# DEVELOPMENT OF SUSTAINABLE INVESTMENTS IN ASIAN COUNTRIES[8]

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***Summary***

*The aim of this paper is to investigate the development of sustainable investments in the Asian region and identify the role of individual Asian countries in promoting the development of sustainable investments. Secondary data from relevant domestic and foreign literature sources, including scientific articles, expert reports, and relevant websites, are used in this study. The analysis confirms that Asian investors are increasingly interested in integrating ESG factors into investment decisions and recognize the positive impact of sustainable investments on environmental protection, societal advancement, and the overall financial sector. Contribution of this study lies in its comprehensive analysis of sustainable investment trends in the Asian region, shedding light on the evolving landscape of responsible investment practices. However, it is important to note that this study has certain limitations, such as the reliance on secondary data and the scope of available literature. Additionally, while there is a growing body of research on sustainable investments, there is still room for further exploration and empirical studies, particularly in the context of Asian countries. The study emphasizes the potential of sustainable investments to promote financial sustainability and economic stability, while also supporting positive global changes.*

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## 1. INTRODUCTION

In recent times, there has been a growing emphasis on the importance of socially responsible practices, driven by the recognition that decisions made by individuals, investors, and businesses profoundly shape economic systems and have significant impacts on the environment, society, and the overall business environment. This growing global awareness of climate change, environmental conservation, and societal values underscores the critical role of investments that prioritize sustainability in shaping economies that promote long-term prosperity and environmental stewardship. Consequently, investors are increasingly integrating environmental, social, and governance (ESG) criteria into their investment decisions, recognizing the potential of sustainable investments to deliver positive social and environmental outcomes alongside financial returns. Companies embracing socially responsible practices often exhibit innovative approaches to their operations, better risk management strategies, and enhanced adaptability to market changes, positioning themselves for sustained success in the long run. While ESG investing is a global trend, some parts of the world are far ahead of others.

Sustainable investments are becoming increasingly popular in Asian nations, mirroring a wider global shift towards ethical investing. While sustainable investment practices have seen widespread adoption in Europe and North America, they are also gaining prominence in Asia, notably in Japan and China. However, compared to other regions, sustainable investments in Asia still have some catching up to do. This paper aims to explore the development of sustainable investments in Asia and examine how individual Asian countries are contributing to their growth.

The paper is organized as follows. The second section discusses the worldwide progression of sustainable investments, followed by the third section focusing on sustainable investments in Asia. The fourth section explores the sustainable investment landscape in specific Asian countries. Lastly, the fifth section provides conclusions.

## 2. GLOBAL DEVELOPMENT OF SUSTAINABLE INVESTMENTS

Although ESG investment is a global trend, certain regions are more advanced than others. Sustainable investment has notably flourished in Europe and North America, yet its significance is growing in Asia, particularly in Japan and China. Nonetheless, sustainable investments in Asia still fall behind other areas (Asia Asset Management, 2020). According to the latest report by the Global Sustainable Investment Alliance (2022), there has been a 20% increase in sustainable investments, rising from $18.2 trillion in 2020 to $21.9 trillion in 2022 in key regions such as Canada, Japan, Australasia, and Europe, as illustrated in Table 1 below.

**Table 1.** Global sustainable investment assets in billions of USD in the period from 2016 to 2022

| **Region** | **2016** | **2018** | **2020** | **2022** |
|---|---|---|---|---|
| Europe | 12,040 | 14,075 | 12,017 | 14,054 |
| Canada | 1,086 | 1,699 | 2,423 | 2,358 |
| Australia & New Zealand | 516 | 734 | 906 | 1,220 |
| Japan | 474 | 2,180 | 2,874 | 4,289 |
| **Subtotal** | 14,115 | 18,688 | 18,220 | 21,921 |
| USA | 8,723 | 11,995 | 17,081 | 8,400 |
| **Total** | **22,839** | **30,683** | **35,301** | **30,321** |

Source: GSIA (2022)

Table 1 examines trends in sustainable investments, excluding American data due to significant methodological changes. In Europe, sustainable investments rose from $12 trillion in 2020 to $14 trillion in 2022. Similarly, Canada reported stable sustainable investment assets, decreasing slightly from $2.42 trillion in 2020 to $2.36 trillion in 2022 due to conservative reporting. In contrast, the American market saw a substantial decline from $17.1 trillion in 2020 to $8.4 trillion in 2022 due to methodological changes. Japan experienced significant growth, with sustainable investment assets increasing from $2.9 trillion in 2020 to $4.3 trillion in 2022. Additionally, the Australian and New Zealand market expanded from $906 billion in 2020 to $1.22 trillion in 2022. The growth of sustainable investment assets in Europe, the United States, Canada, Australasia, and Japan from 2016 to 2022 is depicted in Table 2.

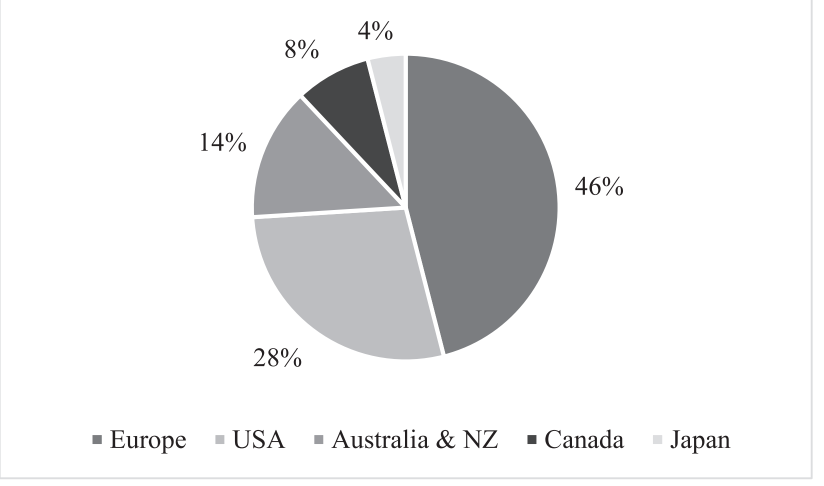
**Table 2.** Growth of sustainable investment assets by region in billions of local currency, in the period 2016-2022

| Region | 2016 | 2018 | 2020 | 2022 |
|---|---|---|---|---|
| Europe | € 11,045 | € 12,306 | € 10,730 | € 12,401 |
| USA | $8,723 | $11,995 | $17,081 | $8,400 |
| Canada | $1,505 | $2,132 | $3,166 | $3,014 |
| Australia & NZ | $707 | $1,033 | $1,295 | $1,680 |
| Japan | ¥57,056 | ¥231,952 | ¥310,039 | ¥493,598 |

Source: GSIA (2022)

Table 2 illustrates the uneven growth of sustainable investing assets across regions. In Europe, there is a noticeable slowdown in growth until 2020, followed by a decline and then a surge after 2020. Conversely, both the US and Canada experience a decline post-2020. Australia, New Zealand, and Japan exhibit higher growth rates at the beginning of the observed period. Concerning sustainable assets, a decrease in the share of sustainable investment assets in total managed assets is observed in Europe, Canada, and the US, while Japan demonstrates robust growth. This trend suggests changing patterns of investment priorities and interests on a global scale, driven by alterations in regulatory frameworks and research methodologies. Additionally, Australia and New Zealand show a moderate increase in the share of sustainable investment assets, indicating a continuous strengthening of interest in sustainable investments in these regions (GSIA, 2022). Figure 1 displays the share of global sustainable investment assets by region in 2022.

**Figure 1.** Share of global sustainable investment assets by region in 2022




Source: GSIA (2022)

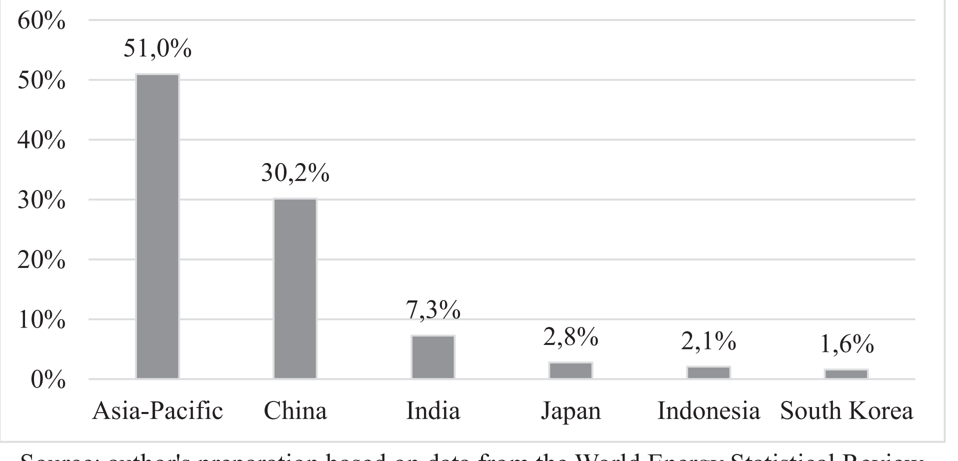
The data from Figure 1 highlights the dominance of Europe and the United States in holding sustainable investment assets in 2022, comprising over 70% of the global total. However, Asia is gradually gaining ground in this area. Europe's share has notably risen from 34% in 2020 to 46% in 2022, while the United States has declined from 48% to 28% in the same period. Conversely, Japan's share has increased from 8% to 14%, and Australia and New Zealand's from 3% to 8%. Meanwhile, Canada's share has decreased from 7% to 4%. Additionally, noteworthy developments include Japan's collaboration with the World Bank to enhance accessibility to sustainable investments and China's leadership in green financing. Green bonds dominate the Asian sustainable bond market, constituting 68% of the total, with a growing interest in other sustainable bond types (OECD, 2023). The issuance of green bonds has seen significant growth in recent years, led primarily by government and municipal agencies, banks, energy, and utility companies (Asia Asset Management, 2020; Bloomberg, 2023).

## 3. SUSTAINABLE INVESTMENTS IN ASIA

The increasing focus on climate change initiatives has directed attention towards ESG investments, with Asia being a focal point as one of the most critical regions in addressing the global sustainability challenge. Given its vulnerability to global warming, sustainability investments in Asia could be pivotal in reducing ecological, economic, and social damage. Moreover, heightened regulatory scrutiny is making business costlier for companies with weak ESG standards but simultaneously encouraging them to expedite their implementation and disclosure of ESG information (Asia Fund Managers, 2023).

Europe traditionally leads in renewable energy adoption, while China has seen a surge in renewable energy investments, boasting the largest installed capacity of solar and wind energy and producing and selling more electric vehicles than any other country (BNP Paribas, 2023). However, policymakers and regulatory institutions in Asia have tightened regulatory frameworks in recent years, particularly regarding climate issues. Financial hubs like Singapore and Hong Kong are moving towards alignment with European regulatory and corporate disclosure standards for ESG data. For instance, listed companies in financial, agricultural, and energy industries in Singapore will be required to disclose environmental impact data. Carbon emission taxes are also being introduced or increased in numerous Asian markets (ESG Clarity, 2023). Additionally, the Statistical Review of World Energy for 2022 by the multinational oil and gas corporation, British Petroleum, revealed that the Asia-Pacific region accounted for 51% of global carbon dioxide emissions (Energy Institute, 2023). China alone contributed 30.2% of carbon dioxide emissions, while India accounted for 7.3%, as evident in Figure 2.

**Figure 2.** The largest carbon dioxide emitters in Asia in 2022




Source: author's preparation based on data from the World Energy Statistical Review (2023)

The Asia-Pacific region is significantly affected by climate change and experiences more extreme weather events compared to other regions worldwide, as highlighted by the International Monetary Fund (IMF). This raises the question of the origin of this considerable carbon footprint. According to a 2020 report by McKinsey, major contributors include coal-based electricity generation, manufacturing industries such as steel and automobiles, agriculture, and transportation. Despite initiatives aimed at reducing coal usage, China continues to rely heavily on fossil fuels for electricity generation (McKinsey Global Institute, 2020).

Inconsistent disclosure of ESG data by Asian companies poses a significant obstacle to ESG adoption, hindering investors' ability to assess ESG factors. Most Asian countries currently prioritize economic growth heavily reliant on natural resources and carbon-intensive industries, resulting in a continuous increase in carbon dioxide emissions, hindering the transition to a low-carbon economy. In this context, regulators in Asia play a crucial role in introducing consistent policies and legislative frameworks (HSBC Expat, 2023).

The rise of ESG investing in Asia is driven by various stakeholders. Asian regulators are the main driving force behind the increase in ESG investments, transitioning from voluntary to mandatory disclosure standards for ESG information across various companies. Notably, the Singapore Exchange Limited's proposal for obligatory climate-related data disclosure, following the "comply or explain" rule, reflects alignment with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations (TCFD, 2023). Similarly, regulatory bodies in China and Hong Kong have issued guidelines mandating ESG data disclosure for listed entities.

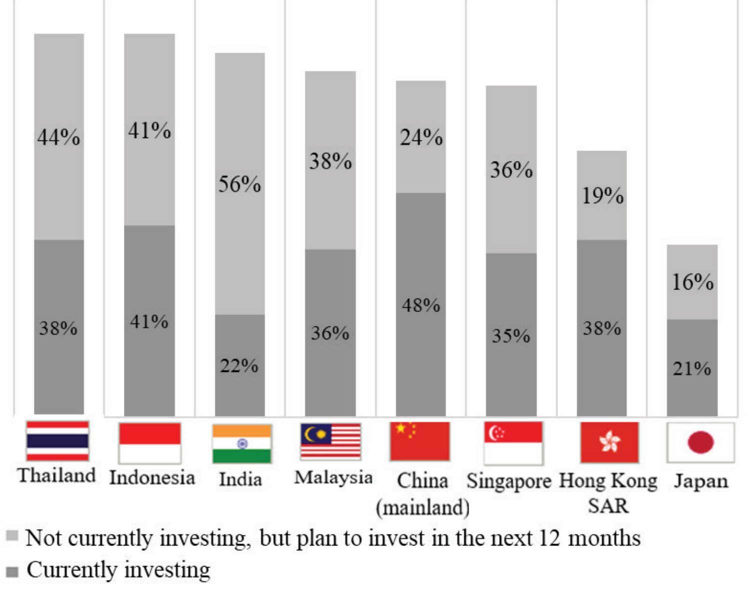
This regulatory shift coincides with rising interest among Asian investors in ESG investing, evidenced by their growing engagement with ESG funds, ETFs, and green bonds. Simplified processes, data reliability, and comprehensive end-to-end services are key considerations driving their investment choices. In parallel, relationship managers play a pivotal role in fostering sustainable investment practices among clients. They act as intermediaries, sharing current information on sustainable investment prospects and obstacles, offering tailored guidance on sustainable strategies, and fostering awareness about sustainability to facilitate prudent financial decision-making.

Complementing these efforts, asset management companies contribute significantly to the advancement of sustainable investments. Through tailored services and guidance, they assist investors in aligning their portfolios with sustainable objectives, monitoring the performance of sustainable investments, and delivering regular updates on environmental, social, and corporate governance matters (Accenture, 2022).

The survey conducted by Accenture (2022) in December 2021 and January 2022 across eight Asian markets, including China (mainland), Hong Kong SAR, India, Indonesia, Japan, Malaysia, Singapore, and Thailand, involved over 3,200 respondents. Approximately 40% of the participants were affluent, with investable assets ranging from

$100,000 to $1 million USD, while 60% belonged to the high net worth or ultra-high net worth bracket, with household assets exceeding $1 million USD. According to their findings, one-third of affluent investors in Asia are already engaged in ESG investing, with 37% planning to invest further, while 30% do not intend to invest or are uncertain about ESG investments in the next 12 months. The demand and interest in ESG investing are on the rise among Asian investors, particularly in Southeast Asia, where 82% of clients have either already invested in or plan to invest in ESG. Conversely, investors from Japan show the least interest in ESG investing, with only 37% of investors currently engaged or planning to invest. Additionally, the demographic profile of Asian investors indicates that about three-quarters of younger investors have already invested or plan to invest in ESG in the next 12 months, compared to 45% of older investors, as shown in Figure 3.

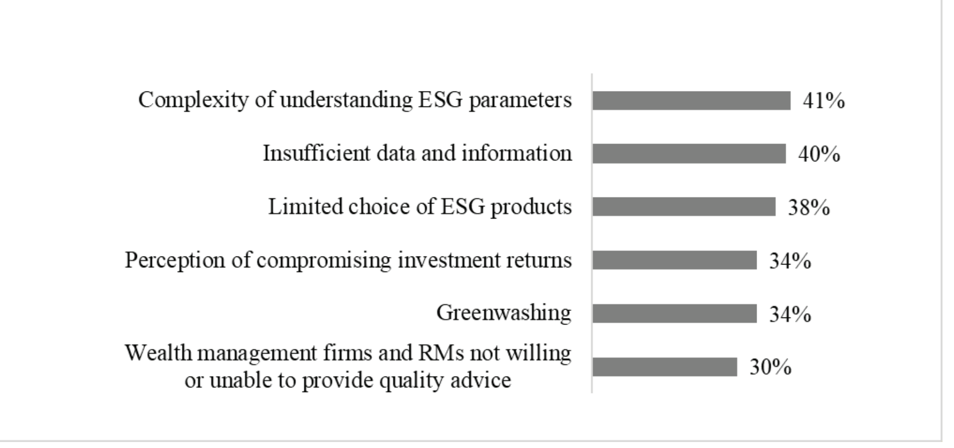
**Figure 3.** Interest in ESG investments among investors from selected Asian countries




Source: author's preparation based on data from Accenture (2022)

The research findings highlight that ESG funds, ESG ETFs, and ESG bonds are the most sought-after products among Asian investors, with less interest in individually selecting stocks for investment. Figure 4 illustrates the barriers preventing Asian investors from adopting ESG or adopting it more extensively.

**Figure 4.** Barriers to ESG adoption as perceived by the Asian investors




Source: author's preparation based on data from Accenture (2022)

According to Figure 4, 41% of investors view the complexity in grasping ESG parameters as a notable challenge, while 40% highlight the absence of historical data and information, making decision-making more intricate. Following closely, 38% of investors identify the restricted availability of ESG products in asset management firms as the third most prominent barrier to ESG adoption. Moreover, investors express concerns regarding reduced financial returns, greenwashing practices, and doubts about the willingness or capability of asset management firms to offer high-quality guidance (Accenture, 2022).

## 4. SUSTAINABLE INVESTMENT LANDSCAPE IN SELECTED ASIAN COUNTRIES

Over the last decade, Japan's sustainable investment market has seen significant expansion and shifts. The foundation for socially responsible investing was laid in 2013 with Japan's Revitalization Strategy, initiating a move towards sustainable and socially conscious investing in the country. In subsequent years, regulatory bodies like Japan's Financial Services Agency introduced key frameworks like the Japanese Corporate Governance Code in 2014 and the Corporate Governance Code in 2015, strengthening support for sustainable investments and enhancing corporate transparency. Moreover, Japan's bond market witnessed substantial growth, marked by the issuance of its first green bond in 2014, followed by subsequent issuances by banks and local governments. Guidelines from the Ministry of the Environment in 2017 and the Financial

Services Agency in 2021 further reinforced this market segment. Additionally, Japan Exchange Group launched an ESG information platform for bonds in 2022.

In the broader Asian context, Japan distinguishes itself with its relatively strong ESG adoption, largely driven by government initiatives rather than private sector efforts. The Bank of Japan has also played a significant role in promoting sustainable investments through its monetary policies, investing in funds that prioritize ESG considerations. For example, it tracks indices like the MSCI Japan Empowering Women Index, which includes companies with notable female participation rates. Since 2017, Japan has been a leading advocate for sustainable investments in Asia, spearheading initiatives to encourage sustainable investing through entities like the Government Pension Investment Fund. The period from 2016 to 2018 witnessed a remarkable surge in sustainable investment assets in Japan, making it the fastest-growing market globally (UBS, 2019).

Rather than sudden shifts, Japan is pioneering innovations in areas such as battery technology, sustainable fuels, and eco-friendly steel production. The global embrace of Japanese green technologies, like electric railways, underscores Japan's role in reducing greenhouse gas emissions. Japan's progress in sustainable and responsible investment markets has been propelled by policy and regulatory advancements, facilitated by collaboration among government bodies, regulators, and market participants. In Japan, sustainable investment assets under management experienced a significant increase, rising by 59.2% from 2020 to 2022. The proportion of sustainable investment assets relative to total assets under management also saw substantial growth during this period, reaching 33.6% in 2022 (GSIA, 2022).

Apart from Japan, there has been a collective recognition across Asia in recent years among governments, international organizations, and the private sector of the lasting influence of environmental, social, and corporate factors on market dynamics. This awareness has spurred a heightened interest among market players in integrating ESG considerations into financial markets, resulting in a notable uptick in the significance of sustainable development principles in the region (OECD, 2023). Notably, the China Securities Regulatory Commission has been continuously refining guidelines for disclosing ESG data for companies listed on regulated markets. This effort has led to a rapid surge in ESG investment activity in mainland China. As of September 2023, the responsible investment market in China amounted to about 31.59 trillion CNY, or 4.3 trillion USD, primarily driven by green loans from commercial banks, while ESG mutual funds represent a smaller fraction. Nonetheless, there has been remarkable growth in mutual funds, with 98 fund management companies launching 747 ESG-focused mutual fund products valued at over 500 billion CNY, or 70.2 billion USD.

In November 2020, the Korean Financial Services Commission introduced the "Green Finance Plan 2.0" in Taiwan, setting objectives to establish a sustainable financial system in collaboration with public and private sectors. These goals aim to enhance market efficiency, transparency, and investment in green industries, while also promoting sustainable development and climate change awareness (GSIA, 2022). Subsequently, in December 2022, the FSC unveiled the "Taiwan Sustainable Taxonomy" to encourage financial institutions to support sustainable economic activities and aid in transitioning to a low-carbon economy (Taiwan Sustainable Taxonomy, 2022). Thailand and Taiwan emerged as key markets for sustainable investments in Asia during the fourth quarter of 2023, with Taiwan's sustainable fund assets reaching 13.6 billion dollars and Thailand's increasing to 236 million dollars by the end of 2023. This growth was driven by the launch of new funds, with 22 originating from Thailand out of 29 new sustainable funds launched across the region (Fund Selector Asia, 2024).

Government initiatives further strengthen the overall focus on sustainable investments in markets such as Hong Kong, Singapore, and South Korea. For instance, the South Korean government plans to impose requirements on companies listed on regulated markets. These companies will be required to disclose information about their ESG positions, with voluntary reporting allowed until 2025. Mandatory ESG reporting for all listed companies will be gradually introduced by 2030 (Mercer, 2022). In South Korea, the FSC introduced plans for disclosing relevant ESG information in 2021, aiming to promote sustainable investments by expanding ESG reporting. As part of this plan, the Korea Exchange will introduce guidelines for disclosing ESG data by 2025, making it mandatory for all listed companies to disclose ESG data. Starting from 2026, these companies will be required to disclose corporate governance information (GSIA, 2022).

In Hong Kong, the Centre for Green and Sustainable Finance highlighted key priorities for promoting green and sustainable finance, including climate-related disclosures, carbon market opportunities, and establishing a multidisciplinary platform for managing climate risks and opportunities in the financial industry. The aim is to align climate and environmental risk management in the financial sector, foster the growth of green and sustainable practices in Hong Kong, and support the implementation of government strategies for addressing climate risks (Hong Kong Monetary Authority, 2024). Additionally, Hong Kong's Securities and Futures Commission implemented enhanced data disclosure requirements for ESG funds in January 2022, while the Monetary Authority of Singapore adopted a more comprehensive and detailed approach to ESG issues, including issuing guidelines for portfolio construction and risk management.

Moreover, stock exchanges in Malaysia, Thailand, and Vietnam have introduced mandatory ESG reporting requirements for all companies listed on their regulated markets. This measure aims to promote transparency and responsible business practices related to environmental, social, and corporate issues. Additionally, the

Association of Southeast Asian Nations (ASEAN) has established the ASEAN Taxonomy for Sustainable Finance to promote green finance and encourage sustainable development (BNP Paribas, 2023). Furthermore, DBS Bank, a leading financial services group in Asia, laid the groundwork for strategically aligning its financial activities with lower carbon initiatives in September 2022. It was the first bank in Southeast Asia to announce a significant set of decarbonization commitments, with interim targets set until 2030 (DBS Bank Ltd, 2024). Additionally, ESG funds in Southeast Asia recorded net inflows of 368 million USD in the third quarter of 2023. On an annual basis, capital flows into ESG funds domiciled in Singapore, Thailand, Malaysia, and Indonesia increased by 254% from 104.1 million USD in the same quarter of 2022, according to Morningstar data (Morningstar, 2024).

The joint initiatives of governments, regulatory bodies, and market players to advance sustainable investments in Japan and throughout Asia highlight a substantial shift towards cultivating socially responsible and environmentally sustainable financial ecosystems in the region. This trend suggests that this part of the world will increasingly compete with Europe and the USA for a share of the sustainable investment market.

## 5. CONCLUSION

In recent times, there has been a growing acknowledgment of the impact of socially responsible practices on economic systems, the environment, and society, driving increased emphasis on sustainability. This global awareness underscores the importance of investments prioritizing sustainability for long-term prosperity and environmental stewardship. Investors are integrating ESG criteria into their decisions, aiming for positive social and environmental outcomes alongside financial returns, leading to innovative approaches and better risk management by companies. While sustainable investments are firmly established in Europe and North America, they are gaining momentum in Asia, particularly in Japan and China, although the region still trails behind in this regard.

Sustainable investing varies globally, with Europe and North America leading, while Asia, particularly Japan and China, is catching up but still lags. The Global Sustainable Investment Alliance reports a 20% increase in sustainable investments, reaching \$21.9 trillion by 2022 in key regions like Canada, Japan, Australasia, and Europe. Europe saw a rise to \$14 trillion, while Canada remained stable, and the US declined. Japan's assets grew significantly, as did Australia and New Zealand's. Noteworthy developments include Japan's collaboration with the World Bank and China's leadership in green financing, with green bonds experiencing significant growth in recent years.

The surge in ESG investments across Asia reflects a heightened awareness of climate change's urgency and the region's pivotal role in global sustainability efforts. While Europe sets the pace in renewable energy, China's rapid investments in renewables and electric vehicles signify substantial progress. Nonetheless, the Asia-Pacific region confronts formidable challenges, with over half of global carbon emissions originating from coal-based energy and heavy industries. Despite inconsistent ESG disclosure practices among Asian companies, regulatory mandates are progressively driving improvements, fostering investor confidence and interest.

A recent survey across eight Asian markets underscores the growing demand for ESG investments, particularly among younger investors who favor ESG funds, ETFs, and bonds. Over the past decade, Japan has emerged as an ESG leader in Asia, propelled by robust government initiatives and regulatory frameworks like the Corporate Governance Code. Japan's bond market witnessed significant growth, buoyed by green bond issuances and supported by environmental guidelines. Government support, including the Bank of Japan's investment in ESG-focused funds, has further strengthened Japan's position. Collaboration among stakeholders has been instrumental in advancing sustainable investment practices. Beyond Japan, other Asian countries like Taiwan and Thailand are also making strides in sustainable investments, encouraged by government interventions aimed at fostering transparency and responsible business practices.

The limitations of the first section of the paper, comparing global statistics, include reliance on data up to 2022, which may not capture recent trends, and exclusion of regions such as Africa and South America. Furthermore, the paper highlights regulatory reforms and government support but does not include an in-depth examination of enforcement issues and specific challenges in ESG disclosure among Asian companies. Future research could explore investor behavior, sector-specific sustainability challenges, the long-term impact of sustainable investments on environmental and social outcomes, and forward-looking projections on the future of sustainable investments and potential global policy shifts, with an emphasis on Asia.

In conclusion, the rise of sustainable investments in Japan and Asia, propelled by government support, regulatory reforms, and investor interest, signifies a fundamental transformation towards more socially and environmentally conscious financial markets in the region, announcing a new era where economic growth is increasingly intertwined with the principles of sustainability and responsible stewardship of natural resources.

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# RAZVOJ ODRŽIVIH ULAGANJA U AZIJSKIM ZEMLJAMA

**Mihovil Anđelinović**

***Sažetak***

*Cilj ovog rada je istražiti razvoj održivih ulaganja u Aziji te identificirati ulogu pojedinih azijskih zemalja u promicanju razvoja održivih ulaganja. U ovom radu korišteni su sekundarni podaci iz relevantnih domaćih i stranih izvora literature, uključujući znanstvene radove, stručna izvješća i relevantne web izvore. Analiza potvrđuje da su azijski investitori sve više zainteresirani za integraciju ESG čimbenika u investicijske odluke i prepoznaju pozitivan utjecaj održivih ulaganja na zaštitu okoliša, društveni napredak i cjelokupni financijski sektor. Doprinos ovog rada je sveobuhvatna analiza trendova održivog ulaganja u azijskim zemljama, stavljajući naglasak na brzorastuće područje odgovornih ulagačkih praksi. Međutim, važno je napomenuti da ovaj rad ima određena ograničenja, kao što je oslanjanje na sekundarne podatke i opseg dostupne literature. Osim toga, iako postoji sve veći broj istraživanja o održivim ulaganjima, još uvijek postoji velik prostor za daljnja istraživanja i empirijske studije, osobito u kontekstu azijskih zemalja. Rad naglašava potencijal održivih ulaganja za promicanje financijske održivosti i ekonomske stabilnosti te podupire pozitivne promjene na svjetskoj razini.*

***Ključne riječi:*** *održiva ulaganja; Azija; ESG; održivost; financijska tržišta; regulatorni okvir.*