

Enabling sustainable investment in ASEAN



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This paper analyses the efforts made by the governments of the Association of Southeast Asian Nations (ASEAN) to attract sustainable investment and how they can further promote investment benefits for social and environmental objectives. It uses the OECD's flagship tools on investment and responsible business conduct, and builds on OECD's strong collaboration on investment with ASEAN. Aiming to help ASEAN Member States in their efforts to implement the sustainable investment component of the ASEAN Comprehensive Recovery Framework, this paper provides indicators to measure the sustainability impacts of foreign direct investment, benchmarks investment policy reforms and investment promotion priorities, and suggests ways to enable responsible business conduct and policy initiatives to foster green investment.

In collaboration with:



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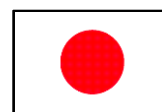
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Foreword

The Association of Southeast Asian Nations (ASEAN) has been among the greatest recipients of foreign direct investment (FDI) among emerging regions. This investment has created jobs and made significant contributions to sustainable development, including by upgrading skills and raising living standards. Under the right conditions, FDI could further contribute to sustainable development in the region. For this reason, the promotion of sustainable investment is an integral part of the ASEAN Comprehensive Recovery Framework (ACRF) and its implementation plan.

This report provides analysis on ASEAN governments' efforts to attract sustainable investment and what they can further do to promote the benefits of investment for social and environmental objectives. Building on the strong and long-lasting co-operation that the OECD enjoys with the ASEAN Secretariat and the ASEAN Co-ordinating Committee on Investment, the report uses OECD tools such as the Policy Framework for Investment, the Guidelines for Multinational Enterprises and Due Diligence Guidance for Responsible Business Conduct, the FDI Qualities Policy Toolkit and Indicators as well as an OECD survey on sustainable investment promotion.

By providing a comparative analysis of investment policy reforms and investment promotion priorities, indicators to measure the sustainability impacts of FDI, ways to enable responsible business conduct, policy initiatives to promote green investment and examples of good international practices, it is hoped the report will help ASEAN Member States in their efforts to implement the sustainable investment component of the ACRF. The findings could also assist in the development of tailored 'ASEAN Guidelines for Sustainable Investment', which ASEAN Member States are currently considering.

The report was carried out in close co-operation with the Services and Investment Division of the ASEAN Secretariat and in consultation with the ASEAN Co-ordinating Committee on Investment (CCI). It was presented and discussed at the OECD Investment Committee on 19 October 2022 and at the 82nd ASEAN CCI meeting on 10 January 2023.

The report has been prepared by a team comprising Alexandre de Crombrughe, Iris Mantovani and Stephen Thomsen from the Investment Division and Nina Chitaia and Tuong-Dung Nguyen from the Centre for Responsible Business Conduct, all in the OECD Directorate for Financial and Enterprise Affairs. Comments were received from Tihana Bule and Ana Novik. A research contribution was made by AVSE Global. Comments were received from several ASEAN Member States, as well as the ASEAN Secretariat which also provided co-ordination support.

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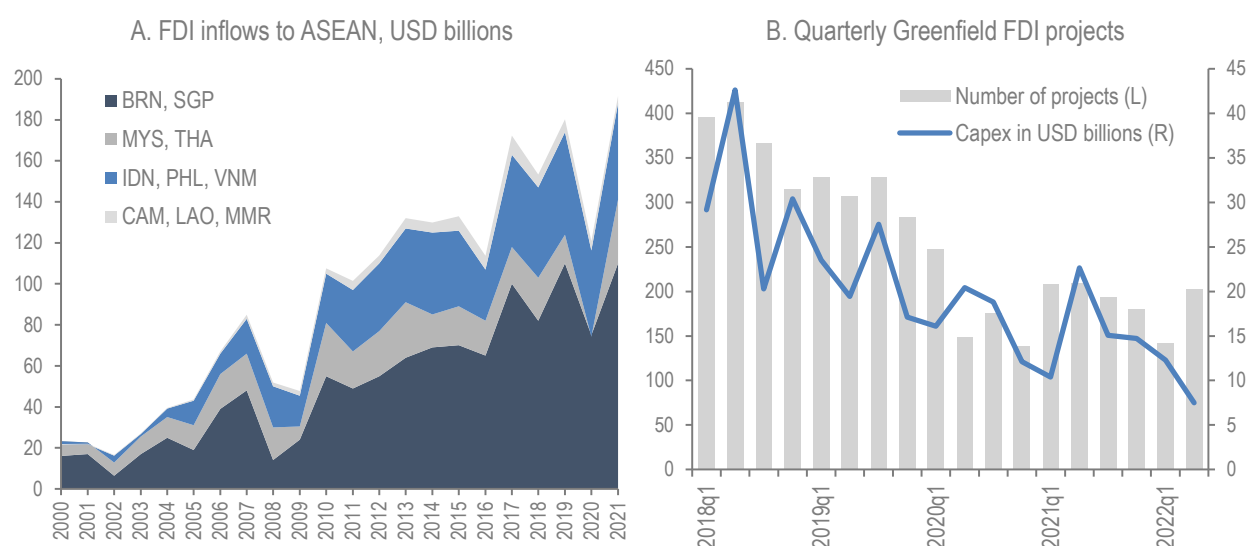
1 Introduction and key messages

Foreign direct investment and sustainable development in Southeast Asia

Southeast Asia has developed rapidly over the past two decades and the region is a major engine of global economic growth. ASEAN Member States (AMS) are at very different stages of development, but almost all their economies have more than doubled in size since 2000. Thanks to strong political commitment to effective policies, over 100 million people in the region have been lifted out of poverty in the last 20 years.

AMS have individually and collectively made substantial improvements in the climate for investment. Southeast Asia has been among the biggest recipients of foreign direct investment (FDI) among emerging regions, as some countries in the region were early movers in the shift towards export-led development based in part on FDI. FDI flows to Southeast Asia have increased by a factor of nine over the last two decades, with over half of these going to Singapore which tends to act as the regional hub for many investors to invest into other AMS (Figure 1.1.A). Nevertheless, new, “greenfield” investment projects have seen a major decline since the onset of the COVID-19 pandemic, with no signs of improvement yet (Figure 1.1.B). Within the region, Viet Nam and Indonesia have attracted the greatest stock of greenfield FDI over the last decade (USD 232-242 billion), followed by Malaysia and Singapore (USD 153-164 billion) (Figure 1.2.A).

Figure 1.1. Greenfield FDI flows have declined sharply since the onset of the pandemic

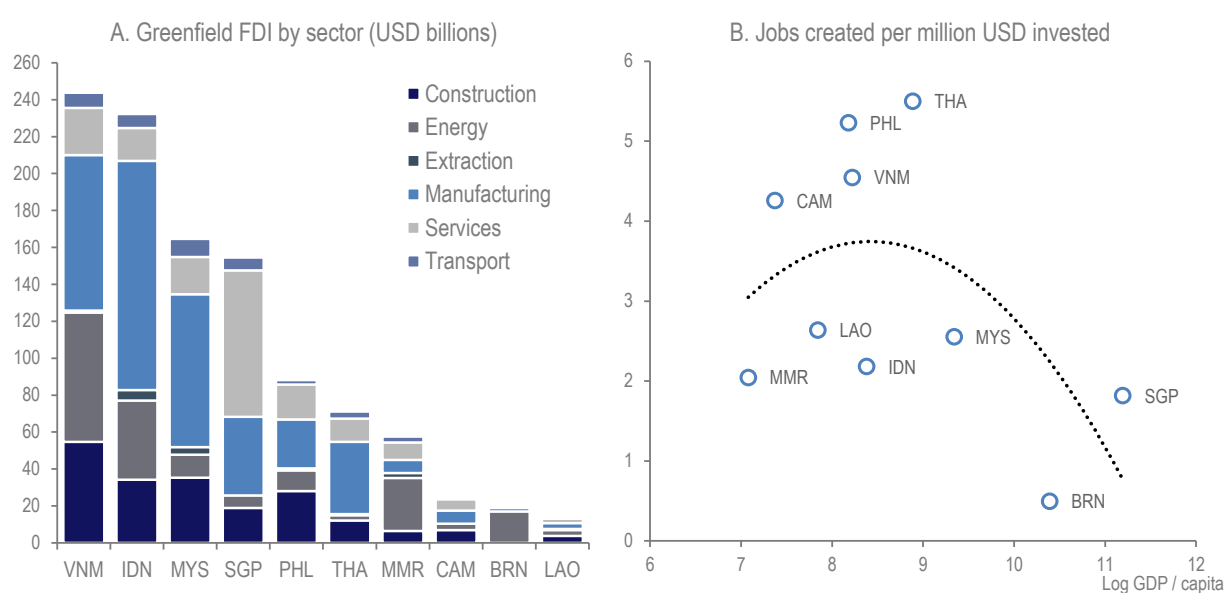


Source: IMF (2022^[1]) Balance of Payments Statistics, and Financial Times (2022^[2]) FDI Markets.

Governments in Southeast Asia devote ample resources to attracting FDI with the hope of creating jobs. Greenfield FDI projects generate on average three direct jobs per million USD invested in the region

(similar to the worldwide average), but the intensity of job creation varies substantially across countries according to their level of development and economic structure (Figure 1.2.B). Lower-income countries, such as Myanmar and Lao PDR, as well as countries with abundant fossil fuel resources, such as Brunei Darussalam, tend to attract considerable FDI in natural resource extraction and energy generation, which creates relatively few direct jobs. Emerging economies with solid and diversified industrial capabilities, such as Viet Nam and Thailand, create the most jobs per USD invested. Countries with highly skilled labour forces, advanced industries and large financial sectors, such as Malaysia and Singapore, attract FDI in high-tech products and knowledge-intensive services, which require fewer workers. The high capital intensity of manufacturing FDI in Indonesia is driven by the metals and chemicals industries, while the high labour intensity of FDI in the Philippines is driven primarily by business support services.

Figure 1.2. FDI-induced job creation varies with sector specialisation and stage of development



Note: Manufacturing of petroleum, coal or gas products is grouped with energy.

Source: Financial Times (2022^[2]) FDI Markets Database.

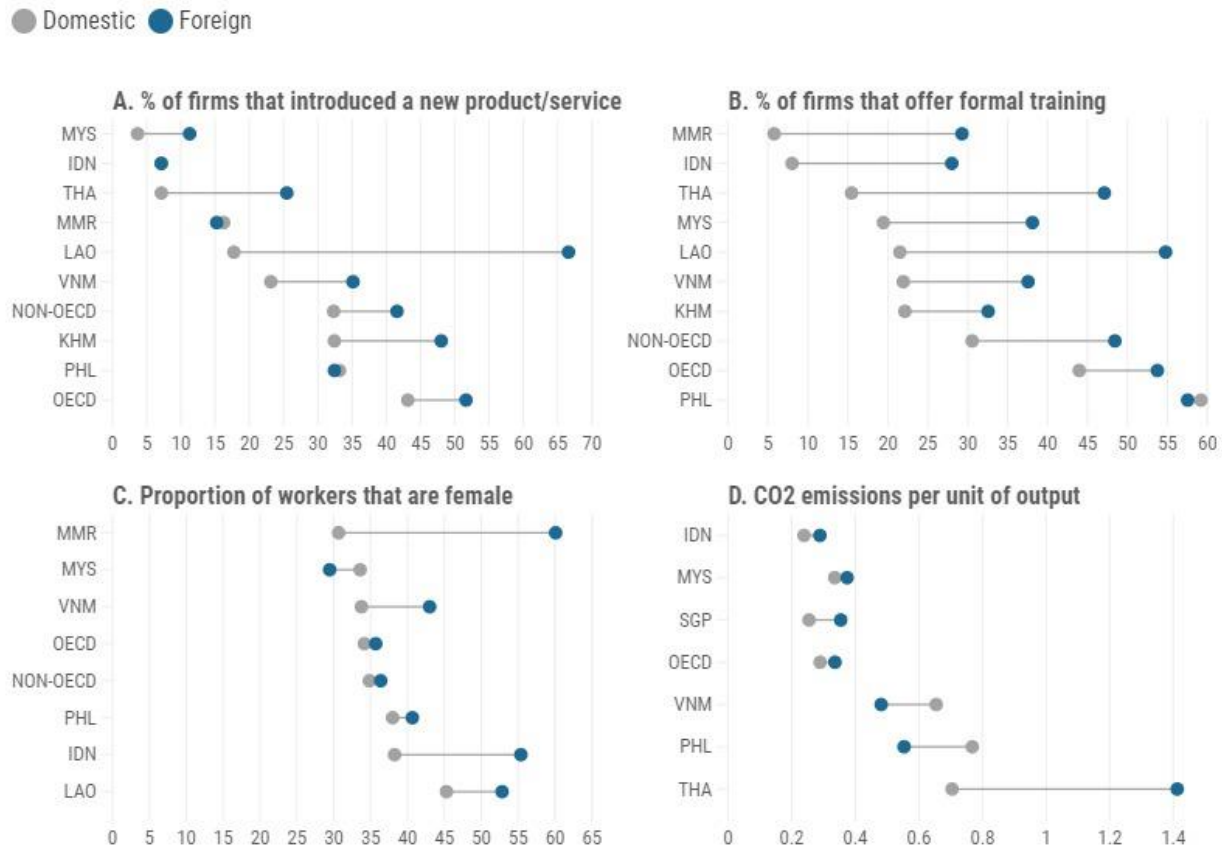
Beyond capital and jobs, FDI has made significant contributions to sustainable development in Southeast Asia. Significantly more foreign firms introduce new products and services than their domestic counterparts across most countries in Southeast Asia, and this greater innovation capacity suggests that there is potential for knowledge and technology to spill over to domestic firms (Figure 1.3.A). Foreign firms are also more likely to offer training opportunities to their employees, and the gap between foreign and domestic firms is considerably larger in many AMS than in the average OECD or non-OECD country, suggesting that foreign firms contribute disproportionately to on-the-job skills development in the region (Figure 1.3.B). By employing larger shares of women in their workforces in most AMS, foreign firms can also help improve gender equality in the workplace (Figure 1.3.C).

Yet, some economies have benefited more than others, and the benefits of FDI have not been felt evenly across different parts of society. While FDI creates jobs and contributes to upgrading skills and raising living standards, it can also create risks of irresponsible and unsustainable business practices and worsen income inequality, potentially leaving vulnerable segments of the population behind.

The contribution of FDI to green growth and decarbonisation is not clear-cut. In Indonesia and Thailand, for example, FDI may be less aligned with national climate goals whereas in Viet Nam and the Philippines, the carbon footprint of FDI is lower than that of domestic investment (Figure 1.3.D). FDI's contribution to

renewable energy capacity in Southeast Asia has also lagged behind that of other regions, and varies considerably across the region.

Figure 1.3. FDI and sustainable development



Source: Authors elaboration based on World Bank Enterprise Surveys (2022^[3]), and IMF (2022^[4]) Direct Investment Indicators.

As in the case of other major crises, the COVID-19 pandemic has created a momentum for governments to revisit the fundamentals of their economic policy and to reorient their priorities towards more resilience and sustainability. To address the crisis in a co-ordinated and long-term manner, ASEAN adopted the ASEAN Comprehensive Recovery Framework (ACRF) and its implementation plan, providing broad strategies on several key aspects ranging from health and welfare to economic integration, digitalisation and sustainability (ASEAN, 2020^[5]). One such strategy is to advance towards a more sustainable and resilient future, including by stepping up efforts to promote sustainable and responsible investment. OECD instruments such as the Policy Framework for Investment and the Guidelines for Multinational Enterprises are recognised as references for policy action.

Key messages and considerations

Sustainable investment has been defined as “commercially viable investment that makes a maximum contribution to the economic, social and environmental development of host countries and takes place in the framework of fair governance mechanisms” (Sauvant and Mann, 2017^[6]). A broader definition would simply consider that sustainable investment should contribute towards achieving the Sustainable Development Goals (SDGs). A project might contribute to one specific SDG or to several, but trade-offs

might also arise when an investment moves the host country closer to some SDGs but perhaps farther away from others.

The challenge for governments is not just to attract foreign investors at a time of diminishing global FDI flows, but also to ensure that the investment confers sustainable benefits on the host economy. Attracting investment and reaping the maximum benefit in terms of sustainability depend first and foremost on the overall policy framework in which investment occurs. Governments need to design and implement an open and transparent policy framework for investment, targeted strategies to measure and attract sustainable investment, and policies that help maximise the benefits of FDI and minimise their potential harm on the local economy, society and environment. This requires whole-of-government efforts, evidence-based policy making and meaningful stakeholder consultations.

Enabling responsible business conduct (RBC) is an equally important part of the equation for governments to promote sustainable investment by creating conditions that favour more responsible investors, improve attractiveness for high-quality investors, upgrade in global supply chains and protect resources for the future. Home countries can also take steps to encourage sustainable outcomes from their investors in host countries, such as by promoting and enabling implementation of key RBC standards, notably the OECD Guidelines for Multinational Enterprises, the United Nations Guiding Principles on Business and Human Rights and the International Labour Organization Tripartite Declaration for Multinational Enterprises.

This report looks primarily at what host governments can do to attract sustainable investment and promote the benefits of investment for social and environmental objectives, including how to facilitate and enable RBC. It provides an analysis to support AMS in their quest to implement the sustainable investment components of the ACRF, with a particular emphasis on green investment. It is based on the OECD tools referenced in the ACRF, as well as on the FDI Qualities Policy Toolkit and Indicators and a survey on sustainable investment promotion completed by nine AMS. Its main considerations are summarised below:

Designing reforms and strategies to promote sustainable investment

- *Consider further reducing FDI restrictions in broad sectors of the economy to support sustainability objectives.* AMS individually and collectively have made substantial improvements over time in the climate for investment. All AMS have liberalised their FDI restrictions over time at varying speeds, but the pace of reforms has varied greatly, and some countries have advanced far more than others. Evidence shows that fewer FDI restrictions imply greater FDI flows, but openness to FDI is also associated with broader benefits in terms of the SDGs, such as higher productivity, skills development and gender balance. Discriminatory restrictions on the establishment and operations of foreign investors can also diminish the potential contribution of FDI to decarbonisation. Even if there are no direct barriers to invest in green sectors, restrictions along other parts of the value chain can impede investment in these sectors. AMS could hence consider further reducing FDI restrictions in broad sectors of the economy to support their sustainability objectives.
- *Further focus on the SDGs to design investment promotion strategies and set priorities.* Investment promotion strategies can play an important role in achieving sustainable development objectives by influencing the kind of investment that is attracted. Using FDI to meet the SDGs is high on the agenda of ASEAN investment promotion agencies (IPAs). Over half (56%) consider the SDGs as a top factor influencing investment promotion priorities, higher (or equal) than any other factors and a higher share than in OECD countries. Most IPAs in ASEAN consider that they contribute to most of the SDGs, as 11 out of 17 goals are selected by a majority. During the pandemic, which has been an opportunity for IPAs to revisit their fundamental objectives, all AMS that have changed their priority sectors (44%) have done so to align them with the SDGs.
- *Improve the granularity of investment promotion indicators to select sustainable investors and measure their sustainability outcomes.* To select priority investors, all ASEAN IPAs use key performance indicators relating to productivity and innovation, and to job quantity and quality. Half use low-carbon

transition-related indicators and 38% gender equality. While most AMS are basing their investment promotion priorities on the SDGs, they could better align their indicators with their overall sustainable development objectives. Only a third of AMS have dedicated indicators to monitor and evaluate the sustainability outcomes of the firms they have prioritised and attracted. AMS could further step up efforts to ensure that sustainable investment promotion priorities are translated into concrete and measurable results. They could consider, following a growing number of IPAs in OECD countries, introducing scoring mechanisms to monitor and evaluate the quality or sustainability outcomes of the attracted FDI.

Promoting and enabling responsible business conduct

- *Ensure and promote regional alignment and peer learning on RBC.* ASEAN provides a wide range of regional frameworks and guidelines related to RBC, though their overall effectiveness and how they align with national policies often lacks clarity. AMS could consider streamlining the regional efforts through increasing efforts to raise awareness of the tools already available to businesses, promoting existing RBC standards, as well as encouraging peer learning and exchanges (e.g. through the development of common resources for stakeholders and businesses). Investors should also be expected to implement RBC principles in line also with key international standards (including the OECD Guidelines for Multinational Enterprises and the related Due Diligence Guidance).
- *Improve efforts to create an enabling environment for RBC within ASEAN Member States.* This includes developing National Action Plans on Business and Human Rights across AMS to mainstream RBC and raise awareness across government agencies, and prioritising and advancing reforms to ensure an enabling policy environment that underpins RBC. Domestic policies can be informed by regional efforts and peer learning at ASEAN level and from other regions. Further efforts are needed to prevent adverse impacts on the people and the planet, e.g. by strengthening institutions that can address RBC-related impacts and promote effective access to remedy, protecting human and labour rights, and safeguarding the environment, including through continued engagement in climate action at both regional and national levels.
- *Strengthen efforts to promote RBC due diligence.* Considering growing interest in practical application and implementation of RBC risk-based due diligence by business in the region, more can be done to promote existing tools and RBC due diligence frameworks within companies, and to encourage practices throughout the region to improve RBC risk management across company operations, supply chains and business relationships.
- *Ensure meaningful stakeholder engagement.* This includes continuing efforts to further ensure active participation of trade unions, civil society and business community in building a sustainable and responsible business environment. Continuing broader engagement with policy makers from AMS through policy dialogue could help further strengthen efforts in promoting responsible investments in the region.

Promoting investment for green growth

- *Update Nationally Determined Contributions (NDCs) with enhanced climate policy ambitions, including specific targets for emissions reductions in the transport sector.* As of September 2017, all AMS signed and ratified the Paris Agreement under the UNFCCC and submitted their Nationally Determined Contributions (NDCs) to the convention, joining the global collaborative effort to mitigate and adapt to climate change. But collectively, ASEAN NDCs are not yet aligned with the objectives of the Paris Agreement. Only Singapore, Malaysia and Lao PDR have committed to achieve net-zero greenhouse gas emissions by 2050, and only four AMS have updated their NDCs with increasingly ambitious emissions reduction targets in line with the Paris Agreement's five-year cycle. Moreover, only three AMS include specific targets for emissions reductions in the transport sector, despite the sector's major

detrimental impact on CO₂ emissions, hazardous air pollution, and traffic congestion in Southeast Asia's urban centres.

- *Use ASEAN as a platform to promote transboundary strategic environmental assessments (SEA) and environmental impact assessment (EIA).* To varying degrees, EIA systems have been established in Southeast Asia for over 40 years, and with few exceptions, EIA laws and policies of AMS provide for the three critical procedural rights of access to information, public participation, and access to remedies. However, only Thailand, Lao PDR and Brunei Darussalam legally require application of EIA principles to the assessment of the transboundary impacts of investment, and SEAs to examine the environmental and social impact of proposed plans, policies and programmes. Recognition of transboundary SEA and EIA at the ASEAN level could encourage other ASEAN governments to adopt these tools in their national EIA system.
- *Consider phasing out fossil fuel subsidies and using freed up funds for targeted support to vulnerable low-income electricity users.* The countries of Southeast Asia have made some progress in phasing out fossil fuels subsidies, but this process is far from complete and may be delayed by rising fuel prices. Fossil fuel subsidies put a burden on public finances and change incentives for energy use, often in environmentally harmful ways. Governments should resort to more targeted tools than subsidies on energy use to improve energy access and affordability. Phasing out subsidies could free up public funds for targeted support to low-income groups to ensure that vulnerable groups, which also tend to be those that are disproportionately affected by climate change, will be able to access clean and affordable energy.
- *Consider scaling down or phasing out investment incentives for non-green activities.* All AMS provide investment tax incentives to promote green investment. Some AMS offer similar incentive packages to 'green' and 'non-green' products and activities in prioritised sectors, such as energy and plastics. Providing similar incentives to both green and non-green substitutes reduces the ultimate effectiveness of efforts to promote green investment. These countries would benefit from classifying green and non-green activities in targeted sectors using emerging taxonomies, and scaling down or phasing out investment incentives for non-green activities.

2 Reforms and strategies to promote sustainable investment in ASEAN

The overall policy framework for investment

Attracting investment and reaping the maximum benefit in terms of sustainability depend first and foremost on the overall policy framework in which investment occurs. The broad enabling environment not only shapes the attractiveness of a host economy to foreign direct investment (FDI) but also plays a role in determining the effectiveness of specific measures discussed later in this report to enhance the sustainable impact of investment. The elements of this enabling environment are widely understood and generally accepted, but rarely fully achieved; they can be found in the Policy Framework for Investment (PFI) developed at the OECD and referenced in the ASEAN Comprehensive Recovery Framework (ACRF).

The PFI takes a comprehensive approach to the investment climate, including many policy areas beyond investment policy, such as competition, trade, tax, human resource development, corporate governance, responsible business conduct, finance, infrastructure and policies designed to channel investment into areas contributing to green growth. The PFI also places a strong emphasis on governance, stressing the importance of rule of law, transparency, consistency and predictability of laws, non-discrimination, respect for property rights, stakeholder engagement and whole of government approaches.

Later sections will look specifically at policies promoting responsible business conduct (RBC) and those fostering green investment, this section will consider two aspects more closely associated with investment policy: non-discrimination and investment promotion and facilitation. They constitute two elements of the investment climate with the most direct impact on FDI attraction but, additionally, they can also play a role in shaping sustainability outcomes from that investment.

Discrimination against foreign investors impedes both FDI inflows and sustainable outcomes

Inflows of foreign investment are clearly a precondition for any potential benefits in terms of sustainability. Collectively, AMS have been among the most successful regions in attracting FDI but performance has varied tremendously from one Member State to another. There are many possible explanations for this variable performance, but one plausible explanation can be found in the clear correlation between discrimination against foreign investors and inflows of FDI relative to the size of the economy. More open economies in ASEAN receive more FDI inflows given the size of their market. This same tendency can be found worldwide.

All AMS have adopted a more open policy stance towards foreign investment over time but some AMS have been much more ambitious reformers than others and as a result foreign investors face far fewer constraints in some AMS than in others. This has implications not only for the amount of investment each AMS receives but also for the potential benefits that they might derive from that investment. Not only is

productivity growth lower and competitiveness less in countries with greater restrictions, but an argument can be made that the presence of restrictions reduces potential benefits in terms of sustainability and inclusiveness that might be expected from FDI. Removing restrictions on FDI is not a panacea – numerous complementary policies are also necessary – but without reforms in this area, the scope for sustainable and inclusive outcomes from FDI is diminished.

AMS have reformed their investment regimes to varying degrees

AMS individually and collectively have made substantial improvements over time in the climate for investment. As a group, they have been among the greatest recipients of FDI among emerging regions and some AMS were early movers in the shift towards export-led development based in part on FDI. OECD *Investment Policy Reviews* undertaken across the region have attested to this reform agenda. These changes are reflected to some extent in the pace of legislative activity, particularly in changes to the investment laws across the region (Table 2.1). The most active reformers in recent years have been Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) who have all renewed their investment laws since 2016, often with improvements in market access and incentives more targeted towards sustainable outcomes. Indonesia introduced its Omnibus Law on Job Creation in 2020 which, although some elements have faced domestic opposition, has improved the legal framework for foreign investment, including numerous market opening measures (OECD, 2020^[7]).

Table 2.1. Investment related laws in Southeast Asia

	Investment Promotion Act, Omnibus Investment Code, etc.	Foreign Investment Law	Unified (foreign & domestic) Investment Law
Brunei Darussalam	No general law on investment or investment promotion		
Cambodia			1994, 2003, 2021
Indonesia	2020	1967	2007
Lao PDR		1986	2009, 2016
Malaysia	1986		
Myanmar		1988, 2012	2016
Philippines	1987	1991 (1996) 2022	
Singapore	No general law on investment or investment promotion		
Thailand	1977, 1991, 2001, 2017	1972, 1999	
Viet Nam		1987 (1990, 1992), 1996 (2000)	2005, 2014, 2021

Source: OECD compilation.

Thailand and Malaysia were early movers in welcoming foreign investors in manufacturing sectors with high export propensities but, as with the Philippines and Indonesia, have done less to open up their services sectors – although the Philippines has recently made important strides to remedy its longstanding underperformance in attracting FDI relative to other AMS. It undertook liberalising measures in 2021-22 to circumvent restrictions imposed in the Philippine Constitution which has traditionally impeded reform efforts. In 2022, it also amended the Foreign Investment Act. In Thailand, the Investment Promotion Act of 1977 (B.E. 2520) was amended most recently in 2017 (B.E. 2560). Singapore and Brunei Darussalam, in keeping with most OECD countries, do not have specific investment laws but regulate foreign investment through the broader regulatory framework, such as the Companies and Tax Laws or sectoral laws.

A key element of investment laws concerns the treatment of foreign investment. Discrimination against foreign investment can take many forms. Foreign investors might, for example, face specific approvals which differ from those for local investors. The most common restriction in AMS concerns limits on foreign equity participation which sometimes vary by sector. Other types of discrimination faced by foreign investors include, inter alia, higher minimum capital requirements, restrictions on foreign ownership of land, or limits on foreign participation in company boards. The OECD *FDI Regulatory Restrictiveness Index* (Box 2.1) measures most statutory restrictions against foreign investors, allowing for benchmarking of restrictiveness across countries and over time and for quantitative assessments of the potential impact of reforms.

Box 2.1. Calculating the OECD FDI Regulatory Restrictiveness Index

The OECD FDI Regulatory Restrictiveness Index seeks to gauge the restrictiveness of a country's FDI rules. The FDI Index is currently available for 100 countries worldwide (currently being extended to cover 100 countries). It does not provide a full measure of a country's investment climate since it does not score the actual implementation of formal restrictions and does not take into account other aspects of the investment regulatory framework which may also impinge on the FDI climate. Nonetheless, FDI rules are a critical determinant of a country's attractiveness to foreign investors and the FDI Index, used in combination with other indicators measuring various aspects of the FDI climate, contributes to assessing countries' international investment policies and to explaining variations among countries in attracting FDI.

The FDI Index covers 22 sectors, including agriculture, mining, electricity, manufacturing and main services (transport, construction, distribution, communications, real estate, financial and professional services). Restrictions are evaluated on a 0 (open) to 1 (closed) scale. The overall restrictiveness index is a simple average of individual sectoral scores. For a detailed description of the scoring methodology, please refer to the technical working paper by (Kalinova, Palerm and Thomsen, 2010^[8]).

For each sector, the scoring is based on the following elements:

- the level of foreign equity ownership permitted
- the screening/approval procedures applied to inward foreign direct investment
- restrictions on key foreign personnel
- other restrictions, e.g. on land ownership, corporate organisation (branching).

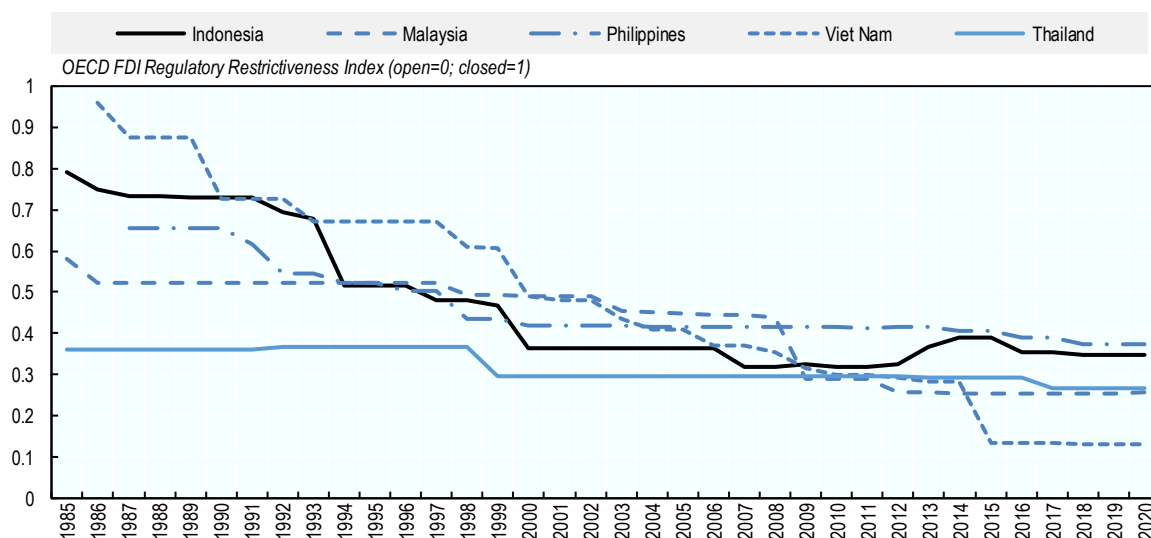
The measures taken into account are limited to statutory regulatory restrictions on FDI, typically listed in countries' negative lists. The FDI Index does not assess actual enforcement and implementation procedures. The discriminatory nature of measures, i.e. when they apply to foreign investors only, is the central criterion for scoring a measure. State ownership and state monopolies, to the extent they are not discriminatory towards foreigners, are not scored. Preferential treatment for special economic zones and export-oriented investors is also not factored into the FDI Index score, nor is favourable treatment accorded to certain investors on a bilateral or regional basis.

Source: For more information on the methodology, see (Kalinova, Palerm and Thomsen, 2010^[8]). For the latest scores, see: www.oecd.org/investment/index.

AMS have liberalised FDI restrictions at varying speeds over time, with numerous barriers remaining in some countries

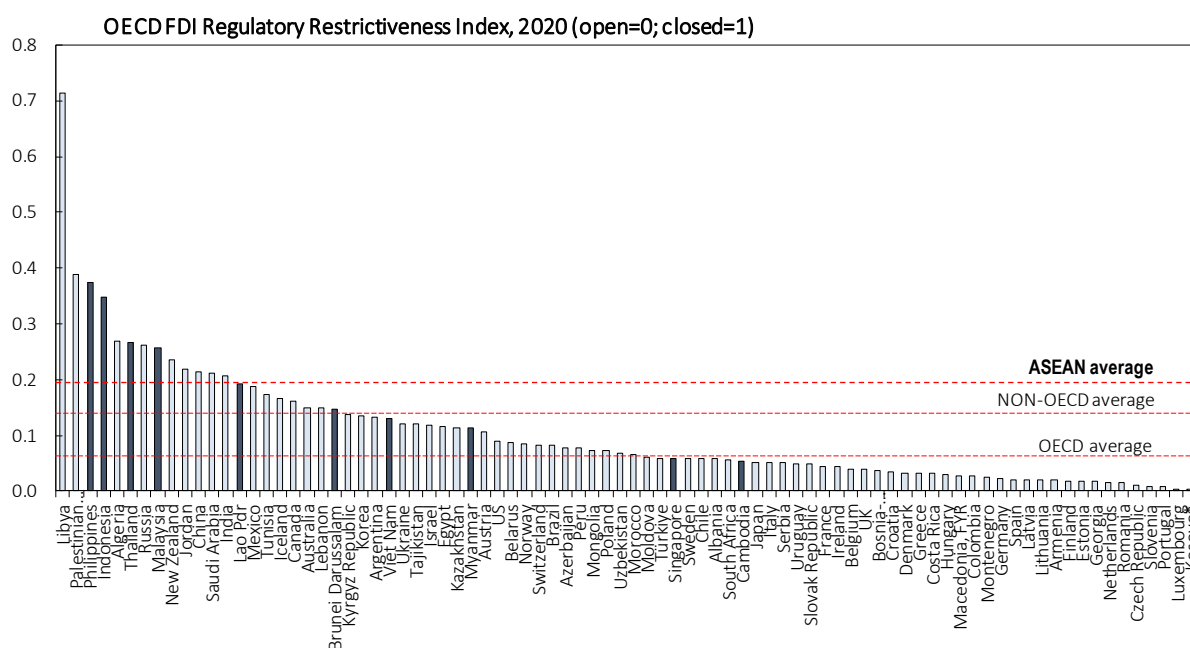
All AMS have liberalised their FDI restrictions over time at varying speeds, often starting from economies that were relatively closed to foreign investment outside of the manufacturing sector. Figure 2.1 provides estimates based on the OECD FDI Index for four AMS. These reforms have brought down overall levels of restrictiveness for all AMS, but the pace of change has varied greatly, and some countries have advanced far more than others (Figure 2.2).

Figure 2.1. AMS have removed their FDI restrictions substantially over time



Source: <http://www.oecd.org/investment/index>.

Figure 2.2. Several AMS still remain relatively restrictive to FDI



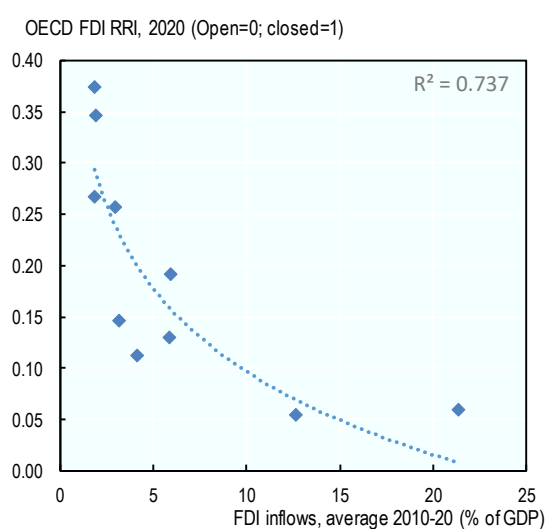
Source: www.oecd.org/investment/index.

Fewer restrictions imply greater inflows of FDI

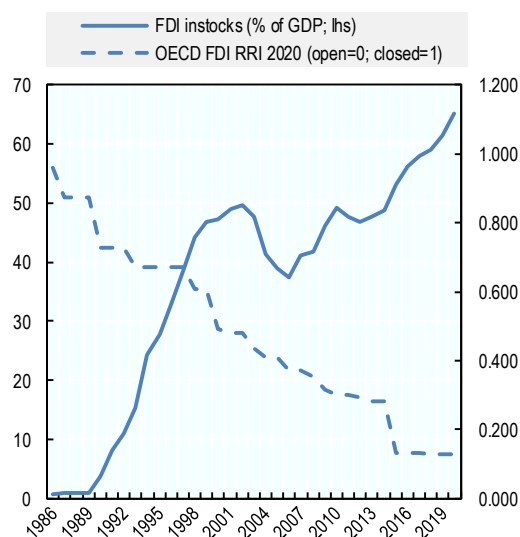
FDI restrictions as captured by the OECD FDI Index are strongly correlated with the stock of FDI in individual AMS relative to the size of their market (Figure 2.3.A). The same correlation holds for all countries covered in the Index, and OECD econometric analysis suggests that a 10% improvement in the Index score will lead to a 2% increase in the stock of inward FDI. While this finding is based on an average elasticity, the effect for individual AMS could be significant. OECD research finds that if Indonesia were to move toward levels of openness found in the top 25th percentile of countries covered by the Index, its stock of inward investment could increase by up to 95% and at a minimum 25% (OECD, 2020^[7]). The case of Viet Nam provides a perfect example of the inverse relationship between restrictiveness and FDI inflows (Figure 2.3.B).

Figure 2.3. More open AMS tend to receive more FDI

Panel A. FDI openness and inflows in ASEAN



Panel B. Influence of reforms on FDI inflows in Viet Nam

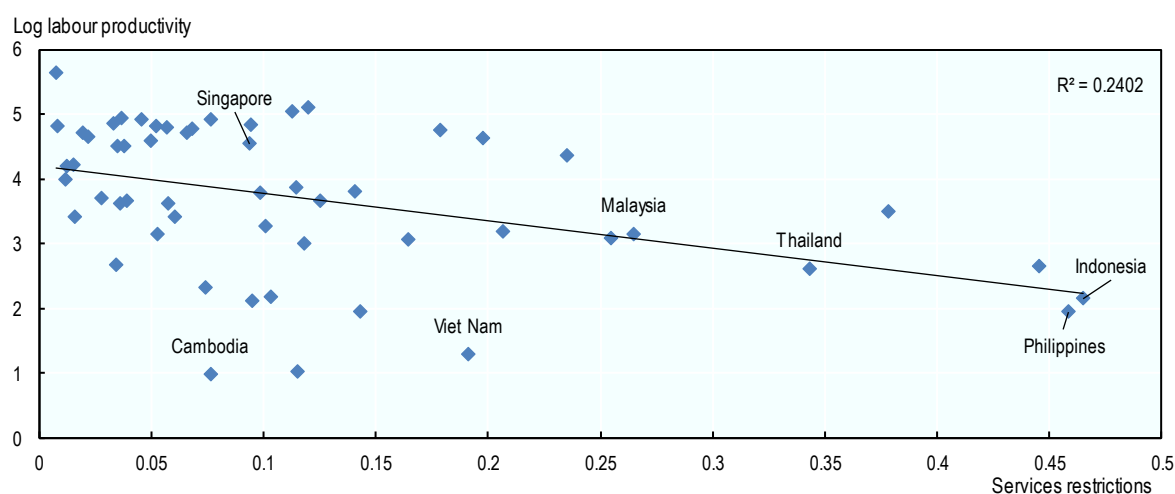


Source: www.oecd.org/investment/index.

FDI restrictions can impede productivity growth and competitiveness

Openness to FDI is not just about higher investment stocks (Mistura and Roulet, 2019^[9]), it is also associated with broader benefits in terms of the SDGs, such as higher productivity, skills development and gender balance. FDI restrictions can impede productivity growth and competitiveness, not only in the restricted sector but also in downstream sectors (Figure 2.4). For example, the numerous restrictions in the services sectors in ASEAN can affect the competitiveness of manufacturing sectors downstream that rely on these services as an input into their own production.

Figure 2.4. Overall labour productivity is lower when FDI in services is restricted



Note: Data for 2020. Labour productivity is defined as value added per person employed in USD 1 000, in constant prices. Labour productivity data are not available for Brunei Darussalam, Lao PDR, and Myanmar.

Source: Authors' calculations based on OECD FDI Regulatory Restrictiveness Index and World Bank's World Development Indicators.

Discrimination affects sustainability and inclusiveness

Discriminatory restrictions on the establishment and operations of foreign investors can diminish the potential contribution of FDI to decarbonisation. Some sectors that present significant opportunities for decarbonisation efforts remain partly off-limits to foreign investors in many countries – notably, transport, electricity transmission and distribution, and construction. Many services, typically associated with lower carbon emissions and in some cases crucial for energy-saving technologies (e.g. digital services), are also more frequently restricted to foreign participation (Gaukrodger and Gordon, 2012^[10]).

The link between non-discrimination and sustainable investment is often an indirect one. Restrictions on foreign investment, even where market access is permitted, have been found to deter foreign investors (Mistura and Roulet, 2019^[9]). Hence, to the extent that foreign investment has potential beneficial effects on host country sustainable development, any barrier to that investment will limit the amount of capital, technology, energy savings and global market access that might have otherwise arisen from that investment.

Even if there are no direct barriers to invest in green sectors, restrictions along other parts of the value chain can nevertheless impede investment in these sectors. This is most apparent in renewable energies, where inefficient transmission and distribution sectors can effectively block potential investors upstream. But it can arise in any sector where a lack of competitiveness upstream or downstream can lower overall levels of foreign investment throughout the economy. Thus, to understand how existing restrictions might deter sustainable foreign investment, it is not sufficient to assess the openness in sectors linked most closely to sustainability. FDI restrictions can thus directly and indirectly impede investment in sectors contributing to greater sustainability. They can also perpetuate inequalities within host economies to the extent that they limit competition and hence raise prices of goods and services of most importance to the poor or to those living in remote regions.

Investment promotion strategies and sustainable development in ASEAN

In their quest to leverage FDI as an engine of growth and development, AMS have not only gradually liberalised their economies to allow the entry of foreign investment, they have also designed investment

promotion strategies to establish clear objectives, targets and means in their efforts to attract and facilitate FDI. Investment promotion strategies can play an important role in the achievement of the SDGs through FDI. While sound investment policies are designed to ensure that host countries are attractive and FDI benefits are maximised, investment promotion strategies are designed to influence the kind of investment that is attracted into their economy. In this context, most governments prioritise certain types of investments over others, which takes place through the selection of priority sectors, source countries and investment projects (OECD, 2018^[11]). This prioritisation takes place because some types of FDI, with certain characteristics, are considered to make more of a contribution to a host country's development than other types (Sauvant and Mann, 2019^[12]). In particular, the issues of sustainability, inclusiveness, and the contribution to the SDGs have become increasingly important and have led some agencies to redefine their priorities and sharpen the methodologies and tools used for this purpose.

Investment promotion strategies can be designed by the ministry in charge of investment, the investment promotion agency (IPA) or a combination of both or more actors. Whether key contributors or not, IPAs are the main implementors of their country's investment promotion strategies. While IPAs in ASEAN vary significantly in terms of status and scope of mandates, they all undertake a panoply of activities to attract, help establish, regulate, and retain investors in their economies (Box 2.2).

Box 2.2. The diversity of ASEAN investment promotion agencies

IPAs in ASEAN vary greatly in terms of status, governance, scope of activities and ways of working. For example, the Council for the Development of Cambodia (CDC) is a large authority equivalent to a ministry, and encompasses a wide range of policy making, regulatory and promotional activities. It is in charge of law making, treaty negotiation, incentives' design and promotional activities, among others. The Indonesian Investment Co-ordinating Board (BKPM) has also been recently upgraded to a Ministry of Investment, following the enactment of the Omnibus Law on Job Creation in 2020, and has similar wide-ranging mandates.

Other IPAs, fully integrated in their supervisory ministries, but focusing rather their activities on FDI promotion and facilitation, include the Brunei Investment Agency (BIA), the Investment Promotion Department (IPD) in Lao PDR, the Directorate of Investment and Company Administration (DICA) in Myanmar and the Foreign Investment Agency (FIA) in Viet Nam. The fact of being integrated in their respective ministries makes them less autonomous in implementing their activities but well aligned with broader government objectives. It also allows them to facilitate the dialogue between the public and the private sector and to voice the concerns of businesses more easily to relevant parts of government.

Finally, the remaining agencies include the Malaysian Investment Development Agency (MIDA), the Board of Investments (BOI) in the Philippines, the Economic Development Board (EDB) in Singapore and the Board of Investment (BOI) in Thailand. While the former two are located under the supervision of their ministries, the latter two are fully autonomous agencies. These agencies are also all primarily focusing on investment attraction and facilitation. Being amongst the oldest IPAs in the world and having accumulated a wealth of expertise in investment promotion, they are often considered as a source of good international practice

Source: OECD Investment Policy Reviews of AMS and IPAs' websites

While mandates and functions vary from one IPA to the other, all now fully recognise their role in attracting and boosting investment in support of the SDGs and, as such, focus their efforts increasingly on those investors that are more likely to generate sustainable development impacts. In this light, this section

provides a brief comparative analysis of: i) ASEAN Member States' current FDI prioritisation strategies, ii) the extent to which sustainability is considered in their FDI prioritisation efforts, and iii) the indicators used by IPAs to both target FDI and measure their outcomes. The findings are based on the results of the *OECD survey on IPA Monitoring & Evaluation and Prioritisation for ASEAN Member States* completed in May-July 2022 by relevant ministries and IPAs from nine AMS (Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam).

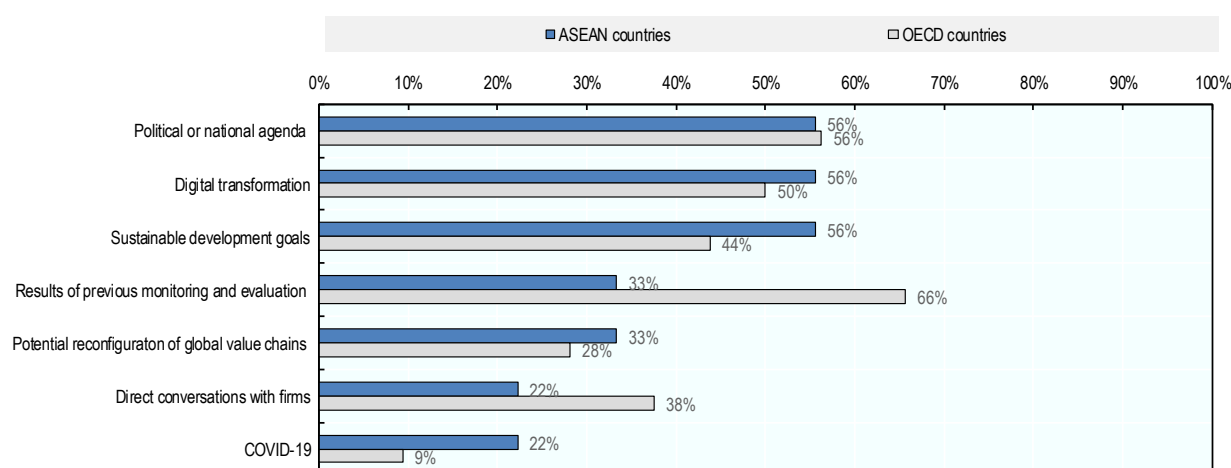
Investment promotion strategies: setting and adjusting priorities for FDI

What is motivating investment promotion priorities

When governments design their investment promotion strategies, they prioritise certain types of sectors, countries, investment projects or individual investors – either because they have a higher probability of being realised or because they may bring unique benefits to the host economy (OECD, 2018^[11]). Prioritisation strategies can be motivated by a series of different factors, depending mostly on the country's national development objectives, local assets and international context. These strategies allow countries to specialise and target their FDI attraction efforts towards specific government priorities.

Contributing to the SDGs is high on the agenda of ASEAN governments, as it is selected by 56% of respondents when asked about top factors influencing their investment promotion priorities, the highest share together with the political or national agenda and digital transformation (Figure 2.5). This share is higher than in the OECD (44%), which shows the extent to which using FDI to achieve the SDGs has been at the centre of economic policy in Southeast Asia. IPAs in the OECD adopt a rather pragmatic perspective and select the results of previous monitoring and evaluation (M&E) as the most important factor, which is also a top factor for Indonesia, Lao PDR and Singapore. A robust M&E system can indeed capture different relevant aspects, including related to sustainability, and guide strategic orientations accordingly (Sztajerowska and Volpe Martincus, 2021^[13]).

Figure 2.5. Top factors motivating IPAs' current priorities in ASEAN and OECD countries



Source: OECD survey on IPA Monitoring & Evaluation and Prioritisation (OECD countries, 2021; ASEAN countries, 2022).

The overall political or national agenda, which is also deemed important in both ASEAN and OECD countries, can underpin other factors as well, such as digitalisation and sustainability. Conversely, the COVID-19 crisis is considered as a top factor only by 9% of OECD agencies and only by Myanmar amongst ASEAN IPAs. Although the pandemic has had a strong immediate effect on investment promotion

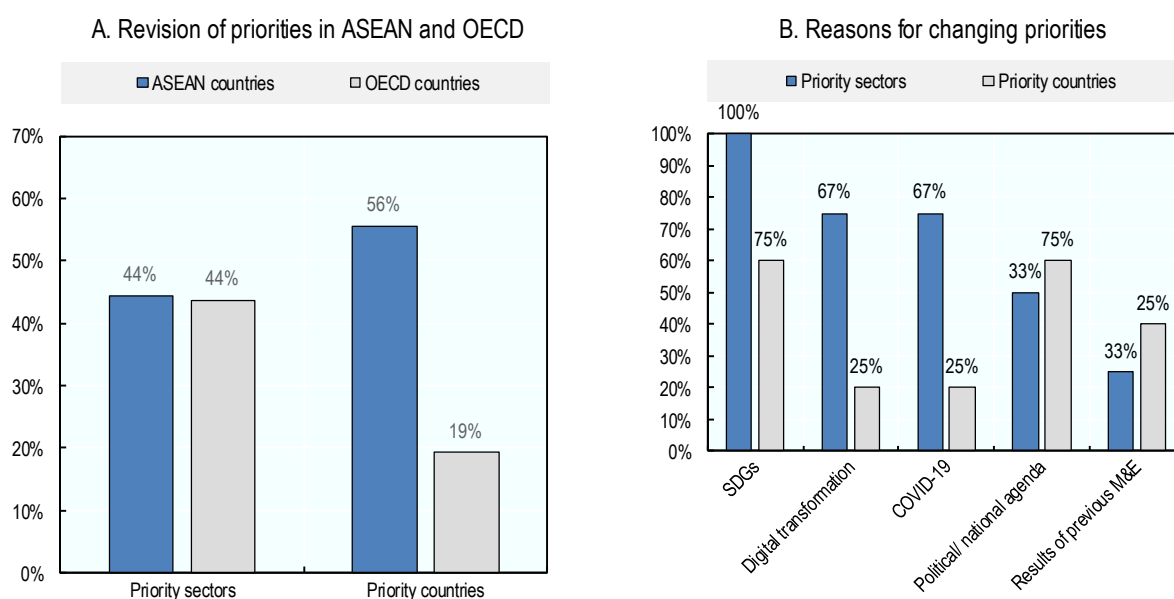
activities around the world, prompting IPAs to change their priority actions and ways of working (OECD, 2020^[14]), the crisis has not shifted their main concerns beyond key priorities such as sustainability and digitalisation. It has rather prompted governments and IPAs to accelerate their response to these global imperatives as a way to reinforce economic resilience.

Adjusting criteria for priority sectors and countries

The criteria that motivate FDI prioritisation strategies vary over time and IPAs have to adapt swiftly and adequately to evolving circumstances. As such, there has been a relative shift in investment promotion priorities in ASEAN during the pandemic years, as almost half of respondents – namely Indonesia, Malaysia, Myanmar and the Philippines – reported to have changed the criteria for selection of priority sectors and priority countries. Lao PDR changed the criteria for priority countries but not for priority sectors. In the OECD, while the same share of IPAs has revised their sectoral priorities, much fewer have altered their priority countries (Figure 2.6.A).

The SDGs have played a major role in the change of priorities observed in AMS investment promotion strategies since all respondents indicating a change in sectoral priorities during the pandemic years have done so to consider the SDGs, and 60% have altered their country priorities for the same reason (Figure 2.6.B). This reflects the growing willingness to attract FDI to achieve the SDGs across AMS, but it also shows that the shift towards more targeted sustainable investment promotion is relatively recent.

Figure 2.6. Revision of priority sectors and countries in 2020-22



Note: the figure on Panel B only represents Indonesia, Lao PDR, Malaysia and Myanmar who reported to have changed priorities.

Source: OECD survey on IPA Monitoring & Evaluation and Prioritisation (OECD countries, 2021; ASEAN countries, 2022).

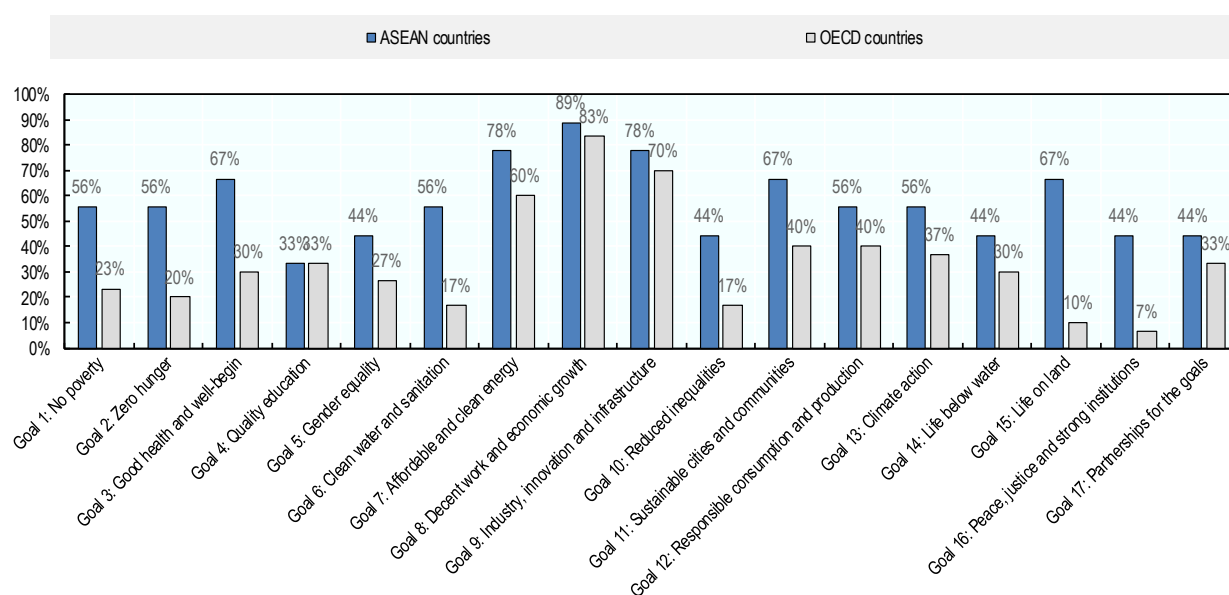
As in the case of other crises, the COVID-19 pandemic has been a particularly opportune period for governments to revisit the fundamentals of their economic policy and to reorient their priorities towards more resilience and sustainability. Investment promotion priorities are aligned with these new orientations geared at sectors that are not only more resilient to shocks but that can also bring higher social and environmental benefits to society at large, in line with the priorities and actions set in the ACRF (ASEAN, 2020^[5]). AMS are also revisiting country priorities for investment promotion, notably to target markets that are sources of high-tech FDI (e.g. Malaysia) or based on bilateral economic agreements (e.g. Philippines).

A closer look at sustainability in investment promotion efforts

As IPAs are increasingly targeting sustainable investment, they can contribute to some SDGs more than others. Most IPAs in ASEAN consider that they contribute to the majority of the SDGs, as 11 out of 17 Goals are selected by over half of them. The difference is high across ASEAN IPAs, as some consider they contribute to a limited number of SDGs (e.g. Lao PDR and Thailand with two goals, and Indonesia with four), while others deem to contribute to all of them (Cambodia, Singapore). These differences can be explained by the degree of specialisation of the different agencies across AMS.

In both ASEAN and OECD countries, the SDGs relating to promoting economic growth and employment (Goal 8); ensuring access to modern and clean energy (Goal 7); and supporting resilient infrastructure, industrialisation and innovation (Goal 9) are mentioned by most IPAs (Figure 2.7). This is not a surprising result since these objectives correspond most closely to IPAs' usual tasks. ASEAN IPAs also consider contributing to a large extent to sustainability-related goals, particularly good health and well-being (Goal 3), sustainable cities and communities (Goal 11) and life on land (Goal 15), while climate action (Goal 13) is selected by the IPAs from Cambodia, Malaysia, the Philippines, Singapore and Viet Nam. BKPM in Indonesia and the IPD in Lao PDR consider contributing to reduced inequalities (Goal 10) by seeking to use FDI to reduce regional disparities across the country. In Indonesia, it is part of their key performance indicators (see below) while in Lao PDR, the Investment Law provides incentives to promote the creation of economic zones in each province to reduce geographical inequalities.

Figure 2.7. The SDGs to which IPAs in ASEAN and OECD contribute



Source: OECD survey on IPA Monitoring & Evaluation and Prioritisation (OECD countries, 2021; ASEAN countries, 2022).

The figure also highlights that ASEAN IPAs seem to contribute more significantly to the SDGs than those in the OECD, which could be explained by the fact that IPAs in ASEAN are often more closely related to the ministry in charge of investment or have a broader economic role (see Box 2.2 above), which can thus give them a wider field of action on key aspects related to the SDGs. IPAs in the OECD are often more specialised and autonomous, focusing on selected tasks and priorities, which are related to fewer SDGs.

A key question posed by the integration of such a high number of SDGs in AMS investment promotion strategies, however, is the way and the degree to which IPAs can track their contribution to the SDGs. A panoply of indicators can be used by IPAs to guide and evaluate their contribution to the SDGs, as

illustrated by the cases of Malaysia, the Philippines and Viet Nam (Table 2.2). These are broad indications meant to be aligned with government policies rather than measurements of the IPA performance or of the development outcomes of FDI, however. A closer look at IPA key performance indicators (KPI) is necessary to understand and evaluate the extent to which investment promotion strategies contribute to attracting and facilitating sustainable investment in AMS.

Table 2.2. How IPAs of Malaysia, the Philippines and Viet Nam track their contribution to the SDGs

SDG	Malaysia	Philippines	Viet Nam
1	Incentivising investment projects with higher income jobs and narrowing regional divides		
2	Implementing agro-food production programmes to achieve self-sufficiency and support downstream activities for food security	Capacity of food produced; annual production volume and value	
3	Incentivising investment projects in health care and activities to revitalise health care systems		
4			
5			Percentage of female employees in FDI firms
6	Impact assessment of investment on water use to enhance environmental sustainability through the incentives on Rain Harvesting Systems	Capacity to produce water; annual production volume; requirement to establish facilities and equipment that provides clean water	Waste treatment and emission
7	Using the Green Investment Tax Allowance and Green Investment Tax Exemption	Capacity to produce energy; annual production volume	Use of clean energy and modern technology
8	Initiatives to align with industry, education and training sectors to develop future talents of the labour market	Requirement for firms to undertake vocational or technical scholarship/training programme	Percentage of local employment
9	Promoting balanced industrial estates development, particularly in less developed states with end-to-end facilities and infrastructure	Number of infrastructure projects and their capacities	Contribution to the local economy; percentage of investment in R&D
10			
11	Smart-nation initiatives by accelerating the adoption of technologies proposed in the investment projects	Housing unit built to be reported by registered firms; requirement for firms to develop social housing	Compliance with environmental and safety regulations
12	Investment projects that ensure environmental protection and sustain natural resources		Appliance of labour and quality standards in all stages of production
13	Investments with circular economy model and low-carbon framework to address the issues of climate change and disasters		Use of clean energy; emission rate
14	Incentivising investment projects that incorporate measures to optimise ocean resources and protection of marine ecosystem		Compliance with wastewater treatment regulations
15	Promoting mainstreaming of natural ecosystem science and approaches into investment development planning		Compliance with carbon emission regulations
16	Improving existing institutional setup, resolution of key implementation issues related to investment		
17	South-South Co-operation, Malaysia Technical Co-operation Programme; Trade Agreements and partnerships within ASEAN and APEC		

Source: OECD survey on IPA Monitoring & Evaluation and Prioritisation (ASEAN countries, 2022).

Indicators to prioritise and measure sustainable investment

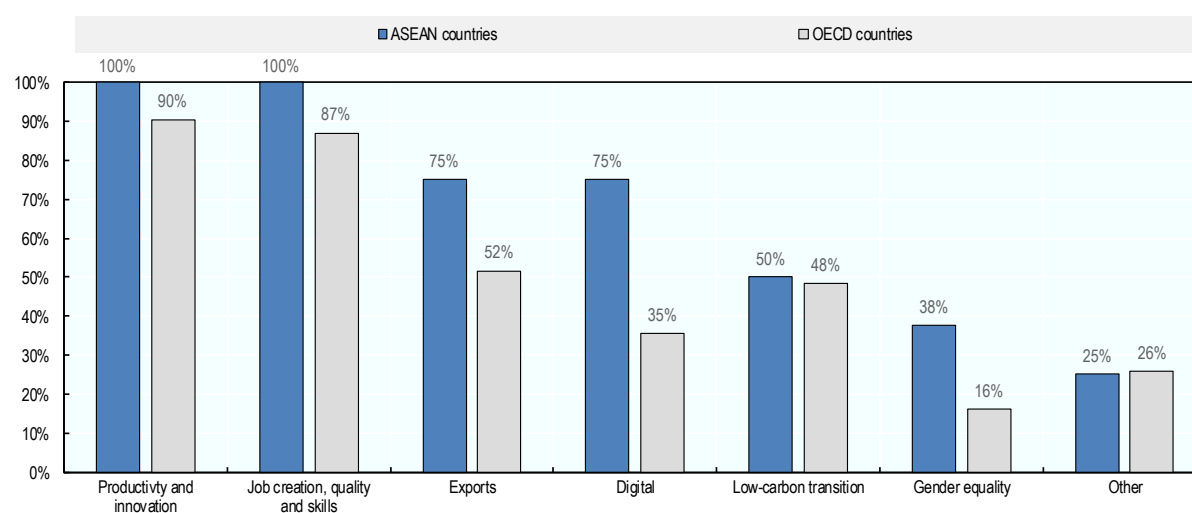
As the broader objective of promoting sustainable and responsible investment is increasingly taken on board by ASEAN governments, IPAs need to rely on specific and consistent indicators to ensure that: a) they attract the right investments, and b) the attracted FDI actually generates sustainability outcomes.

IPAs cannot simply rely on good intentions or overarching objectives but need to show evidence to decision-makers of their contribution to the achievement of the SDGs through the promotion of more sustainable and responsible investment. IPAs thus need to adopt clear indicators that can help them establish priorities and measure their outcomes.

Using the right KPIs to select priority investors

To select priority firms and guide their decision on whether to assist a particular investment project, IPAs rely on KPIs related to outcomes, some of which aim to assess the contribution of a project to local development and sustainable growth. These can be grouped into several broad categories (Figure 2.8). The most used KPIs in both ASEAN and OECD countries are those relating to productivity and innovation, and those on job quantity and quality. The least used category of indicators relates to gender equality, which are used by the IPAs of the Philippines, Singapore and Viet Nam, and usually measured by the number of female employees in foreign firms. Indonesia also uses a different type of prioritisation indicator relating to the geographical dispersion of FDI and measured by the value of investment realisations outside Java. Similarly, the Philippines use indicators to prioritise investment projects that have a positive impact on nature conservation and the protection of sea and coastline, among others.

Figure 2.8. Types of KPIs used for FDI prioritisation by ASEAN and OECD IPAs



Note: “Other” refers to the equal distribution of investment in Indonesia and to other priority investments in the Philippines.

Source: OECD survey on IPA Monitoring & Evaluation and Prioritisation (OECD, 2021; ASEAN, 2022).

KPIs related to the low-carbon transition are used by Malaysia, the Philippines, Singapore and Viet Nam. For example, Malaysia uses indicators such as the adoption of green technologies, the reuse and recycling of activities as well as projects applying the circular economy model (e.g. pollution and waste management) to prioritise investment. The Philippines uses green processes and the use of modern technology. In the OECD, although carbon-related indicators to prioritise FDI are very different from each other – and often still in development – several more sophisticated mechanisms are emerging and increasingly used (Box 2.3). When designing their investment promotion strategies, IPAs can also identify and focus on sectors where foreign investments’ environmental performance is higher than domestic ones, or where CO₂ emissions are lower, among others (Section 4).

Box 2.3. Environmental sustainability KPIs for prioritisation in OECD countries

In OECD countries, 48% of IPAs use carbon-related KPIs for prioritisation purposes. Different indicators are used differently by IPAs. Many of them set a target and track the number of attracted and realised projects according to their target sectors and countries.

IDA Ireland has set a target to win 60 environmental sustainability investments in 2021-24. In identifying priority investments, IDA has developed an approach guided by the six sustainable activities set out in the European Union taxonomy on sustainable investment and by an analysis of the sustainability opportunities which align with Ireland's core strengths, and which are deemed to present the greatest opportunity to win FDI. In addition to targeting new discrete investments focused on the green economy, IDA is also partnering with existing multinational enterprises in Ireland to support decarbonisation and sustainable production.

Business Sweden has embraced the long-term national 'Pioneer the Fossil Free' initiative, by setting clear objectives to accelerate green investments to Sweden to become fossil free by 2045. The agency identifies companies, solutions and expertise that can support reducing CO₂ emissions in Sweden and monitors and adapts its investment promotion priorities and activities accordingly.

Some agencies are also developing sustainability scoring mechanisms. For example, *Germany Trade & Invest* developed an integrated scoring model, where FDI projects are assessed and scored against a set of qualitative and quantitative indicators for sustainability. The agency then adjusts its promotion and advisory services to investors accordingly. Similarly, *Invest in Canada* has recently introduced a scoring mechanism to prioritise investment opportunities based on two dimensions: FDI impact and investment potential. The former evaluates the likelihood that the investment will benefit Canada and one variable focuses on social and sustainable development. The agency uses Bloomberg terminal and its scoring system to measure Environmental, Social and Governance (ESG) related impact.

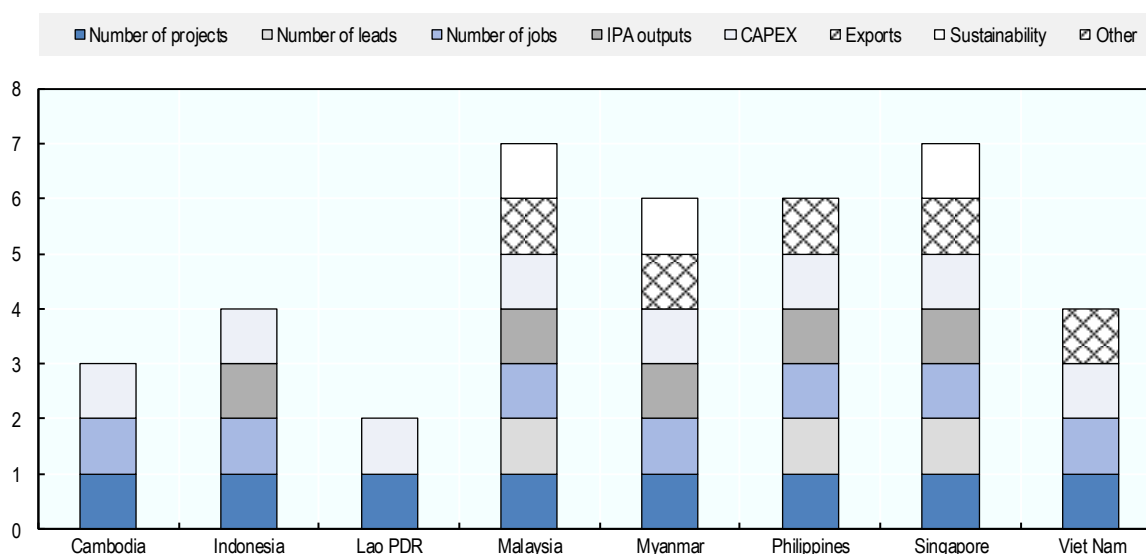
Source: OECD survey on IPA monitoring & evaluation and prioritisation (OECD countries, 2021); direct interactions with IPAs.

Monitoring and evaluating the IPA's activities and the sustainability outcomes of FDI

To ensure that prioritisation is effective, it is important to have a strong M&E system with relevant indicators. Agencies across ASEAN differ significantly in the type of KPIs used for monitoring and evaluation (Figure 2.9). While all use the number of projects and the investment value (CAPEX) as M&E indicators, only Malaysia, Myanmar and Singapore have dedicated indicators to measure the sustainability outcomes of the attracted FDI. Malaysia conducts cost-benefit analysis using ESG indicators, whereas Myanmar measures the number of investment projects in SDG sectors, the number of environmental impact assessments and environmental management plans, and the number of projects in renewable energies. The number of jobs can also be a useful indicator to measure sustainability outcomes if they are linked to a specific sustainability-oriented skillset, sector or project, but few AMS report using it with such level of details.

In OECD countries, many IPAs tend also to rely predominantly, or exclusively, on metrics relating to the number and value of investment projects (Sztajerowska and Volpe Martincus, 2021^[13]). Some agencies, however, put increasingly more attention on sustainability-related KPIs and track the projects in related priority sectors. For example, the Turkish IPA measures the number of projects that are realised in the targeted low-carbon sectors, namely recycling, renewable energy, and the development of energy efficient components and technologies. Similarly to what is done for prioritisation, some IPAs introduce scoring mechanisms to monitor and evaluate the quality or the sustainability outcomes of the attracted FDI, as illustrated by the case of Finland (Box 2.4).

Figure 2.9. Types of KPIs used for monitoring and evaluation by ASEAN agencies



Source: OECD survey on IPA Monitoring & Evaluation and Prioritisation (ASEAN countries, 2022).

Box 2.4. Finland's IPA quality scoring mechanism

Sustainability has been part of *Invest in Finland's* FDI project's scoring since 2019 (for firm selection and prioritisation) and a dedicated sustainability KPI was introduced early 2022. *Invest in Finland* is now introducing a model for impact evaluation based on direct interviews with investing firms. An advisor from the agency is requested to fill in the following information for each realised FDI project:

1. Have you discussed about environmental and/or social responsibility questions with the investor(s) related to this opportunity?
2. Does this opportunity contribute to new solutions that increase carbon handprint or decrease carbon emissions?
3. Does this opportunity contribute to new business models or solutions based on circular economy or life-cycle thinking (i.e. a way of thinking that includes economic, environmental and social consequence of a product or a process over its entire lifecycle)?
4. Does this opportunity contribute to other sustainable development topics like clean energy, sustainable service production, sustainable manufacturing, smart mobility or sustainable health solutions, i.e. compliant with the SDGs?

By compiling and analysing the responses to these questions, *Invest in Finland* keeps track of the sustainability outcomes of the attracted FDI projects.

Source: Direct interactions with Business Finland

Policy coherence in sustainable investment promotion

Several conclusions emerge from the analysis of how AMS design, implement and monitor their investment promotion strategies to support their country's sustainability objectives. First, one can observe an apparent disconnect between the overarching priority setting by IPAs and the actual indicators used to prioritise investments and to measure their outcomes. Table 2.3 shows that while a majority of AMS are basing their

investment promotion priorities on the SDGs (and have sometimes even readjusted them recently on the same basis), many have limited or no related low-carbon or sustainability indicators. Conversely, some AMS have not set their investment promotion priorities based on the SDGs but use indicators to measure the sustainability outcomes of their performance. Arguably, the SDGs cover a higher number of topics than the low-carbon transition, but the topics related to environmental sustainability are prominent in the SDGs. Effective sustainable investment promotion strategies require a better alignment of overall objectives and useable indicators and measurements.

Second, there appears also to be a certain disconnect between the KPIs used by IPAs for FDI prioritisation and those for M&E, as the reported indicators tend to be different. While it is key to design a sound investment prioritisation strategy, it is equally important to understand and track its contribution to the desired development outcomes. The same KPIs should thus ideally be used both for prioritisation and for M&E, particularly from the sustainability point of view, to ensure consistency between the set targets and the desired outcomes.

Table 2.3. Coherence on sustainability objectives in AMS' investment promotion strategies

	Current priorities motivated by SDGs	Recent adjustment of priorities due to SDGs	Prioritisation indicators for low-carbon transition	M&E indicators for sustainability
Cambodia				
Indonesia				
Lao PDR				
Malaysia				
Myanmar				
Philippines				
Singapore				
Thailand			n/a	n/a
Viet Nam				

Note: This table summarises the responses provided by AMS to four different questions of the survey.

Source: OECD survey on IPA Monitoring & Evaluation and Prioritisation (ASEAN countries, 2022).

IPAs should not only focus on promoting sustainable investment through new investments, but also use the SDGs to guide them in the way they deliver investment facilitation and aftercare services to existing investors who wish to expand or reinvest. IPAs in ASEAN could, for example, consider focusing these aftercare activities on those investors with the highest sustainability impacts. As further outlined in Section 3, they could also take advantage of these services to better promote responsible business conduct amongst the existing business community and encourage investors to comply with sustainability-related laws more systematically, as well as to embrace responsible practices in their business operations.

3 Promoting responsible business conduct in ASEAN

Investment helps promote economic growth, facilitate competition and improve productivity, and can be an important source to facilitate commitments to sustainable development, including the Sustainable Development Goals (SDGs) and the Paris Agreement. Balancing economic growth objectives with social and environmental impacts has become vital in developing policy and legal frameworks, particularly under emerging global uncertainties, such as the outbreak of the COVID-19 pandemic. Within this context, promoting responsible business conduct (RBC) is of central interest to policy makers wishing to attract and keep quality investments, and to ensure that business activities contribute to broader value creation and sustainable development. ASEAN policy makers, as early movers in attracting investments and promoting export-oriented development strategies, have recognised the importance of RBC across certain policy areas – including at both regional and national levels. Despite promising trends, more could be done to promote responsible business and quality investment in the region, both by policy makers through creating an enabling environment for RBC, and by businesses through embedding RBC policies and mitigating adverse impacts throughout their operations, supply chains and business relationships.

Scope and importance of responsible business conduct

RBC centres on an expectation that all businesses – regardless of their legal status, size, ownership structure or sector – avoid and address negative consequences of their operations, while contributing to sustainable development where they operate. This means integrating and considering environmental and social issues within core business activities, including throughout supply chains and business relationships. A key element of RBC is risk-based due diligence – a process through which businesses identify, prevent and mitigate their actual and potential negative impacts, and account for how those impacts are addressed. Understanding, addressing, and avoiding risks material to business operations in a more comprehensive way – that is, beyond financial risks – can often lead to a competitive advantage.

RBC expectations are prevalent throughout global value chains and in international trade and investment agreements, as well as in national development strategies, laws, and regulations. They are also affirmed in the main international instruments on RBC – notably the OECD Guidelines for Multinational Enterprises (MNE Guidelines), the UN Guiding Principles on Business and Human Rights (UN Guiding Principles), and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy – which align and complement each other (Box 3.1). Many businesses also find that responsible business is good business, beyond ensuring respect for human rights and compliance with relevant laws and regulations. RBC is an entry point for any company that wishes to contribute to the Sustainable Development Goals (SDGs) or to achieve specific economic and sustainability outcomes.

Box 3.1. Overview of OECD RBC instruments

The *OECD Guidelines for Multinational Enterprises* (MNE Guidelines) are the most comprehensive international standard on RBC. The MNE Guidelines reflect the expectation from governments to businesses on how to act responsibly. They cover all key areas of business responsibility, including environment, human rights, labour rights, bribery, industrial and business relations, consumer protection, information disclosure, science and technology, competition, and taxation. MNE Guidelines are part of the OECD Declaration on International Investment and Multinational Enterprises, which, to date, has 51 adherents (including OECD members and non-members).

The *OECD Due Diligence Guidance for Responsible Business Conduct* provides practical support for enterprises in implementing the Guidelines and helps them operationalise international RBC instruments. It introduces a due diligence and risk management mechanism, which includes embedding RBC practices within the core of company operations, identifying, preventing and mitigating adverse impacts, engaging in monitoring and evaluation, communicating results, and providing access to remedy, as needed. Beyond this cross-sectoral instrument, the OECD has also developed guidance to provide tailored recommendations across sectors, including agriculture, minerals, extractives, garments and footwear, and finance.

International convergence on RBC principles and standards.

The three main instruments that have become key reference points for responsible business, and which outline how companies can act responsibly, are the MNE Guidelines, the UN Guiding Principles on Business and Human Rights, and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. They are aligned with and complement each other, and set global expectations with regard to responsible conduct. Some of the key areas on which these instruments converge include:

- ***Framework for all companies.*** International corporate responsibility standards set the expectation that all companies – regardless of their size, sector, operational context, ownership and structure – avoid and address the adverse impacts with which they are involved, and contribute to the sustainable development of the countries in which they operate.
- ***Common understanding of impact.*** The instruments set out that the impact of business activities goes beyond the impact on the company itself and refers to the impact business activities may have on human rights – including labour rights – the environment and society, both positive and negative. The instruments establish a common understanding that enterprises can cause, contribute to, or be directly linked to adverse impacts (through operations, products or services by business relationships), and they provide a framework for how enterprises should avoid and address them.
- ***Conducting due diligence.*** Businesses should undertake due diligence to identify, prevent and mitigate their actual and potential negative impacts, and account for how those impacts are addressed. This process should involve meaningful consultation with potentially affected groups and other relevant stakeholders. With respect to labour rights, consultation with workers' organisations is particularly important. By helping companies understand the impacts of their activities and by clarifying the expectations around due diligence, these international instruments guide companies on what they should do in order to know and show that they are behaving responsibly.
- ***Responsibility throughout the supply chain.*** Responsible business covers not only impacts that a company may cause or contribute to through its own activities but also those impacts directly linked to an enterprise's operations, products or services through its business relationships. This includes business partners, entities in the value chain such as subsidiaries, suppliers, franchisees, licensees,

joint ventures, investors, clients, contractors, customers, consultants, financial, legal and other advisers, and any other non-state or state entities.

- *Access to remedy.* As part of their duty to protect against business-related adverse impacts, states are expected to take appropriate steps to ensure, through judicial, administrative, legislative or other appropriate means, that when such abuses occur within their territory and/or jurisdiction those affected have access to effective remedy. In addition, where companies identify that they have caused or contributed to adverse impacts, they are expected to address them through providing remedy, and they should provide for or co-operate in this remediation through legitimate processes.

Source: OECD (2011^[15]), OECD Guidelines for Multinational Enterprises, 2011 Edition, <https://doi.org/10.1787/9789264115415-en>, (OECD, n.d.^[16]; OECD, 2018^[17]; European Commission, n.d.^[18]; UN; OECD; EU; ILO; SJDW, 2019^[19])

While the term corporate social responsibility (CSR) has historically been used to describe business interactions with society, over the last years, CSR has been increasingly being used alongside RBC and business and human rights, i.e. highlighting that environmental and social issues are not an add-on, but rather a core issue, to business operations. Many times, both RBC and CSR (if used beyond philanthropy) aim to promote the same idea – that enterprises are expected to consider the impact of their activities beyond the impact on the company itself and positively contribute to sustainable development of the countries where they operate.

Promoting and enabling responsible business conduct in ASEAN

Regional frameworks and initiatives

Overarching frameworks at ASEAN level

As policy makers, businesses and the civil society began increasing demands for more cohesive strategies to promote responsible business practices, ASEAN began reflecting RBC-related concepts across its frameworks. In particular, some recent examples include the ASEAN Economic Blueprint 2025 (adopted in 2015) which includes provisions regarding stakeholder engagement, as well as the Socio-Cultural Community Blueprint 2025 which includes provisions regarding sustainable consumption and production strategies and promotion of activities to enhance CSR. Moreover, the ASEAN Political-Security Blueprint 2025 calls on strengthening collaboration with the private sector and other stakeholders, as part of promoting CSR. Further to strategic guidance, the legally binding 2015 ASEAN Convention against trafficking in persons entered into force in March 2017, while steps were taken to tackle issues related to migrant workers, including through guidelines and declarations on protecting their rights (OECD, 2019^[20]).

Recent years have seen further growth in efforts to enhance and streamline RBC frameworks among AMS, particularly in the context of policy responses to the COVID-19 pandemic. The pandemic caused significant disruptions to global value chains and intensified sustainability challenges, including human and labour rights, corruption, as well as management of broader environmental, social and governance (ESG) risks. For example, an OECD firm-level survey conducted across the ten ASEAN economies found that 58% of the respondents witnessed growth in ESG risks during the pandemic, further to disruptions to business operations and challenges in addressing social and environmental risks (OECD, 2020^[21]). COVID-19 created a momentum among AMS to reconsider approaches to building more resilient and sustainable global value chains, and to strengthen their contribution to sustainable development, in which sustainable investment and RBC due diligence are key.

In 2020, the ASEAN Comprehensive Recovery Framework (ACRF) was introduced at the 37th ASEAN Summit, highlighting strategies for member countries to exit the COVID-19 crisis, while advancing towards

a sustainable and resilient future. The ACRF outlines exit strategies from the pandemic for a region-wide recovery and integration efforts, including through addressing short-term impacts, reopening, recovery and long-term resilience (ASEAN, 2020^[22]). The importance of promoting sustainable and responsible recovery was emphasised, including through attracting sustainable investments in line with the UN 2030 Agenda for Sustainable Development and by using international standards, namely the OECD MNE Guidelines and the OECD Policy Framework for Investment as a reference. Moreover, the ACRF implementation plan elaborates on RBC-related initiatives, including when it comes to promoting sustainable economic growth through responsible business practices (ASEAN, 2020^[23]). The plan also signals to the market an opportunity to expand national initiatives, particularly with regard to corporate capacity-building on RBC and resilient supply chain support (ASEAN, 2021^[24]).

Further frameworks include the *ASEAN Guidelines for the Promotion of Inclusive Business (2020)*, which outline how inclusive business practices can be promoted at both national and regional levels, as well as requirements for institutional support (ASEAN, 2020^[25]). These Guidelines build partly on the ASEAN Inclusive Business Framework (adopted in 2017), which sought to strengthen the policy environment for inclusive business in the region, foster regional collaboration and connect ASEAN economic and socio-economic community visions along the lines of economic development and positive social impact (ASEAN, 2017^[26]). Moreover, the *Responsible and Inclusive Business Code*, which was initiated by the ASEAN Business Advisory Council and the CSR Network, outlines expectations on businesses operating in the region in line with the ASEAN Economic Community (AEC) 2025 Vision.

Thematic frameworks

Beyond strategic guidance, ASEAN has introduced specific thematic initiatives focusing on human and labour rights, climate and the environment, digitalisation, and sustainable investment (as further elaborated in Annex A). Key examples include the following:

- *Human and labour rights.* *ASEAN Guidelines for CSR on Labour* have been developed for governments, business and associations to promote human and labour rights, while improving transparency, liability and ethical conduct. They aim to raise awareness on RBC-related issues, while promoting compliance of core labour standards and social dialogue among governments and workers' organisations, among other aspects (ASEAN, 2017^[27]). Further frameworks include the *ASEAN High-Level Principles on Consumer Protection* and *ASEAN Consumer Protection Laws and Regulations*, while efforts have been underway (e.g. through developing a business code of conduct) to streamline protection of consumer rights. Despite being referenced in legal frameworks across AMS, the scope and enforcement of laws pertaining to human, labour and consumer rights vary throughout the region (ASEAN, 2018^[28]). ASEAN has also introduced a consultative body to promote and protect human rights in the region, though a more rigorous framework remains to be introduced.
- *Climate change and the environment.* Over the years, AMS have increased co-operation on environmental protection, currently guided by the ASEAN Socio-Cultural Community Blueprint 2025 that envisions "an ASEAN Community that engages and benefits the peoples and is inclusive, sustainable, resilient and dynamic". Earlier Blueprints (particularly the 2009 version compared to 2016 one) have reflected more comprehensive measures focusing on environmental and climate-related issues (as further elaborated in Section 4), as well as stakeholder engagement (ASEAN, 2020^[29]). Moreover, the ASEAN climate vision by 2050 includes efforts to promote climate adaptation and work towards net zero targets (ASEAN, 2021^[30]).
- *Agriculture.* *ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture, and Forestry* (ASEAN RAI) provide guidance for governments and investors and are based on the SDGs, though are not compulsory. Broadly, the guidelines aim to promote sustainable investment in food, agriculture and forestry sectors, while eliminating hunger and malnutrition, promoting sustainable food, agricultural and forestry practices, improving equality for women, minorities, and marginalised groups,

supporting resistance to natural disasters and adaptation to climate change, and enhancing transparency (ASEAN, 2017^[31]).

To note, broader frameworks to promote sustainable investment include the *2016-25 Investment Work Programme* adopted by ASEAN Economic Ministers and the ACRF, which maintain sustainability as a key theme and take into account the impact of COVID-19 pandemic (though a more holistic guide on sustainable investment in the region remains to be developed) (ASEAN, 2020^[23]).

Peer learning and exchanges

ASEAN has also established different ways through which countries can exchange on their RBC-related policies (also see Annex A). Notably, the ASEAN Intergovernmental Commission on Human Rights (AICHR) looks to promote and pursue strategies to strengthen regional co-operation on human rights. AMS also engage through platforms, including the UN Forum on Business and Human Rights, among others. In addition, the ASEAN Responsible Business Forum (ARBF) provides another platform for engagement in the region, with discussions focusing on climate change, human rights, corruption and transparency, among other issues. Moreover, the ASEAN Responsible and Inclusive Business Alliance (ARAIBA) was established as a regional network of businesses to promote responsible and inclusive enterprises, which also entailed the adoption of the ASEAN Responsible and Inclusive Business Code. However, to note, some AMS have reported lacking financial resources to consistently support these initiatives, which can hinder efforts to effectively promote and engage on RBC (ASEAN, 2021^[32]).

RBC initiatives in ASEAN Member States

RBC-related national policy frameworks

The main RBC-related conventions to which ASEAN Member States have agreed are outlined in Table 3.1. Notably, all AMS have ratified key climate-related agreements (also see Section 4), as well as the UN Convention against corruption, though the level of adherence to human and labour rights frameworks remains mixed. Steps have been taken to translate these frameworks into national policies and regulations, including within broader frameworks to promote sustainable development. For example, Thailand 4.0 strategy introduces RBC-related elements, such as providing expectations to businesses on responsible conduct, promoting and supporting the implementation of RBC in the financial sector, among other aspects. Thailand also adopted a Bio-Circular-Green (BCG) Economy model for sustainable development, which includes policy considerations to create an enabling environment for responsible business practices (ASEAN, 2021^[24]; OECD, 2021^[33]).

In addition, several AMS have either developed or are in the process of developing a National Action Plan (NAP) on Business and Human Rights. Thailand was the first AMS to adopt an NAP in 2019, focusing on labour, community, land, environment and natural resources, human rights, and cross-border investment and multinational enterprises (RTG, 2019^[34]).¹ Some AMS, such as Indonesia² and Malaysia,³ are in the

¹ Thailand is the first country in Asia to have a stand-alone NAP. The Thai Government has announced human rights as one of their important national agenda, which drives the Thailand 4.0 policy and promotes sustainable development for the country.

² The National Commission on Human Rights (KOMNAS HAM) and the Institute for Policy Research and Advocacy collaborated in September 2014 to develop the NAP. To inform the content of the suggested NAP on Business and Human Rights, consultations with civil society groups were conducted. UNICEF conducted a dialogue with organisations advocating for children's rights. There were also discussions with legal professors. In addition, numerous ministries/agencies with jurisdiction in the area of business and human rights participated in focus groups. In 2019, the Co-ordinating Ministry for Economic Affairs started the NAP development process with a focus group discussion.

³ The National Human Right Commission of Malaysia (SUHAKAM) has held a series of discussions and engagements with multinational corporations, such as PETRONAS, Felda Global Venture, and Digi Telecommunications, as well as government agencies, regulatory authorities, and NGOs, in order to obtain feedback on the 2015 plan to develop an NAP on Business and Human Rights in Malaysia.

process of developing NAPs or have committed to develop one. Similarly, in the Philippines, the National Human Rights Institution (NHRI) has taken steps to develop an NAP. In Viet Nam, Ministry of Justice has committed to developing an NAP and launched the “Preliminary Assessment of the Regulatory Framework on Responsible Business in Viet Nam” (Asia Centre, 2021^[35]). There is scope and opportunity to recognise and utilise NAPs as tools to further attract sustainable investments (e.g. by building coherence within the government and providing clarity on the importance role of RBC-related frameworks when it comes to investment policy).

Table 3.1. Adherence to relevant conventions and agreements and status of development of NAPs

	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Timor-Leste	Viet Nam
Human rights											
<i>9 Core UN Conventions on Human Rights</i>	<u>3/9</u>	<u>8/9</u>	<u>8/9</u>	<u>7/9</u>	<u>3/9</u>	<u>4/9</u>	<u>8/9</u>	<u>4/9</u>	<u>7/9</u>	<u>7/9</u>	<u>7/9</u>
<i>Voluntary Principles on Security and Human Rights</i>	No	No	No	No	No	Yes	No	No	No	No	No
Labor rights											
<i>Fundamental ILO Conventions</i>	<u>2/8</u>	<u>8/8</u>	<u>8/8</u>	<u>5/8</u>	<u>6/8</u>	<u>4/8</u>	<u>8/8</u>	<u>6/8</u>	<u>6/8</u>	<u>6/8</u>	<u>7/8</u>
Environmental issues											
<i>Kyoto Protocol</i>	<u>Yes</u>	<u>Yes</u>	<u>Yes</u>	<u>Yes</u>	<u>Yes</u>	<u>Yes</u>	<u>Yes</u>	<u>Yes</u>	<u>Yes</u>	<u>Yes</u>	<u>Yes</u>
<i>Paris Agreement</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Convention on Biological Diversity</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Corruption											
<i>UN Convention against Corruption</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
National Action Plan on Business and Human Rights	No	No	UD*	No	No	No	UD*	No	Yes	No	No

Note: *UD refers to “under development”.

Despite these advancements, the overall policy frameworks to promote and enable RBC vary widely across AMS. The region faces challenges with implementation, which notably include reported attacks on human rights defenders, forced evictions and conflicts over land, as well as harmful working conditions, and challenges with providing and accessing remedy (HRW, 2021^[36]; US Department of State, 2022^[37]; ASEAN Thailand, 2021^[38]). In addition, as elaborated under Section 4, AMS remain vulnerable to environmental risks, including climate change, pollution and depletion of natural resources. Though all member states have ratified the Paris Agreement, efforts to promote low-carbon transition remain slow, while a number of economies maintain heavy fossil fuel subsidies (IEA, 2020^[39]; ADB, 2022^[40]). Moreover, anti-corruption measures remain mixed across AMS, with challenges often exacerbated due to low levels of accountability and transparency, inefficiencies in the regulatory environments, and limited whistle-blower protections, among other issues (Transparency International, 2020^[41]).

One positive development, however, has been the increasing trend to develop and steer financial section action and instruments to promote sustainability, which can have a significant impact on the real economy. For example, certain economies (such as Malaysia, the Philippines, Thailand, and Viet Nam) have issued guidelines and regulations for green bonds and sustainable and responsible investment funds to attract environment-friendly projects, while others (such as Singapore and Indonesia) have sought to ensure that environmental sustainability practice in each project is required when investing.

Leveraging ASEAN business and stakeholder initiatives on RBC

ASEAN private sector has also been active and sought to promote sustainability through regional business networks. In the early 2000s, ASEAN launched the ASEAN Business Advisory Council (ABAC) to provide

priority areas for consideration of the ASEAN leaders from the private sector. The association later established the ASEAN CSR Network (ACN) in 2010 with a mandate and strategy to ensure sustainable and inclusive socio-economic development in ASEAN through promoting responsible business practices (ACN, 2022^[42]). These entities jointly adopted the ARAIBA to promote good corporate governance, environmental stewardship, anti-corruption, labour and human rights, poverty eradication, and community development (ARAIBA, 2022^[43]). It aims to fulfil the objectives of the ASEAN Charter and *ASEAN 2025: Forging Ahead Together* blueprint as elaborated in the work plans of the Political-Security, Economic and Socio-Cultural Community Blueprints. Up to 2019, over 30 000 ASEAN businesses had participated in the ACN and ARAIBA regional networks to facilitate favourable institutional changes at the local level, including initiatives related to sustainable consumption and production. ARAIBA has also introduced a Code on Responsible and Inclusive Business, as further elaborated in Box 3.2.

Box 3.2. ASEAN Code of Responsible and Inclusive Business

The ASEAN Responsible and Inclusive Business Alliance (ARAIBA), a joint initiative of the ASEAN Business Advisory Council and the ASEAN CSR Network, adopted the Code of Responsible and Inclusive Business in 2019 to promote responsible business conduct in ASEAN and to meet the objectives of the ASEAN 2025: Forging Ahead Together. The Code aims to serve as a starting point for understanding responsible and inclusive business, and to set expectations of the ASEAN community on businesses operating in the region, regardless of their size, sector, ownership, structure, and origin, to observe and exercise RBC recommendations.

Key expectations of the Code include that businesses in ASEAN should strive to achieve the SDGs, which are closely in line with RBC areas set out in the MNE Guidelines. The Code also draws on international standards on responsible and inclusive business (e.g. MNE Guidelines, the UN Guiding Principles, the UN Global Compact 10 Principles, and the G20 Inclusive Business Framework) and reflects regional expectations on the protection of human rights and labour rights, which are outlined in the ASEAN Human Rights Declaration, ASEAN CSR Guidelines on Labour, and the ASEAN Consensus on the Protection and Promotion of the Rights of Migrant Workers.

Source: (ASEAN CSR Network, 2019^[44])

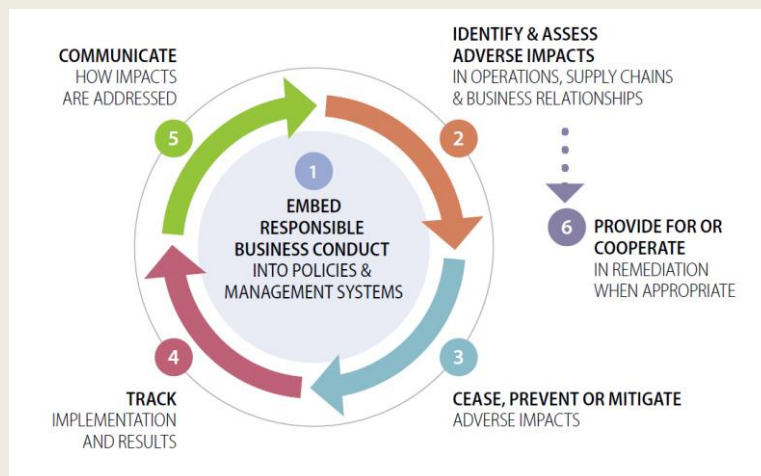
At the national level, ACN has reported strengthening partnerships with eight key business and CSR organisations in seven AMS (ACN, 2022^[42]). More broadly, RBC issues are also addressed through platforms such as the UN Global Compact, which has been partnering with AMS such as Indonesia, Singapore, Viet Nam, Malaysia, the Philippines and Thailand in generating a platform for implementing CSR practices. In addition, national civil society organisations (CSOs) have raised concerns about sustainability issues such as climate change, the environment, and sustainable development which are ubiquitous across the region.

Promoting RBC Due Diligence

RBC principles and standards support companies to operationalise and implement RBC considerations through a risk-based RBC due diligence framework, as set out in the OECD Due Diligence Guidance for Responsible Business Conduct, by allowing businesses to identify, prevent and mitigate actual and potential adverse impacts, and account for how those impacts are addressed. Unlike many traditional corporate due diligence systems that focus on the company's primary risks, such as financial, market, operational or reputation risks, RBC due diligence considers not only the risks to the company, but also risks that companies can cause, contribute to or to which they are linked (Box 3.3) (OECD, 2018^[45]).

Box 3.3. The OECD due diligence process and supporting measures

The *OECD Due Diligence Guidance for RBC* establishes a six-step process to conduct due diligence that can be translated and used by any enterprise, irrespective of its size, location or sector of its operations. This process consists of (i) embedding RBC into the enterprise's policies and management systems, (ii) identifying and assessing adverse impacts in operations, supply chains and business relationships, (iii) ceasing, preventing or mitigating adverse impacts, (iv) tracking implementation and results, (v) communicating how impacts are addressed, and (vi) providing for or co-operating in remediation when appropriate.



In addition to the cross-sectoral due diligence guidance, the OECD has developed sector-specific due diligence guidances for minerals, extractives, agriculture, financial, and garment and footwear sectors.

Source: OECD (2018^[17]), OECD Due Diligence Guidance for Responsible Business Conduct, <http://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf>.

ASEAN businesses have raised concerns regarding RBC-related risks. For example, in the 2020 Responsible Business Conduct and Anti-Corruption Compliance in Southeast Asia Survey, respondent companies in the region highlighted concerns with regard to corruption risks (58%), followed by issues related to environment (46%) and transparency (45%). Though multinational companies often have policies to manage RBC-related risks, in over one-third of those surveyed some policies did not expand to contractors, subcontractors and business partners. The survey also found that businesses reported needing assistance with developing and implementing corruption risks assessment frameworks (57%), third party due diligence (51%), and independent internal audits (45%) (OECD, 2020^[21]).

At the policy maker level, there is growing consensus that smart mix of policies, including regulation, market-based and voluntary initiatives, are appropriate to promote responsible business conduct. For example, Germany, Switzerland and Norway have introduced due diligence legislation (which reference or are aligned with the OECD RBC instruments) and discussions are also on-going at the EU level. There have also been thematic efforts, for example at the EU on updating the non-financial reporting directive and introducing reporting requirements in line with the RBC due diligence guidance.

Some AMS have started introducing regulations and policies, which could support efforts to enhance due diligence. For example, Indonesia introduced requirements for corporate social responsibility in the Law on Limited Liability Companies in 2007. Moreover, Indonesia, Malaysia, Singapore, Thailand and Vietnam have introduced requirements and guidance on ESG reporting and trainings, as well as sustainability

indices to measure and monitor commitments of listed companies. Notably, several stock exchanges in the region have become members of the Sustainable Stock Exchange Initiative and mandate ESG reporting in stock listing, while providing ESG-related trainings and sustainability-linked financial indexes (SSEI, n.d.^[46]).⁴

⁴ These include the Stock Exchange of Thailand, Indonesia Stock Exchange, Bursa Malaysia, Philippine Stock Exchange, Singapore Stock Exchange, Ha Noi Stock Exchange, Ho Chi Minh Stock Exchange.

4 Promoting investment for green growth

Investment for green growth is central to the ASEAN Comprehensive Recovery Framework (ACRF) and needs to be scaled-up significantly to advance sustainable development in the region, and achieve national economic, social and environmental policy goals. Green growth means fostering growth and development while preserving natural assets, and ensuring that they continue to provide the resources and environmental services on which our well-being relies. Beyond mainstreaming green growth considerations into investments in general, so as to minimise their environmental footprint, this requires investments in new technologies, services and infrastructure that make more sustainable claims on natural resources (green investments). Under certain circumstances, foreign direct investment (FDI) can contribute the needed financial and technological resources to deliver green growth. But foreign investors can also deteriorate environmental outcomes and hamper sustainable development. This section discusses the specific enabling conditions for green investment in ASEAN, including key elements of the broader framework for environmental protection, and policies designed to attract and facilitate climate-aligned FDI.

Green growth and climate change in Southeast Asia

Growth has come at the cost of growing emissions and pollution

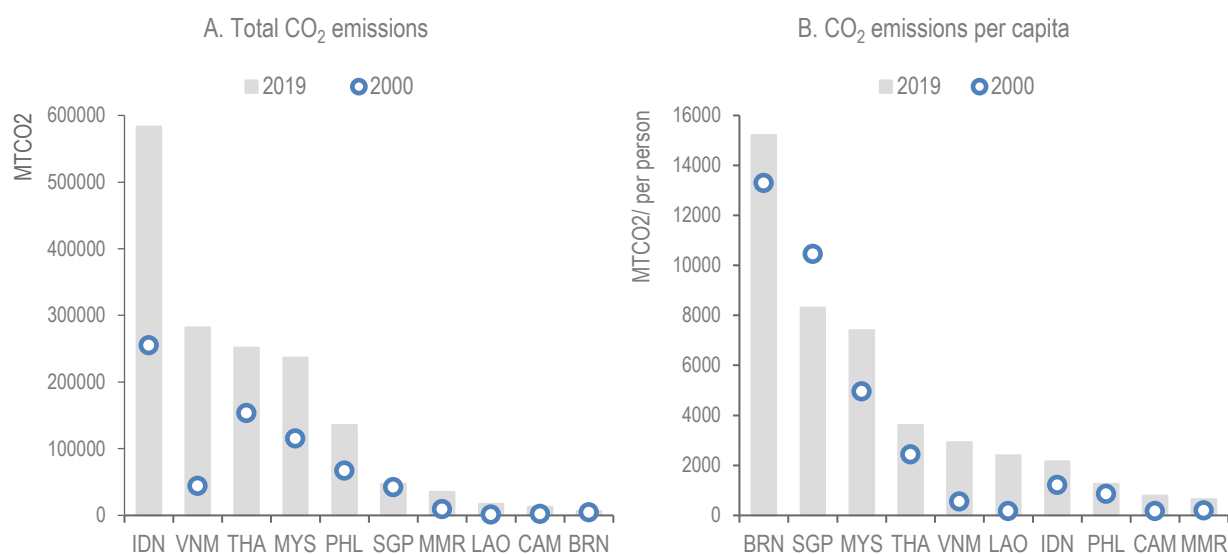
Southeast Asia has developed rapidly over the past two decades and the region is a major engine of global economic growth. Southeast Asian countries are at very different stages of development, but almost all of their economies have more than doubled in size since 2000. Thanks to strong political commitment to effective policies, over 100 million people in the region have been lifted out of poverty in the last 20 years. However, growth and development have come at the cost of high levels of pollution and environmental degradation, which, if left unchecked, could compromise the region's efforts to promote sustainable development.

Rapid urbanisation, industrialisation and infrastructure development have exacerbated air, water and land pollution. In Southeast Asia's urban areas, which today are home to over 50% of the region's population, annual mean levels of air pollution often exceed World Health Organization (WHO) limits five-to-ten-fold (Luong et al., 2019^[47]). In June 2022, readings for PM2.5 in Jakarta reached levels more than 27 times higher than what the WHO considers safe (Jong, 2022^[48]). Toxic smog in Bangkok forced more than 400 school closures in 2019 (BBC, 2019^[49]). Manila's air pollution has been linked to between 11 000 and 27 000 deaths in 2018 alone, according to a recent Greenpeace study, and affects 98% of the capital region's 12.8 million people (Greenpeace, 2020^[50]). The primary causes of pollution are the combustion of fossil fuels for energy generation and the emissions of road vehicles. Other major sources of poor air in urban areas include particulate matter from construction and industry, while in rural areas forest fires and agricultural burning contribute extensively to haze.

Fossil fuel combustion also drove carbon emissions to grow by 130% over the last two decades (Figure 4.1). Final energy consumption increased by 70% over the same period and was largely driven by

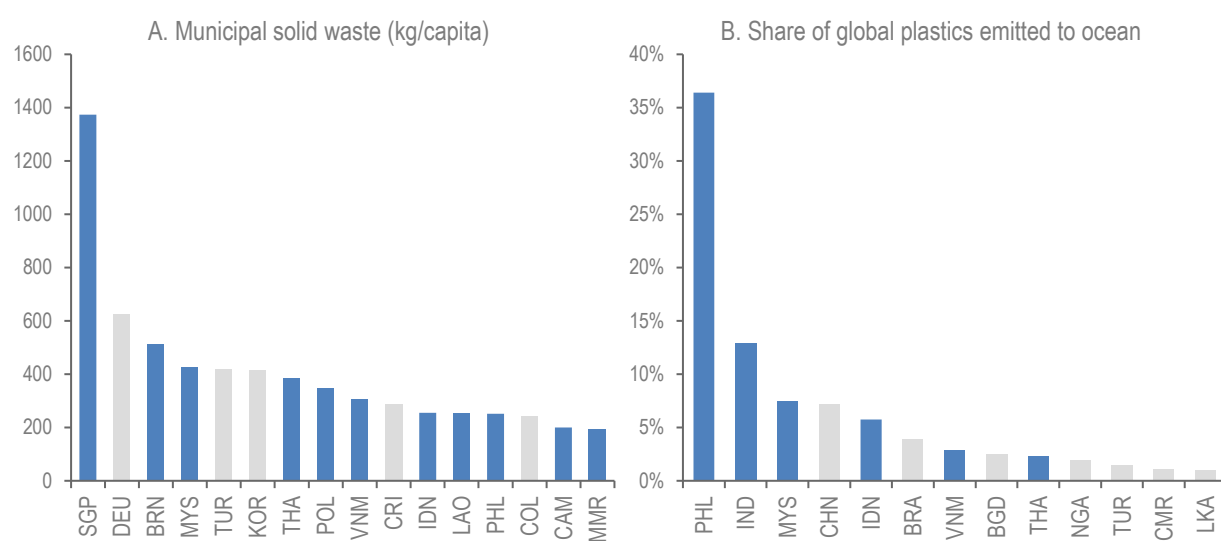
the industry and transport sectors. The industry sector saw the largest increase in energy use, with a fourfold expansion in energy-intensive industries like steel. Coal use across the industry sector expanded more than fourfold over the last two decades, and light manufacturing accounted for 75% of increased electricity demand. Transport-related oil demand increased by 80% since 2000, due to a fourfold increase in the stock of passenger vehicles. Power generation has almost tripled since 2000, with the largest increase coming from coal-fired power plants. The largest share of renewable electricity generation is from hydropower. Wind and solar PV have increased rapidly in recent years, but renewables still comprised less than 10% of overall generation in 2020 (IEA, 2022^[51]).

Figure 4.1. Carbon emissions in Southeast Asia



Source: Authors' elaboration based on IEA (2022^[52]) Greenhouse Gas Emissions from Energy database.

Figure 4.2. Municipal waste and marine plastic debris in Southeast Asia



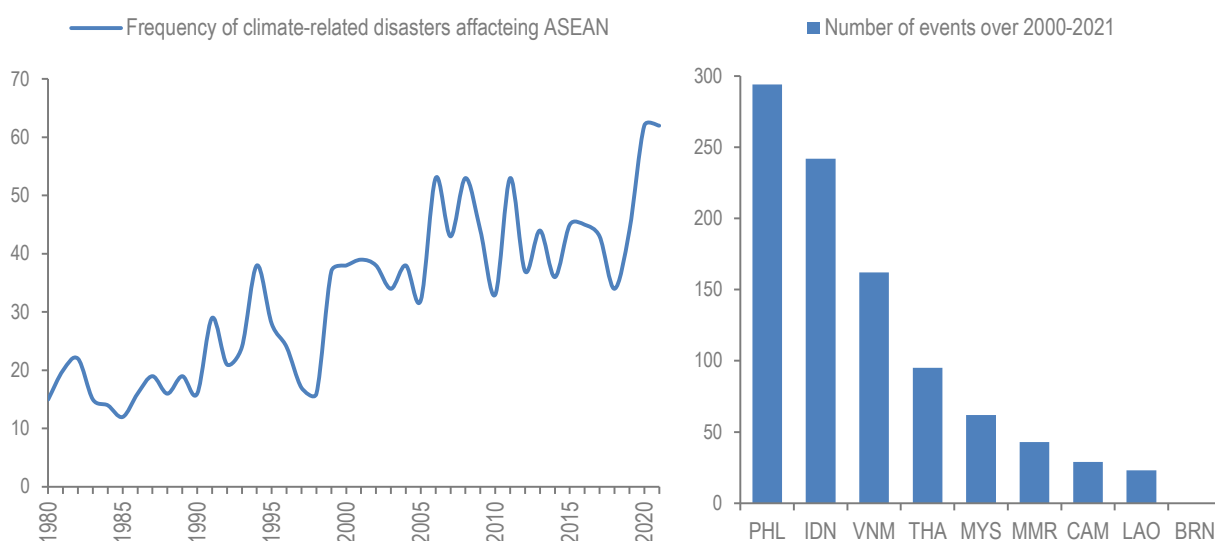
Source: Authors' elaboration based on OECD Statistics and UNEP (2017^[53]); and Meijer et al. (2021^[54]).

Unsustainable use of resources also exacerbate water and land pollution and threaten ecosystems and biodiversity. Southeast Asian economies generate quantities of solid municipal waste comparable to many OECD economies, but often lack proper waste management and disposal systems, resulting in land and water contamination. In Thailand in 2018, an estimated 27% of municipal solid waste was disposed of improperly, through illegal burning or dumping on land and in water bodies (OECD, 2021^[33]). Marine plastic pollution has degraded marine ecosystems and the quality of the region's beaches. Five ASEAN Member States (AMS) are jointly responsible for 55% of global plastic waste emitted to the ocean (Figure 4.2). Another persisting environmental challenge is a loss of biodiversity, despite major strides in improving forest cover. Many of the region's species face extinction, largely driven by land use change, illegal trafficking of wildlife and pollution.

Southeast Asia remains especially vulnerable to climate change

Climate change threatens the considerable advances in human development and poverty reduction that ASEAN has made over the last 30 years. The Intergovernmental Panel on Climate Change (IPCC) highlights that Southeast Asia is one of the planet's most vulnerable regions to climate change. The Global Climate Risk Index ranks three ASEAN members – Myanmar (2nd), the Philippines (4th) and Thailand (8th) – among the ten most affected countries in the world to extreme weather events between 2000 and 2019, with resulting losses estimated at almost 1% of GDP, per year, over the same period (Eckstein, Künzel and Schäfer, 2021^[55]). The frequency of climate-related disasters affecting the region has quadrupled over the past 40 years, with the Philippines, Indonesia and Viet Nam among the most exposed countries (Figure 4.3). Climate change could wipe out over 35% of the region's GDP by the middle of the century as it can severely impact key sectors such as agriculture, tourism, and fishing along with human health and labour productivity (Renaud et al., 2021^[56]). These impacts are, however, not evenly distributed across people and places and affect the most vulnerable populations disproportionately. Recognising these challenges, investment in climate change adaptation and mitigation should be a priority for public and private infrastructure investment.

Figure 4.3. Frequency of climate-related natural disasters

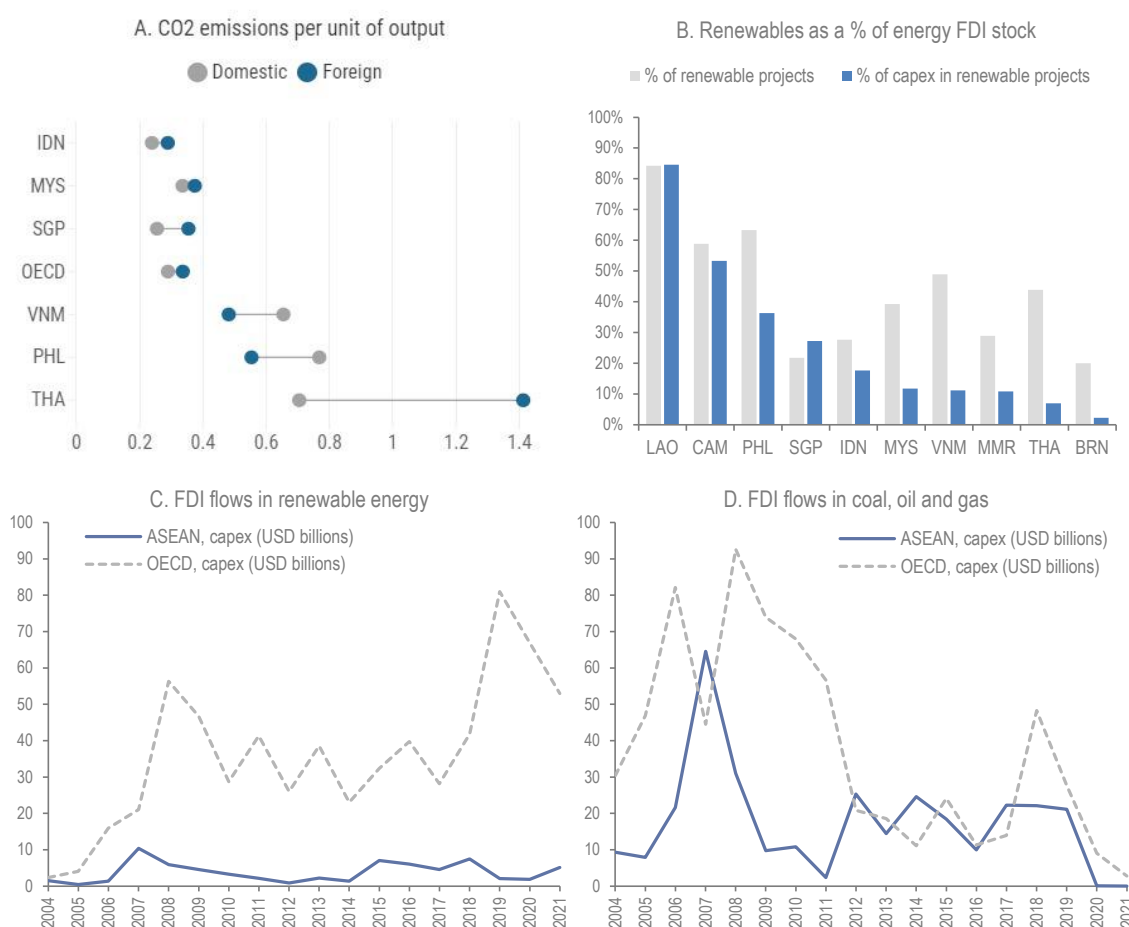


Source: Authors' elaboration based on IMF Climate Change Indicators (2022^[4]).

FDI's contribution to green growth is not clear-cut

Under certain circumstances, foreign direct investment (FDI) can contribute the needed financial and technological resources to deliver green growth. Thanks to their multinational parent companies, foreign investors often have access to superior technology, skills and capital than domestic peers, which can allow them to deliver greener technologies, services and infrastructure. In some cases, foreign investors are greener than their domestic counterparts as a result of the more stringent international environmental standards that they are measured against. But foreign investors can also deteriorate environmental outcomes by offshoring highly polluting activities to countries with less stringent regulations and induce a race to the bottom with respect to environmental standards.

Figure 4.4. FDI and the green transition



Source: Authors' elaboration based on IMF (2022^[4]) Direct Investment Indicators and Financial Times (2022^[2]) FDI Markets Database.

Southeast Asia has been among the greatest recipients of FDI among emerging regions, and FDI flows to ASEAN have increased by a factor of nine over the last two decades. FDI has made important contributions to sustainable development, by creating jobs and raising living standards. Yet, the contribution of FDI to green growth and decarbonisation is not so clear-cut. In Indonesia and Thailand, for example, FDI performs poorly relative to domestic investment in terms of CO₂ emissions per unit of output, particularly in the extractive, basic metals and energy industries, whereas in Viet Nam and the Philippines, the carbon footprint of FDI is lower than that of domestic investment, particularly in energy and manufacturing industries (Figure 4.4.A). FDI's shift away from fossil fuels and into renewable energy in Southeast Asia

has also lagged behind that of other regions, and varies considerably across the region (Figure 4.4.B-D). In Lao PDR and Cambodia, renewable power attracted more than half of new foreign investments in the energy sector in the last decade; yet fossil fuels still account for over 88% of energy FDI in six ASEAN countries.

Policy framework for green growth and climate change

ASEAN's international commitments to green growth

ASEAN Member States have ratified most major multilateral environmental agreements (Table 4.1), including the three Rio Conventions: the Convention on Biological Diversity (CBD), the United Nations Convention to Combat Desertification, and the United Nations Framework Convention on Climate Change (UNFCCC). As of September 2017, all AMS signed and ratified the Paris Agreement under the UNFCCC and submitted their Nationally Determined Contributions (NDCs) to the convention, joining the global collaborative effort to mitigate and adapt to climate change.

Table 4.1. Multilateral environmental agreements (MEAs) ratified by ASEAN Member States

Year of ratification / accession

MEA	BRN	CAM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM
ASEAN Agreement on the Conservation of Nature and Natural Resources		1999	1986	1997		1997	1986		1986	1997
ASEAN Agreement on Transboundary Haze Pollution	2003	2006	2015	2005	2003	2003	2010	2003	2003	2003
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal	2002	2001	1993	2010	1993	2015	1993	1996	1997	1995
Cartagena Protocol for Bio-safety		2003	2004	2004	2003	2008	2006		2005	2004
Convention on Biological Diversity (CBD)	2008	1995	1994	1996	1994	1994	1993	1995	2003	1994
Convention on International Trade of Endangered Species of Wild Fauna and Flora (CITES)	1990	1997	1978	2004	1977	1997	1981	1986	1983	1994
Convention on Migratory Species (CMS)							1994			
Minamata Convention on Mercury		2021	2017	2017			2020	2017	2017	2017
Kyoto Protocol to UNFCCC	2009	2002	2004	2003	2002	2003	2003	2006	2002	2002
Montreal Protocol on Substances that Depletes Ozone Layer	1993	2001	1998	1992	1989	1993	1991	1989	1989	1994
Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization to the CBD		2015	2013	2012	2018	2014	2015			2014
Paris Agreement under UNFCCC	2016	2017	2016	2016	2016	2017	2017	2016	2016	2016
Ramsar Convention on Wetlands		1999	1992	2010	1995	2005	1994		1998	1989
Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade		2013	2013	2010	2002		2006	2005	2002	2007
Stockholm Convention on Persistent Organic Pollutants		2006	2009	2006		2004	2004	2005	2005	2002
UN Watercourses Convention										2014
UN Convention on the Law of the Sea (UNCLOS)	1996		1986	1998	1996	1996	1985	1994	2011	1994
UN Convention to Combat Desertification (UNCCD)	2002	1997	1998	1996	1997	1997	2000	1999	2001	1998
United Nations Framework Convention on Climate Change (UNFCCC)	2007	1995	1994	1995	1994	1994	1994	1997	1994	1994
Vienna Convention for the Protection of the Ozone Layer	1990	2001	1992	1998	1989	1993	1991	1989	1989	1994

Source: Authors' elaboration based on <https://www.informea.org/en>.

All AMS have committed to reducing their greenhouse gas (GHG) emissions in their NDCs, albeit to varying degrees. All AMS updated their NDCs as of 2022, with enhanced climate policy ambitions, in line with the requirements of the Paris Agreement. Yet, collectively, ASEAN NDCs are not yet aligned with the objectives of the Paris Agreement. Only four AMS – Cambodia, Lao PDR, Singapore and Viet Nam – have committed to achieve net-zero GHG emissions by 2050, while Malaysia, Indonesia and Thailand committed to a somewhat longer net-zero horizon, and the remaining three AMS have made no such commitment (Table 4.2). Emissions reduction targets are specified in ways that are not directly comparable across countries. Six AMS have both an unconditional target, as well as a more stringent conditional target. The conditions of these targets differ across countries, but frequently include access to international aid in the form of financial resources, technology transfer and capacity building. Only four AMS (Cambodia, Indonesia, Singapore and Thailand) have submitted a long-term strategy document in addition to their NDCs, providing a clear long-term pathway to their net-zero objectives and sending early and predictable signals to investors about envisaged long-term societal changes.

Table 4.2. NDC targets of ASEAN Member States

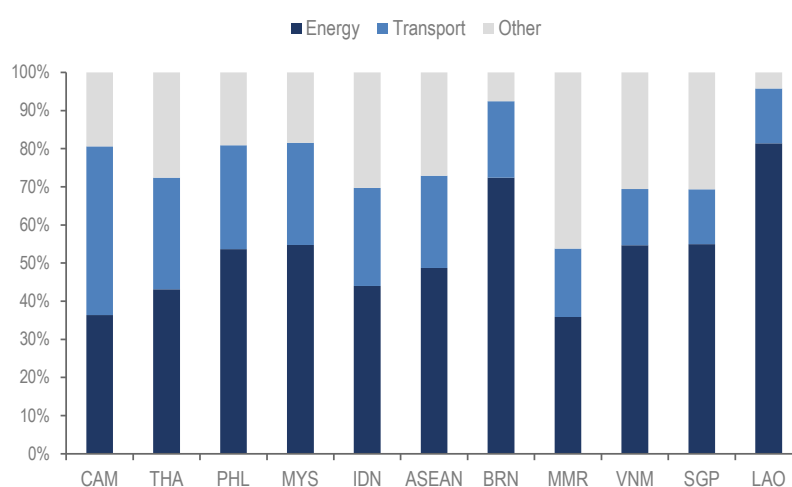
GHG reduction relative to Business-As-Usual (BAU) levels

AMS	Unconditional target	Conditional target	Net-Zero Target	Sector Targets
BRN	20% by 2030	None	None	Energy, Transport, Industry, Forestry, Waste
CAM	None	42% by 2030	2050	Energy, Industry, AFOLU, Waste
IDN	29% by 2030	41% by 2030	2060	Energy, Industry, AFOLU, Waste
LAO	60% by 2030	None	2050	Energy, Transport, AFOLU, Waste
MYS	45% by 2030	None	2050+	None
MMR	244.52 MtCO ₂ e by 2030	414.75 MtCO ₂ e by 2030	None	Energy, AFOLU
PHL	3% by 2030	75% by 2030	None	None
SGP	36% by 2030	None	2050	Energy, Transport
THA	20% by 2030	25% by 2030	2065	Energy
VNM	9% by 2030	27% by 2030	2050	Energy, AFOLU, Waste, Industry

Note: Details on the conditions of the targets can be found in the source. BAU scenarios and base years vary by country. AFOLU = Agriculture, Forestry and Other Land Use.

Source: NDCs were retrieved from the official registry (<https://www4.unfccc.int/sites/ndcstaging/Pages/Home.aspx>).

Figure 4.5. CO₂ emissions by sector, 2019



Source: Authors' elaboration based on IEA (2022^[52]), CO₂ Emissions from Fuel Combustion.

While almost all AMS have specific targets for emissions reductions in the energy sector, and the majority of AMS have specific targets relating to forestry and land use, only three countries (Brunei Darussalam, Lao PDR and Singapore) have incorporated targets for the transport sector. This is in contrast with the considerable contribution of the transport sector to hazardous pollution in urban centres and to national GHG emissions. This contribution to carbon emissions ranges from 14% in Lao PDR to 44% in Cambodia, and accounts for a quarter of total carbon emissions generated in ASEAN (Figure 4.5). Greater emphasis on increasing investment in low-emissions public transportation infrastructure could help advance ASEAN's climate goals and contributions to global efforts to combat climate change.

Policy framework for environmental protection

AMS have recognised the mutually reinforcing relationship between human rights and the environmental rule of law. The constitutions of four AMS explicitly mention the right to a healthy environment (Indonesia, Philippines, Thailand and Viet Nam). The constitutions of Cambodia, Lao PDR and Myanmar contain explicit references to the protection of the environment and natural resources by the State and its citizens. Brunei Darussalam, Malaysia and Singapore all have laws in place that provide for environmental protection, biodiversity conservation and control of pollution and waste. A number of AMS also have established specialised courts or tribunals to deal with environmental matters.

To varying degrees, environmental impact assessment (EIA) systems have been established in Southeast Asia for over 40 years. With the exception of Singapore, every ASEAN Member State has a formal and legally binding EIA system applied to investment projects that may have a significant environmental or social impact, often with the support of regulations and guidelines for particular sectors or areas. Although Singapore lacks a legislative basis for EIA, it is carried out based on specific projects and broadly conforms to the requirements for EIA adopted by other countries in ASEAN.

AMS have adopted the same general approach to EIA and environmental assessment, which is mandated under an environmental agency (e.g. the Ministry of Environment or Ministry of Natural Resources and Environment). EIA processes consist of similar procedures in line with principles set out by the International Association for Impact Assessment (IAIA), involving screening, scoping, impact assessment, approval, and post-decision implementation.

A recent Compendium prepared by UNEP to the ASEAN Intergovernmental Commission on Human Rights identified many commonalities on the key elements of EIA across ASEAN (UNESCAP-UNEP, 2021^[57]). With few exceptions, laws and policies of AMS provide for the three critical procedural rights of access to information, public participation, and access to remedies, including grievance redress mechanisms and other project specific complaints processes (Table 4.3). These procedural rights are necessary to ensure that EIAs can effectively identify community concerns about development projects, and therefore critical for environmental governance. They also ensure that the human rights obligations to a clean and safe environment are protected. Screening lists that trigger the EIA process, enforcing compliance with environmental management plans (EMPs) once the EIA is approved, and registering EIA consultants are also legal requirements in almost all AMS.

While EIA processes share many similarities across AMS, there are also country-specific differences. Only the EIA laws of Thailand, Lao PDR and Brunei Darussalam require application of EIA principles to the assessment of the transboundary impacts of investment, while laws and policies unrelated to EIA partially require transboundary EIA in additional four AMS. New tools such as Strategic Environmental Assessment (SEA) have been further developed to address limitations of the EIA process in identifying cumulative environmental impacts across multiple projects, or those arising as a result of development planning at a regional level. In Thailand, Viet Nam, Lao PDR and Brunei, SEAs to examine the environmental and social impact of proposed plans, policies and programmes are now a legal requirement. Recognition of SEA at the ASEAN level could encourage other ASEAN governments to adopt SEA in the national EIA system.

Table 4.3. Common elements of EIA systems in ASEAN

EIA stage	BRN (2016)	CAM (1999)	IDN (1982)	LAO (2000)	MYS (1974)	MMR (2014)	PHL (1978)	SGP	THA (1992)	VNM (1994)
Screening list	■	■	■	■	■	■	■	□	■	■
Public participation	□	■	■	■	■	■	■	□	■	■
Access to information	□	■	■	■	■	■	■	□	■	■
Access to remedies	□	□	■	□	■	□	■	□	■	□
Transboundary EIA	■	□	□	■	□	□	□	□	■	□
Strategic environmental assess.	□	□	■	■	□	■	□	□	■	■
Environmental Management Plan	■	■	■	■	■	■	■	■	■	■
Registration of consultants	□	■	■	■	■	■	■	□	■	■

Note: Year of official legal establishment of EIA in parentheses. ■ = Clear legal requirement in EIA laws and policies; □ = Partial legal requirement (i.e. in laws not related to EIA); □ = No legal requirement.

Source: Authors based on UNESCAP-UNEP (2021^[57]), Technical Report and Recommendations to Strengthen Environmental Impact Assessment Procedures in ASEAN, <https://www.unescap.org/kp/2022/technical-report-and-recommendations-strengthen-environmental-impact-assessment-procedures>.

In practice, the implementation of EIA processes in some AMS often commences too late, when the major project decisions (including site, design, and construction preparation) already have been made, thereby rendering the EIA process a formality (Baird and Frankel, 2015^[58]). Moreover, there are a number of gaps and weaknesses in the current EIA regimes of the region. For instance, public participation provisions typically do not mention how the public should be informed about the EIA process, the venue at which the public should gain access to EIA reports, and at which stages of the EIA process the project developers should involve the public (UNESCAP-UNEP, 2021^[57]). Guidelines on the methodology and approach to be used for public consultation are too general and access to project information and EIA reports can be limited. Legal requirements for the incorporation of public comments and inputs into the EIA reports are often not stated and EIA reports are not required to provide reasons for approval or rejection of public comments. These weaknesses can limit the effectiveness of EIA systems in the region.

In some cases, the EIA process can end with the issuing of the approval permit by the relevant government agency, with a requirement to comply with an environmental management plan (EMP) or environmental management and monitoring plan (EMMP). Strengthening compliance and enforcement in the post-EIA approval phase can provide significant environmental and social benefits and is an area that has been recognised as being in need of strengthening (UNESCAP-UNEP, 2021^[57]). For projects that proceed to implementation, it is vital that the project construction, operation and eventual decommissioning comply with the EIA, EMP and any conditions of approval. The development of environmental quality standards at the ASEAN level could help ensure compliance with an EMP in the post-EIA approval process.

Policy approaches to promote green investment

Uncertainty and unpredictability are among the greatest barriers to green investment. Too often the reason governments fail to attract green investment is due to the lack of an enabling environment for investment. Green investors are no different than any other in requiring a stable, predictable, and transparent investment environment in which to identify bankable projects. Thus, efforts to mobilise green investment will fail to meet their intended target unless governments ensure a regulatory climate that provides investors with fair treatment and confidence in the rule of law. The widely accepted features of this enabling environment are detailed in the OECD Policy Framework for Investment (PFI) which is referenced in the ACRF (see Section 2).

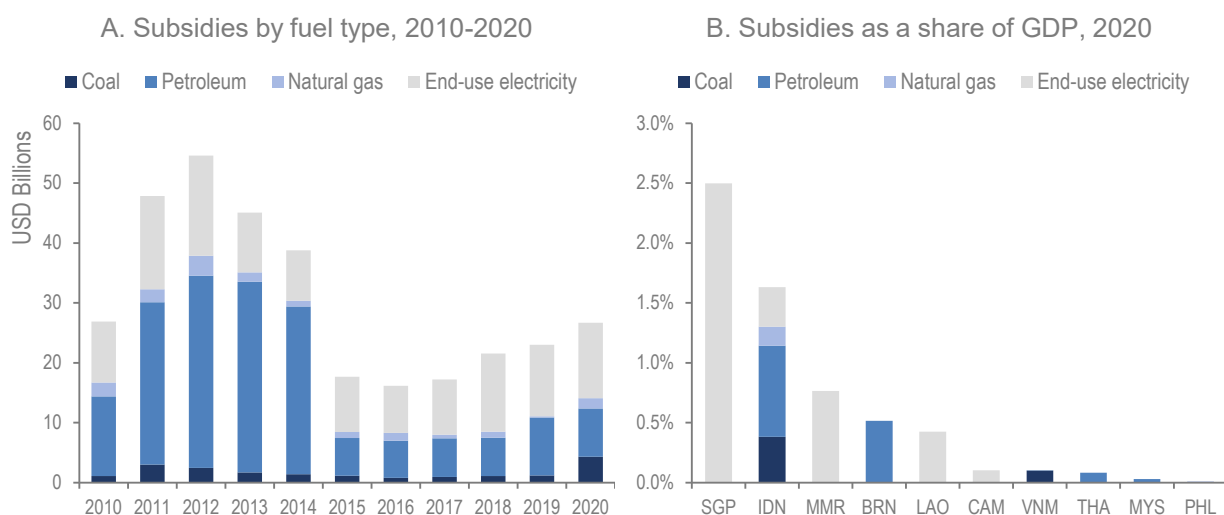
At the same time, openness, stability, and fair treatment are not enough to channel private investment towards green growth and decarbonisation objectives. In other words, policies conducive to FDI will not automatically result in a substantial increase in green or climate-aligned FDI. Policymakers will also need to improve specific enabling conditions for green investment by developing policies and regulations that systematically internalise the cost of environmental externalities like carbon emissions. Targeted financial, technical and information support can also help address market failures reduce the competitiveness of climate-aligned investments.

Reforming fossil fuel subsidies

The countries of Southeast Asia have made some progress in phasing out fossil fuels subsidies, but this process is far from complete and may be delayed by rising fuel prices. Fossil fuel subsidies put a burden on public finances and change incentives for energy use, often in environmentally harmful ways. Some of these subsidies effectively reduce domestic pre-tax fossil fuel prices below supply costs, encouraging excessive fuel use. This is for example the case for petroleum subsidies in Indonesia, Brunei Darussalam and to a lesser extent Thailand and Malaysia (Figure 4.6). Other countries target the electricity sector more generally, reducing pre-tax electricity prices below cost recovery levels, as is the case in Singapore, Myanmar, Lao PDR, and to a lesser extent Cambodia.

The surge in fuel prices since the onset of the COVID-19 pandemic, exacerbated by the war in Ukraine, may set back progress made in fossil fuel subsidy reform in Southeast Asia. As reform efforts continue in many AMS, subsidy levels are set to rise with fuel prices, which may reduce government capacity to promote clean energy. A number of planned policy changes have been delayed or cancelled as a result of the increase in prices. For example, in December 2021, the Indonesian Government cancelled plans to end sales of lower-grade (and more emissions-intensive) gasoline products that typically consumed by the most vulnerable segments of the population in rural areas. The Thai Government suspended policies to promote products with high levels of biodiesel blending and temporarily introduced a lower-grade blend to control retail prices. In January 2022, the Malaysian Government announced that retail prices of gasoline and diesel would remain unchanged through use of its subsidy scheme (IEA, 2022^[51]).

Figure 4.6. Fossil fuel subsidies in ASEAN



Source: Authors based on www.fossilfuelsubsidytracker.org [Accessed July 2022].

Governments may resort to more targeted tools than subsidies on energy use to improve energy access and affordability. The structure of fossil fuel subsidies in Southeast Asia means that benefits accrue mainly to wealthier segments of the population (who use more of the subsidised fuel) rather than to the poorest (IEA, 2022^[51]). Phasing out subsidies could free up public funds for targeted support to low-income groups to ensure that vulnerable groups, which also tend to be those that are disproportionately affected by climate change, will be able to access clean and affordable energy (OECD, 2021^[59]). Reform efforts in the Philippines, for instance, included a transition period where prices were adjusted gradually, and a one-off cash transfer targeted marginalised electricity consumers (Box 4.1). As a result, the country has been able to start raising revenues from energy use, freeing up additional funds for targeted subsidies and policies to expanding electricity networks and renewable forms of energy.

Box 4.1. Fossil fuel subsidy reform in the Philippines

The Philippines removed all consumer energy subsidies, successfully phasing out price subsidies in the late 1990s as a result of wider structural reform to deregulate both the downstream oil and electricity sectors. This entailed removing the Oil Price Stabilization Fund and privatising the National Power Corporation, and resulted in fuel price increases. To compensate for rising energy prices, the government adopted a range of targeted measures funded from VAT levied on oil, including: a transition period where prices were adjusted monthly; a lifeline rate for marginalised and low-income electricity users; a senior citizens' discount on electricity; a one-off cash transfer aimed at marginalised electricity consumers (Pantawid Kuryente); and a Public Transport Assistance Programme (Pantawid Pasada) targeting jeepney and motorised tricycle operators whose regulated fares were unable to move with fuel price changes.

As a result, the Philippines were able to invest more in safety nets and renewable sources of energy, and now tax fuels. In 1996, direct government subsidy to the Oil Price Stabilization Fund stood at USD 343.5 million. Since reform, the Philippines has experienced a decline in the consumption of oil products, reduced fiscal burden from energy subsidies, stabilised emissions per kilowatt-hour generated, increased energy efficiency and reduced the energy intensity of the overall fuel mix.

Source: Nordic Council of Ministers (2016^[60]), <https://doi.org/10.6027/ANP2016-778>.

Aligning investment incentives with climate goals

All Southeast Asian economies provide investment incentives to promote green growth and green investment. Investment incentives typically target investments in green sectors, improvements in energy and environmental performance of businesses, or business activities that support green growth.

Green sectors actively promoted in Southeast Asia include renewable energy, bioplastics, circular economy, electric vehicles and charging stations, re-forestation and biodiversity conservation. Fiscal incentives used to promote these sectors typically include corporate income tax (CIT) holidays or reductions for a specified period of time, as well as import duty and VAT exemptions on related machinery and equipment. In some cases, such as Malaysia and Cambodia, investors have the option to choose between profit-based exemptions (i.e. CIT holidays) or cost-based incentives (e.g. tax allowances or accelerated depreciation on qualifying capital expenditures), and in Indonesia and the Philippines, investors in renewable energy are entitled to both. In trying to develop a new market, like electric vehicles (EVs), some countries offer additional incentives related to product purchase and use. For instance in Malaysia, EVs are subject to import duty and VAT exemptions, and vehicle owners are exempt from road tax and from costs relating to EV charging.

Five AMS provide investment incentives to improve the environmental performance of existing businesses. For example, in Thailand, projects or businesses can get an exemption on import taxes for machinery as well as a CIT holiday of up to eight years if they invest in upgrades to reduce energy consumption, use renewable energy or reduce other environmental impact such as waste or wastewater (OECD, 2021^[33]). Lao PDR offers a CIT holiday of up to 10 years on investments in environmentally friendly or energy-saving technologies that meet certain size and employment criteria. Malaysia, the Philippines and Singapore also offer reduced CIT rates or accelerated depreciation on energy- or fuel-saving equipment.

Some AMS actively target specific business activities that advance green capabilities and support green growth, such as investment in green R&D, green jobs and skills or green suppliers. The Philippines, for example, offers deductions from taxable income of 50% of training and R&D expenses for technologies used to conserve the environment and natural resources. Myanmar similarly allows for tax deductions on R&D expenses related to green technologies. In Viet Nam, new environmental and energy technologies in High-Tech Zones enjoy a 4-year CIT holiday followed by 50% CIT reduction for nine years. In Thailand, investors that spend on green R&D, training, or supplier development enjoy higher investment caps on their income tax holidays.

In some AMS, similar incentive packages are offered to 'green' and 'non-green' activities in targeted sectors, which raises questions about their overall effectiveness in reducing environmental impact (Table 4.4). For example, in Thailand, similar – albeit lower – incentives are offered to non-renewable energy projects compared to renewable energy projects, as well as to non-biodegradable plastics compared to biodegradable plastic products. In Malaysia, both biopolymers and engineering of non-biodegradable plastic products enjoy the same pioneer status benefits. In Brunei Darussalam, manufacturing of new plastics receives the same favourable treatment as recycled plastics. In Indonesia, manufacture of renewable energy parts and components receive the same favourable tax treatment as investments in oil and gas refinery. In Myanmar, conventional energy generation and renewable energy generation both enjoy equal priority sector status and incentives due to the electricity requirements for nation-wide coverage.

Providing similar incentives to both green and non-green substitutes reduces the ultimate effectiveness of efforts to promote green investment. In fact, in the case of Thailand, significantly more investment applications were received for non-biodegradable plastics than bioplastics between 2016 and 2018, and the value of investments in non-renewable energy benefitting from incentives was also considerable (OECD, 2021^[33]). According to the OECD Investment Policy Review of Thailand, the country would benefit from classifying green and non-green activities in targeted sectors using emerging taxonomies, and scaling down or phasing out investment incentives for non-green activities.

Table 4.4. Corporate income tax incentives for green and non-green activities

AMS	Green incentives								Non-green incentives	
	Renewable energy	Energy efficiency	Electric vehicles	Circular economy	Bio-plastics	Re-forestation	Bio-diversity	Green R&D	Fossil fuels	Plastics
BRN				5-8 yrs						5-8 yrs
CAM	3-9 yrs*			3-9 yrs*			3-9 yrs*			
IDN	5-20 yrs*								5-20 yrs*	
LAO		4-10 yrs						4-10 yrs		
MYS	5-10 yrs	5-10 yrs			5-10 yrs				5-10 yrs	5-10 yrs
MMR	3-7 yrs							****	3-7 yrs	
PHL	7 yrs*		***	***	***			****		
SGP		****								
THA	3-8 yrs	8 yrs	3-8 yrs	3-8 yrs	5-8 yrs	8 yrs	0-8 yrs	8 yrs	3-8 yrs	3-8 yrs
VNM	4 yrs*	15 yrs**						4 yrs*		

Note: *CIT holiday followed by temporarily reduced CIT rate. **Temporary CIT reduction. ***Permanent CIT reduction. ****Tax allowances or accelerated depreciation on qualifying capital expenditure. The list of green/non-green incentives is not exhaustive but intended for illustration. Source: OECD FDI Qualities Mapping.

Building green capabilities and addressing informational barriers to green investments

Technical support is a useful tool for reducing the environmental footprint of investments, building capabilities related to green technologies, and promoting green innovation and spillovers. Almost all AMS offer technical support to help develop green technical skills and business practices, six AMS also offer support to improve the environmental performance of businesses, while only two AMS provide technical support for green innovation and commercialisation of new climate-friendly technologies through eco-zones and green technology parks (Table 4.5).

Generalist community training seeks to mainstream climate change and green economy considerations into secondary and vocational education programmes in Cambodia and Viet Nam. Specialised training programmes targeting workers include the Energy Efficiency & Energy Management Training Program in Malaysia, the Green Finance Industry Taskforce's environmental risk management workshops in Singapore, the BCG Talent & Entrepreneur Development initiative in Thailand, and the Green Bond Approved Verifier Training in Viet Nam. These initiatives are important for attracting foreign investors that seek skills related to green technologies and local business partners in green supply chains.

Initiatives to reduce environmental impacts of businesses in ASEAN often target specific sectors or SMEs, and to a lesser extent innovation and R&D. Sector-specific programmes include support for improving energy efficiency in agribusiness and industry in Cambodia, and support geared toward the banking sector on incorporating ESG risks into lending decisions in Viet Nam. SME programmes include tailored support for clean production and waste management in Malaysia and the Philippines. By developing low-carbon capabilities of domestic firms and workforces these programmes are crucial for investors that seek local green business partners and suppliers, and enable the transfer of knowledge and technology from foreign to domestic firms.

Green technology parks, incubators and accelerators can also be tailored to support businesses in finding innovative solutions to reducing GHG emissions, and create green innovation hubs that attract talent and investors. Viet Nam's Eco-Industrial Park Initiative aims to increase deployment of clean and low-carbon technologies, improve water efficiency and introduce chemical waste management. Singapore is a regional leader in green innovation, and its JTC CleanTech Park is the first green technology park in the region to offer an R&D and test-bedding site for the early adoption of sustainable technology and solutions. In addition, Singapore's Green Data Centre Innovation Programme provides a platform to demonstrate

emerging technologies and innovations that can be adopted by data centres to increase energy efficiency. By upgrading the capabilities and innovation potential of domestic industry, these parks and incubation facilities can heighten competitive pressures and encourage FDI spillovers that arise from imitation of foreign technologies and operating procedures.

In addition to technical support, information and facilitation services can help reduce informational barriers and asymmetries that lead to sub-optimal investment and consumption choices, and generally result in under-investment in green technologies. For instance, lack of awareness on the energy performance of household appliances leads to an inability of consumers to interpret the impact of energy prices on the operational costs of one product relative to another, meaning that price signals do not influence purchasing behaviour as expected. Measures to raise public awareness and understanding of energy and environmental performance, including information campaigns, product labelling schemes, certification and disclosure requirements can help alleviate these information barriers. AMS offer various forms of information and facilitation support to reduce barriers to green investment. The most widespread forms of information support offered by five AMS are public awareness campaigns and voluntary award schemes designed to help increase visibility of climate-friendly products and businesses. Indonesia further requires publicly listed companies to submit a sustainability report, and Singapore offers guidance to financial institutions on environmental and climate-related disclosures.

Investment promotion agencies, discussed at length in Section 2, are also key players in bridging information gaps that may otherwise hinder the realisation of foreign investments, and can play a key role in influencing the contribution of FDI to green growth. Green facilitation services that prioritise investments that contribute to green growth can also be an effective way to ensure the attraction and retention of investors committed to climate action. In ASEAN, green facilitation is less common and mostly takes the form of sector-specific guidebooks or investment opportunities listings. One exception is Malaysia's green technology one-stop-shop, which fast-tracks investments that contribute to green growth, and can therefore be an effective tool to increase the country's attractiveness to climate-aligned investors.

Table 4.5. Technical and information support for green investments

AMS	Technical support			Information support		
	<i>Training & skills development</i>	<i>Business & supplier development</i>	<i>Science & technology parks</i>	<i>Green facilitation</i>	<i>Public awareness campaigns</i>	<i>Disclosure, certification & labelling</i>
BRN					Energy Saving Talks, Pollution Control Guide	
CAM	Green Training Campaign, Mainstreaming Climate Change in Education	Reducing GHG in Industry, Climate-Friendly Agribusiness				
IDN		Kenkop Priority Programmes		Sustainable Investment Project	Energy Efficiency Awareness Raising	Sustainability disclosure requirements
LAO						
MYS	Energy Efficiency & Energy Management Training Programme	MyHIJAU SME and Entrepreneur Development programme		Green tech one-stop-shop	MyHijau e-Book; National Energy Awards	
MMR	Inception Workshop on Developing a Green Economy Policy and Strategic Framework	Series of Green Development Forums for Green Economy		Checklist of EIA, National Environmental Quality Guidelines, One-stop Service Centre	WWF's Green Economy Programme	Disclosure of Beneficial Ownership Information, Thilawa SEZ disclosure
PHL		Green Growth Co-operation, Green Financing Programme, ProGED, ESM for SMEs		Energy Investor's Guidebook, ProGED	Advanced SCP Project	
SGP	Climate Action Package Courses; GFIT Capacity Building Workshops; Environmental Risk Management Handbook	Energy Efficiency National Partnership; Environment Resource Kit; Enterprise Sustainability Programme	JTC CleanTech Park; Punggol Eco-Town; Green Data Centre Innovation Programme		Clean & Green Singapore; Singapore Sustainable Blueprint; Singapore Energy Award; Singapore Energy Story	Guide for climate-related disclosures by financial institutions
THA	BCG Talent & Entrepreneur Development			Investment Opportunities Guide		
VNM	Green Bond Approved Verifier Training, Greening TVET Programme	Green Bank Development Programme, Sustainable Business Support Programme; Specialised Business Support Page	Eco-Industrial Park Initiative			

Source: OECD FDI Qualities Mapping.

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Annex A. ASEAN regional frameworks and initiatives related to RBC

ASEAN regional framework for RBC	Launch date	Aligned with	Content	Stakeholders
General frameworks and guidelines				
ASEAN Comprehensive Recovery Framework	2020	SDGs	Strategies for member countries to exit the COVID-19	Governments, policy makers, investors, civil society
Guidelines for the promotion of inclusive business	2020	SDG 1	Guidelines for supporting inclusive businesses at the national levels	Governments, policy makers, businesses (especially MSMEs)
ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture, and Forestry (ASEAN RAI)	2017	SDG 2	Promote the practice of environmentally, socially, and economically sustainable investment	ASEAN governments, the global and regional private sector, civil society organisations, farmer organisations
ASEAN Responsible Business Forum (ARBF)	2018	SDGs	Promote the contribution to three pillars of sustainability of the ASEAN region	ASEAN board, member countries, communities, and private businesses
ASEAN Responsible and Inclusive Business Alliance (ARAIBA) & ASEAN Responsible and Inclusive Business Code	2018	SDGs; G20 Inclusive Business Framework; ISO26 000 Guidance on Social Responsibility; UN Global Compact 10 Principles; UNGPs	Promotes responsible, inclusive, resilient and sustainable enterprises	ASEAN board, member countries, communities, and private businesses
ASEAN Inclusive Business Framework	2017	SDGs	Strengthen enabling policy environments for inclusive business; foster regional collaboration; and connect AEC and ASCC vision along the lines of IB practices, economic growth and positive impact	Governments, policy makers, investors, civil society
Human rights				
ASEAN Intergovernmental Commission on Human Rights	2009	SDGs 10, 16	Consultative body to promote and protect human rights in ASEAN	Government, policy makers, civil society
Labour rights				
ASEAN Guidelines for CSR on Labour	2017	SDG 8, OHCHR	Promote human and workers' rights and well-being	Governments, businesses, employers' associations and labor unions, workers
ASEAN Guidelines on Effective Return and Reintegration of Migrant Workers	2020			
ASEAN Roadmap on the Elimination of the Worst Forms of Child Labour by 2025				
ASEAN Guideline on Gender Mainstreaming into Labour and Employment Policies towards Decent Work for All				

Environmental issues				
ASEAN Socio-cultural community (ASCC)	2015	SDGs; ILO Conventions	Increase the quality of life of ASEAN people through co-operative activities that are people-oriented, people-centred, environmentally friendly	Government, civil society organisation, multilateral organisations, the private sector, the academe, the people
Corruption				
ASEAN 2025 Political-Security Community Blueprint	2016	UNCAC	Promote ASEAN co-operation in implementing the UNCAC to prevent and combat corruption	Governments, policy makers
Digitalisation				
AEC Blueprint 2025	2015		Facilitates the growth of the digital economies	Government, businesses, citizens
Masterplan on ASEAN Connectivity 2025	2017			
e-ASEAN Framework Agreement	2012			
Consumer Protection				
ASEAN's High-Level Principles on Consumer Protection	2018	United Nations Guidelines for Consumer Protection 2015 (UNGCP)	Promote consumer protection and consumer rights	ASEAN Ministries, businesses, consumers
ASEAN Consumer Protection Laws and Regulations	2018			
ASEAN online business code of conduct	2020			



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