, Malaysia)

ESG investment	No
Implicit ESG investment	Yes
SDG	Yes
Profitable	Yes
Revenue generation	Not available
Cost reduction	At least \$116,000 (2017)

Key Message V

- ESG investment is implemented creatively and innovatively among ASEAN firms

Universal Robina Corporation (Food products, the Philippines)

ESG investment	No
Implicit ESG investment	Yes
SDG	Yes
Profitable	Yes
Revenue generation	Not available
Cost reduction	At least \$8.6 million (2017)

Key Message V

- ESG investment is implemented creatively and innovatively among ASEAN firms

Charoen Pokphand Foods Public Company Limited (Food products, Thailand)

ESG investment	Yes
Implicit ESG investment	Yes
SDG	Yes
Profitable	Yes
Revenue generation	At least \$699 million (2017)
Cost reduction	At least \$1.5 million (2017)

Key Message V

- ESG investment is implemented creatively and innovatively among ASEAN firms

Indorama Ventures Public Company Limited (Petrochemicals, Thailand)

ESG investment	Yes
Implicit ESG investment	Yes
SDG	Yes
Profitable	Yes
Revenue generation	Not available
Cost reduction	At least \$412,000 (2017)

Key Message V

- ESG investment is implemented creatively and innovatively among ASEAN firms

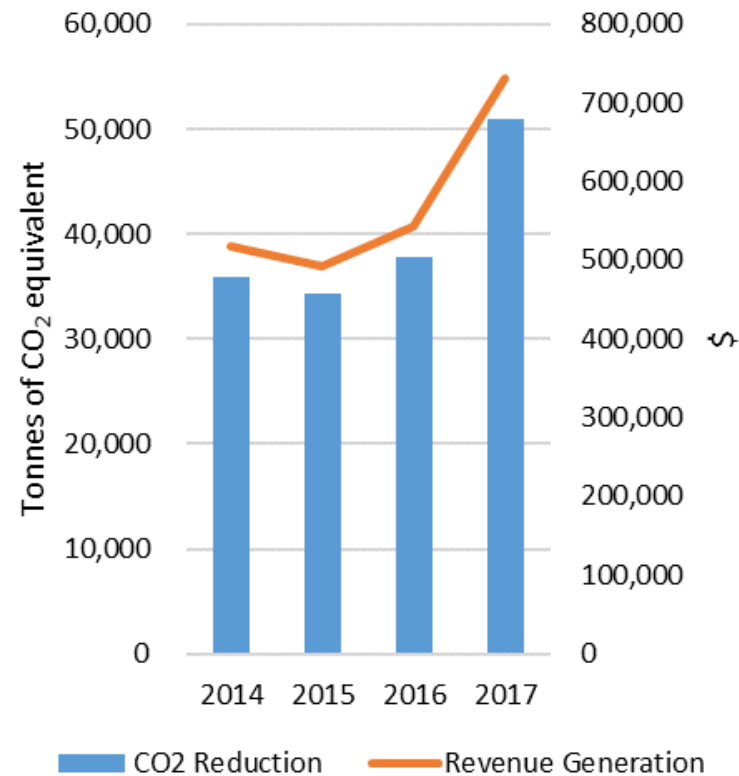
PTT Global Chemical Public Company Limited (Petrochemical, Thailand)

ESG investment	Yes
Implicit ESG investment	Yes
SDG	Yes
Profitable	Yes
Revenue generation	At least \$34.3 million (2017)
Cost reduction	At least \$46.5 million (2017)

Key Message V

- ESG investment is implemented creatively and innovatively among ASEAN firms

CO₂ reduction and associated revenue generation



Source: AJC's compilation based on PPTGC (2017).

Key Message V

- ESG investment is implemented creatively and innovatively among ASEAN firms

Vietnam Dairy Products Joint Stock Company (Food, Viet Nam)

ESG investment	No
Implicit ESG investment	Yes
SDG	Yes
Profitable	Yes
Revenue generation	Not available
Cost reduction	At least \$290,380 (2017)

No.	Solutions, innovations, and initiatives	Cost saving (\$ per annum)
1	Quick opening-closing door of cold storage	12,204
2	Replacement of LED bulbs in the cafeteria and other areas	431
3	Renovation of the cooling system of the spoon presses	5,477
4	Renovation of cold storage for creams (enclosures, cold storage room partition) instead of 40-foot cold containers.	10,307
5	Refreshing of cream pasteurizer, yogurt ice cream cooler	992
6	Adjustment of running mode, reduced cost of boiler	8,841
7	Replacement of old fluorescent bulbs with energy-saving LED bulbs	242
8	Repair and replacement of drying tower Chiller 2	26,221
9	Inspection and repair or replacement of steam valves, leaking steam pusher, leaking steam (check for air leakage: No. 1,2,3 drying tower and drying shaft)	11,299
10	Optimization of operating mode of the compressed air system: reduced no-load time	24,323
11	<ul style="list-style-type: none"> - Forklift optimization: Additional parking space at material store is arranged to limit the carriage to the beginning and end of each shift - Strengthened staff training to use forklift for the right purpose, minimize use of the forklift without goods 	216
12	Improvement of the control mechanism of the plastic distributor of MSB bottle blower (replaced hydraulic pump system including motor 5.5KW with mechanical latch)	1,639
13	Transfer of the chemical tank to the conversion tank using an electro-valve instead of a chemical dosing pump	4,528
14	Heat-relieving switch by cold water to cooling tower for yogurt pasteurization process. Turn off electrical appliances when not needed, buy and use energy-saving appliances, actively cool during low hours, fix in time for abnormal electrical equipment.	115,752
15	Proper operational of the boiler, immediate repair as soon as there are steam leaks, condensate leaks. Making a reasonable production plan, buying steam from outside units.	42,738
	Total	265,210

Key Message VI

- ESG investment in ASEAN is promising; however, challenges remain
 - Wrong perception towards ESG investment
 - ESG investment is costly and unprofitable.
 - ESG investment is only relevant when considering investment in a financial market.
 - Consumers and investors care little about ESG factors.
 - Limited capability to fully integrate ESG investment
 - Lack of know-how
 - Lack of resources
 - Insufficient guideline and supports from exchanges and the government

Key Message VII

- ESG investment can be fully integrated into core business strategies through practical steps
 - Change perception towards ESG investment
 - Plan for an effective ESG strategy
 - Take actions
 - Work with peers and involve all stakeholders

Key Message VIII

- ESG investment should be further promoted and supported by exchanges and the government
 - Communicate benefits of ESG investment
 - Implement a mandatory sustainability disclosure regulation
 - Provide specific guideline and supports
 - Evaluate firms' ESG performance periodically
 - Take advantage of the digital age
 - Emphasise the linkage between ESG investment and SDGs

Thank you very much for your attention

For further information:

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For our publication of
“ESG Investment:
Towards Sustainable
Development in
ASEAN and Japan”



https://www.asean.or.jp/en/wp-content/uploads/sites/3/ESG_web.pdf

Research and Policy Analysis (RPA)

The Research and Policy Analysis Cluster (RPA) conducts in depth analytical research on major and emerging issues, including economic, social, political and cultural ones, and their impact on sustainable development in ASEAN and the relationships between ASEAN and Japan. The RPA Cluster also contributes to understanding and promoting the diplomatic initiatives between ASEAN and Japan, and provides ideas, concepts, and inputs to forging new initiatives and programmes between the two regions.

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New Forms of Trade between
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Research on legislation and
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databases, publications, and
forums