

International Investment for Sustainable Growth: New Momentum for OECD-Southeast Asia Partnership

**10 Business Recommendations
to the OECD-Southeast Asia Ministerial Forum**

Ha Noi, Viet Nam, 26-27 October 2023



OECD Southeast Asia Regional Programme

Preamble

The world is facing immense challenges. Meeting the Sustainable Development Goals (SDGs), mitigating climate change, and mastering the digital transition will require enormous quantities of investment. At the same time, geopolitical tensions push companies to diversify their supply chains, markets, and production locations to increase their resilience to potential shocks. The combination of these factors is having a deeply transformative impact on the world economy.

Southeast Asia, characterized by its dynamic economies, cultural diversity, and vast potential, finds itself at the epicenter of this transformation. In 2022, the region witnessed foreign direct investment (FDI) inflows of USD 224.2 billion¹, accounting for 17% of global FDI, marking an all-time high. FDI is not only a significant driver of economic growth in the region, but it also has the potential to address many of the challenges Southeast Asia faces, such as the green energy transition, infrastructure development, and bridging the digital divide. This context accentuates both the importance of measuring the sustainability impacts of FDI in Southeast Asia and the necessity of creating a policy environment that safeguards investor rights and attracts the large amounts of FDI required.

Beyond offering financial returns, FDI is indispensable to realizing their SDGs. However, making this possible requires more than just capital. It necessitates a transparent, adaptable investment environment and predictable regulatory frameworks firmly rooted in rule of law. The key to sustainable growth lies in aligning the interests of governments and businesses to establish a policy ecosystem that addresses social and environmental challenges while guaranteeing investor rights. In addition, it is important to ensure that international trade conditions remain open and favorable to foreign companies, as often investment decisions are made once trade delivers positive returns.



1. ASEAN (2023), *ASEAN Annual Report 2022-2023*, <https://asean.org/wp-content/uploads/2023/07/NEW-FINAL-ASEAN-Annual-Report-2022-2023.pdf>

With ASEAN capital markets observing rapid growth in the issuance of sustainable bonds — escalating from a valuation of less than USD 5 billion in 2016 to over USD 36 billion by mid-2022 — the region stands at the forefront of the sustainable investment arena. However, it is paramount to recognize that Green, Social, and Sustainable (GSS) bonds constitute only 1.6% of all bonds outstanding in ASEAN markets². This highlights both the vast potential ahead and the importance of not ignoring investments in areas not yet aligned with ESG principles.

The recommendations presented here, with a focus on partnerships for sustainable growth through international investment, are the result of an intensive collaboration between the ASEAN Business Advisory Council (ASEAN-BAC) and Business at OECD (BIAC). Building upon the foundation established in our previous year's work—which highlighted the crucial role of resilient and sustainable supply chains—we are gratified to further the discourse on the pivotal role that international investment can play in invigorating the OECD-Southeast Asia Partnership. These business recommendations amalgamate the perspectives and insights of both entities, laying down a strategy to steer the region toward becoming a hub for FDI.

Southeast Asia is a mosaic of diverse nations with a unique set of challenges, strengths, and aspirations. Seizing the opportunities that current trends present requires not reactive but visionary policies, not just ambitious but actionable strategies, and, finally, cross-border, cross-sector partnerships between the public and the private sector.



2. ADB; Global Green Growth Institute (2022), *Survey on Green Bonds and Sustainable Finance in ASEAN*, <https://www.adb.org/sites/default/files/publication/840636/survey-green-bonds-sustainable-finance-asean.pdf>

Business Recommendations to Ministers

1. Strengthen Investment Promotion Strategies

ASEAN and OECD Governments, in partnership with the private sector, should develop targeted strategies to attract FDI, especially in sectors pivotal for sustainable development. The ASEAN, with its diverse economies and immense potential, has much to gain by considering the principles of the OECD Policy Framework for Investment (PFI) into its overarching policies. Such broad alignment would provide a solid foundation for mobilizing the levels of investment necessary to meet the SDGs and master the green and digital transition whilst ensuring it is aligned with broader regional and global objectives.

2. Create Conditions Conducive to Supply Chain Diversification

Southeast Asia is a prime location for companies seeking to diversify their supply chains. Such diversification not only bolsters economic resilience but also spurs regional development, fostering a vibrant ecosystem where businesses can thrive. Yet, we caution against calls for re-shoring, localizing production, and broad-based decoupling. Rather, we call on governments to ensure an open trade and robust policy environment, which is indispensable for enabling companies to diversify their supply chains. For this, it is imperative that governments actively engage with business to develop policies that are mutually beneficial. Moreover, diversified supply chains demand more than just infrastructural and policy support; they also call for a workforce with a broad spectrum of skills. Investing in skills is a cornerstone for Southeast Asia to enhance productivity and achieve diversification goals effectively.

3. Accelerate ASEAN's Green Transition

The world is rapidly transitioning toward a green economy, and the ASEAN region cannot afford to be left behind. FDI plays a significant role in the renewable energy sector as international project finance accounts for 55 percent of total project finance values in the renewable energy sector. To ensure a holistic, equitable transformative role, ASEAN Member States should leverage on their vast natural assets in finding natural solutions towards launching a robust and sustainable carbon trading market while promoting sustainable finance practices, the mitigation of investment risk, transparent investment frameworks, a strong commitment to rule of law, a concerted shift to renewable energy sources, and the promotion of energy efficiency throughout the whole value chain (up-to downstream). By setting an ASEAN target to phase out fossil fuel-generated power by 2050, the region can signal its commitment to building resilient and inclusive economies.

4. Facilitate Investment and Create Stable Investment Conditions

The stable, predictable investment climate that international trade and investment agreements create is crucial for providing legal certainty to foreign investors. Such agreements should include access to an independent, rules-based dispute settlement mechanisms, along with effective enforcement mechanisms. Moreover, they should be complemented by effective trade and investment facilitation measures.

5. Assure Competitive Neutrality with SOEs

State-Owned Enterprises (SOEs) play a pivotal role in many ASEAN economies. Ensuring these SOEs operate on a level playing field with private companies without receiving undue preferential treatment is essential to fostering a competitive market environment. Drawing inspiration from the OECD Guidelines on Corporate Governance of State-Owned Enterprises can offer insightful guidance in this regard.

6. Recognize and Incentivize ASEAN Business Entity (ABE)

The ASEAN region is home to various businesses operating across multiple countries. Recognizing these companies as ASEAN Business Entity (ABE) can provide them a platform to further invest and expand within the ASEAN landscape. Concurrently, to foster a pro-investment environment, ensuring fair treatment for all foreign investors, including those from outside ASEAN, is crucial.

7. Boost SMEs through FDI Linkages

Small and Medium Enterprises (SMEs) form the backbone of many ASEAN and OECD economies. Policies that enable these SMEs to take advantage of the myriad benefits of FDI can have a transformative effect on the regional economy, for example, the adoption of digitalization across the SMEs value chain to improve operational efficiency, sustainability, and resilience. Recognizing and incentivizing ABE can further amplify the impact of these policies by providing SMEs with opportunities to tap into expansive regional markets. ASEAN and OECD discussions on SMEs can be important platforms to increase efficiency and address SME challenges.

8. Promote Responsible Business Conduct

Businesses have a profound impact on society and the environment. In this context, promoting responsible business conduct is an essential part of an open international investment climate. By aligning their operations with frameworks such as the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct in a way that is in tune with the ASEAN context, businesses can boost their contribution to the broader sustainability agenda. At the same time, it is essential that the OECD and governments in the region jointly promote a regulatory and governance environment conducive to investment and responsible business conduct.

9. Enhance Regulatory Coherence

In a region as diverse as ASEAN, ensuring regulatory coherence can be a daunting challenge. However, it is a challenge that must be met head-on. Streamlining regulations, reducing bureaucratic hurdles, and harmonizing trade and investment policies can provide businesses with the clarity and confidence they need to boost sustainable investments. OECD discussions on governance and regulatory policy can be of great benefit to ASEAN countries.

10. Facilitate Public-Private Sector Cooperation

Collaborative endeavors, underpinned by sustained public-private dialogues and best-practice exchanges, can drive transformative change. By fostering cooperation among diverse stakeholders, including ASEAN, ASEAN-BAC, BIAC, and OECD, the region can coalesce around shared objectives such as sustainable development and green growth. ASEAN-BAC and BIAC appreciate opportunities to contribute to the OECD Southeast Asia Regional Programme.



Conclusion

In a world full of challenges and uncertainties, boosting sustainable growth through international investment should be an overarching strategy. Southeast Asia, with its unique blend of cultures, economies, and ecosystems, stands at the forefront of the global transition. We express our gratitude to the OECD and the Ministers of Southeast Asian countries for hosting the OECD Southeast Asia Ministerial Forum 2023 with a focus on sustainable and quality investment. We acknowledge the vital role of ASEAN's consensus-based decision-making, which serves as a robust infrastructure for good governance in this multifaceted region.

By heeding the recommendations outlined in this statement, Southeast Asia can chart a course toward a future that is not only prosperous but also sustainable and inclusive. The essence of these recommendations is the partnership between the public and private sectors. Developing policies, however, is only the beginning. The real task lies in their implementation, necessitating a collective endeavor by governments, businesses, and communities alike. The timely, effective, and efficient implementation of policies can significantly improve the lives of the region's citizens, enhance business growth, and amplify Southeast Asia's global presence.

We encourage the OECD to bolster its cooperation with Southeast Asia, sharing best practices, guidance, and principles to enhance the business environment and investment climate. The OECD's strategic engagement fosters shared standards and promotes economic integration of the region. Including Southeast Asia countries into the OECD policy discussion plays an important role in fostering multilateralism, bolstering economic growth, and advancing sustainability. In this context, we welcome Indonesia's recent expression of intent to join the OECD. This commitment signifies a nation's dedication to adhering to OECD standards and instruments, further strengthening the region's alignment with international best practices.

Moreover, these recommendations are not set in stone. They are dynamic and must evolve as the global landscape changes. Regular reviews, stakeholder consultations, and feedback mechanisms can ensure that these recommendations remain relevant and impactful.

The quantities of investment required to meet the SDGs and successfully master the green and digital transition are enormous. But with the right policies, partnerships, and perseverance, it is a task that Southeast Asia can successfully undertake. As the region progresses, the private sector, represented by ASEAN-BAC and BIAC, reaffirms its commitment to working alongside the OECD and regional policymakers while bearing the hopes and aspirations of millions of people, looking to a brighter, greener, and more equitable future.



Established in 1962, *Business at OECD* (BIAC) is the officially recognized institutional business stakeholder at the OECD. We stand for policies that enable businesses of all sizes to contribute to economic growth, sustainable development, and societal prosperity. Through *Business at OECD*, national business and employers' federations representing over 9 million companies provide perspectives to cutting-edge OECD policy debates that shape market-based economies and impact global governance. Our expertise is enriched by the contributions of a wide range of international sector organizations.



Established by the ASEAN Heads of State and Government at the 7th ASEAN Summit in November 2001 and launched in April 2003. Its mandate is to provide private sector feedback and guidance to boost ASEAN's efforts towards economic integration. Its primary activities are focused on reviewing and identifying issues to facilitate and promote economic cooperation and integration. It submits its priority recommendations to the annual ASEAN Leaders Summit as well as the ASEAN Economic Ministers, ASEAN Finance Ministers and Central Bank Governors, and other Ministerial level meetings.

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