

Now or never: Asia's sustainability challenge

Covid-19 has prompted firms and investors globally to accelerate their sustainability efforts as we've discovered in the recent Longitude/ING survey, '[Now or never, a new bar for sustainability](#)'. And it seems the Asia-Pacific region is quickly catching up with the rest of the world as far as environmental and social issues are concerned



The urban 'green lungs' of Victoria Park meet the soaring residential and commercial buildings of Hong Kong, China

Reasons to be hopeful, but it's not clear-cut

Ask most people what they would expect in terms of regional differences from a global survey on corporate and investor attitudes to environmental issues and I expect they would suggest that Europe would be the clear leader, setting their own challenging standards and in turn, setting the standards for the rest of the world to follow.

They would probably suggest that Asia has been moving progressively in this direction and in recent years has shown that it too can take Environmental, Social & Governance (ESG) issues seriously.

They would probably argue that the US is only just beginning to set off on this journey, though is doing so with considerable energy right now.

So perhaps the thing that jumps out most from the data from which the Longitude/ING "Now or Never" study is collated, is that for the most part, Europe, North America, and Asia-Pacific are fairly close in terms of the majority of these survey results.

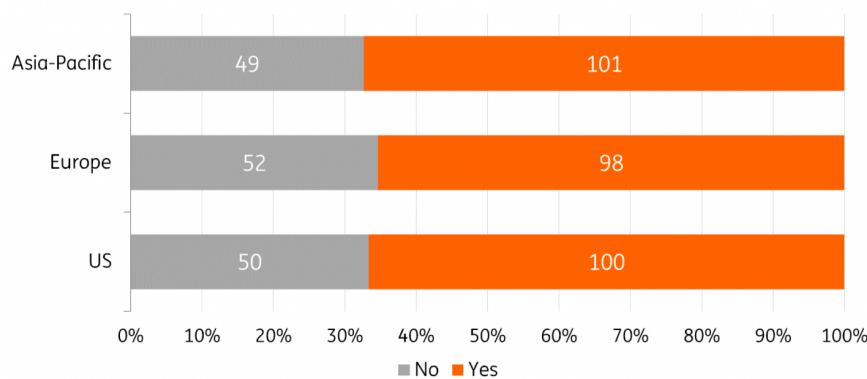
Surveys tend to capture aspiration more easily than they do objective positions

One reason why there is not a greater dispersion in the survey results in line with our prior expectations may be that such surveys tend to capture aspiration more easily than they do objective positions. For example, ask a question like, "In the light of the pandemic, will your company make executive pay more closely linked to attaining ESG targets?", and for a European company already well advanced in such fields, the answer may well be "no" because it already does this to a high degree.

Ask the same question of a US company that until now may have paid no heed to such metrics, and even if it may only be beginning to take such goals seriously and in a totally non-material way, you might get a very different answer.

So in short, interpretation of the data needs to be careful and take the wider global context into account. This will become a far more valuable set of data as it is repeated over time and we can see "direction" and "aspiration" supplemented by some more objective measures of progress.

Had your company set itself any formal sustainability targets for the environment before the Covid-19 pandemic?



e.g. carbon footprint, energy efficiency, waste reduction
 Source: Longitude and ING study "Now or Never, a new bar for sustainability"

Asia-Pacific, transitioning towards an ESG world

Results from the survey indicate that at least on the surface, firms across the world are taking ESG more seriously with two-thirds of survey respondents, regardless of region, setting formal environmental targets even prior to the events of 2020. The survey also shows that the majority of firms across Asia, Europe and the US are likely to increase and expand environmental targets in response to the coronavirus developments, led by 113 firms from Europe, 110 from Asia and 103 from the US. This ranking is in line with the prior beliefs we outlined in the introduction.

And although these results suggest that our initial expectation that ESG and sustainable financing is an area where companies from Europe outpace Asia and that in turn, Asia outpaces the US, there are perhaps more important messages we can infer from the data.

Asia is currently in transition with regard to ESG efforts

One of these is that Asia is currently in transition with regard to ESG efforts. Asked whether their companies had a sustainable framework in place, only four firms in Asia replied that they had not and had no plans for doing so. That compares with 10 in Europe and seven in the US. Although Asia trailed both Europe and American in terms of having a working sustainable framework in place as of today, the survey showed that 66 firms from Asia were currently in the process of setting up such a framework - noticeably more than firms in either Europe or the US.

Even if Asia lags its peers in Europe and the US in terms of having a working sustainability framework, the survey shows that actual progress is being made on this in the region as it transitions towards a greater emphasis on ESG.

Asia-Pacific according to the survey

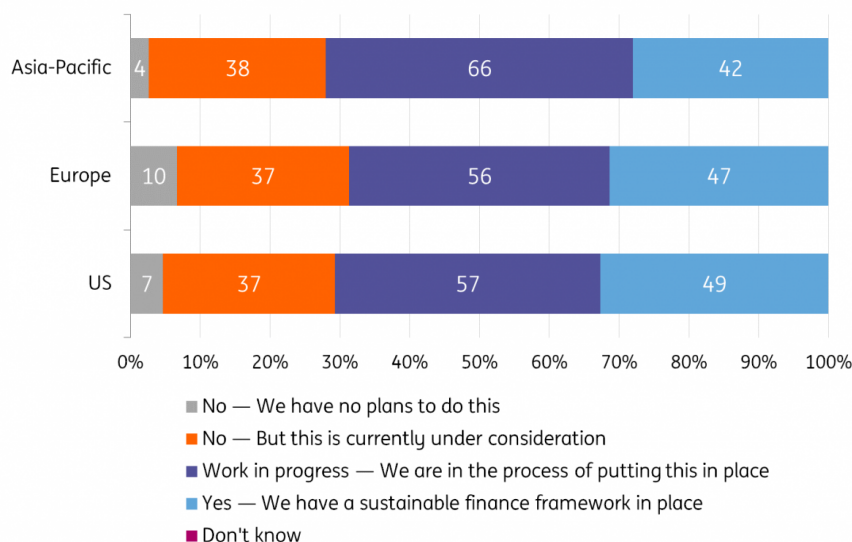
For the purposes of this survey, 'Asia-Pacific' is also a very particular definition. Out of 450 firms surveyed, 150 of these were classified as Asia-Pacific, with roughly equal numbers of respondents from firms in Australia, China, Hong Kong and Singapore. In contrast, although no more firms in total, for Europe, these came from 10 different countries, including Western and Eastern/Central Europe.

And what about China? It can be argued that the sample doesn't give sufficient weight to the country within the region, although the addition of Hong Kong firms may lessen this criticism to some extent. Moreover, given China's economic dominance of the region, this is always going to be a potential issue and it's one that we need to be fully aware of.

Singapore in contrast is a very small economy, at the extreme end of the wealth and income curve, and also may not be particularly representative of the region. Australia is uniquely placed given the importance of extraction industries for its economy and may also not be particularly representative. Both countries are currently heavy per capita emitters of greenhouse gases, though they take very different public stances on the environment.

In short, a broader sub-set of Asia-Pacific would have helped to smooth out any impact of outlier and dominant countries in the survey. And though that does not mean we cannot draw any conclusions, we feel it is important to highlight the potential for misinterpretation before we start tentatively drawing out the distinctive Asia-Pacific angles that show up.

Has your company got a sustainable finance framework in place today?



Source: Longitude and ING study "Now or Never, a new bar for sustainability"

Main Asia finding: Government support will be crucial

One area that we feel will be crucial in terms of developing and sustaining the push towards environmental, social & corporate governance (ESG) is practical government support for such initiatives. This is important because although firms can go a long way towards improving their environmental and social impact, it is probable that the commercial imperatives that drive such actions will eventually run out of momentum without a framework of regulations and clear support from governments.

Corporate momentum may stall without a regulatory framework or governmental support

Well informed firms may undertake a number of actions linked to environmental and social issues driven by their own commercial self-interest - recognising that a "green" product may command sales and possibly even a price-premium in excess of any cost consideration. But without carbon taxes, emissions caps, safety standards and the like, this isn't likely to get countries all the way to net-zero carbon emissions. We feel that governments set out the playing field and the rules, and companies then use their entrepreneurial skills to come up with the smartest solutions to these (technical or social innovations). The better they do that, the more growth we can enjoy in a sustainable manner.

For the moment, Asian companies have indicated a broad push towards ESG goals and setting up sustainability frameworks. But support from governments via incentive schemes or standardised metrics will help to ensure that these initial objectives do not fizzle out.

Survey results shown in the chart below suggest that support from Asian governments for

environmental issues such as renewable energy programmes, electrification of transport, sustainable materials' use and carbon taxes was only modestly higher compared to that of European and US governments. However, Asian governments gave relatively less emphasis or support to other social issues such as social housing, access to healthcare and social inequality. At first glance, it looks like governments across Asia-Pacific favour more support for environmental issues compared to social issues.

We'd suggest further research before accepting this conclusion. What we do think is clear is that government support for the push to ESG will be crucial in expanding corporate efforts.

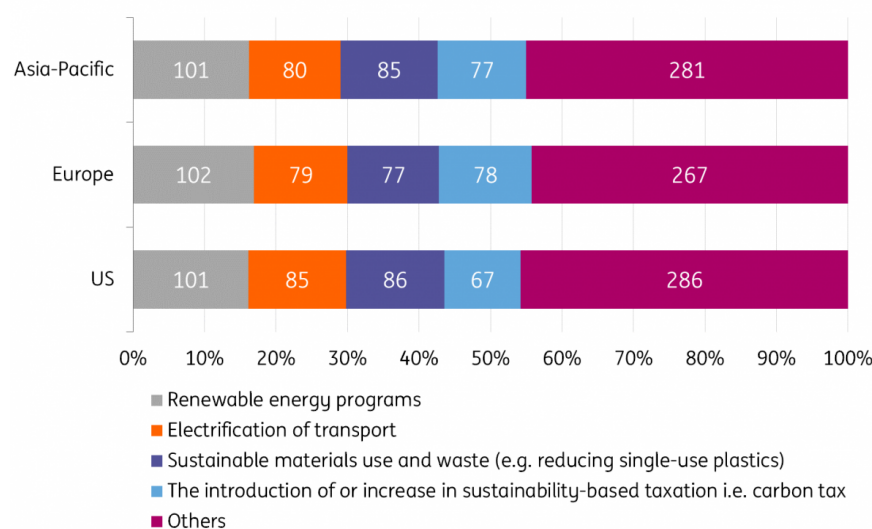
China's pledge together with the other net-zero targets sets the bar for other countries in the region

There was not much of a push towards [sustainability in Asia in governments' fiscal response to the Covid-19 pandemic](#). But since then, a number of governments in the region have made more solid policy announcements.

China, for example, followed up on its 2060 net-zero carbon pledge late last year with further policy announcements at the latest Two Sessions meetings. [China's 2060 net-zero pledge is credible](#), though ambitious, and builds on similar pledges from two of the other big economies and polluters in the region, Japan and South Korea. China's pledge together with the other net-zero targets sets the bar for other countries in the region. In other words, if China can achieve this, then really, everyone can.

To what extent do you expect to see government action on the issues below in the country where you're personally located?

Outlook for new government policies (ESG and others) and investment over the next one to two years



Source: Longitude and ING study "Now or Never, a new bar for sustainability"

Investors have yet to wake up to 'Green'

One other outcome from the survey (which is more straightforward to accept) is that Asia-Pacific investors, on the whole, are not yet demanding portfolios free of the most polluting firms as they are increasingly doing in Europe. At the moment, maximising returns is possibly still the key objective for investors, regardless of the underlying activity of the firms in question.

Asia-Pacific investors are not yet, on the whole, demanding portfolios free of the most polluting firms

The Longitude/ING survey shows some interesting trends describing why firms are undertaking their sustainability efforts. Companies across the globe appear to have a similar emphasis on the cost motivation for sustainability, with companies citing “*Achieve savings/cut costs*” and “*Improve resource efficiency*” as two key motivations for their efforts.

However, we notice some differences as well with US-based firms highlighting “*Living up to corporate social responsibility*”, “*Respond to changing investor demands (for ESG)*” and “*Create new commercial opportunities*” as their top three motivating factors for the push to sustainability.

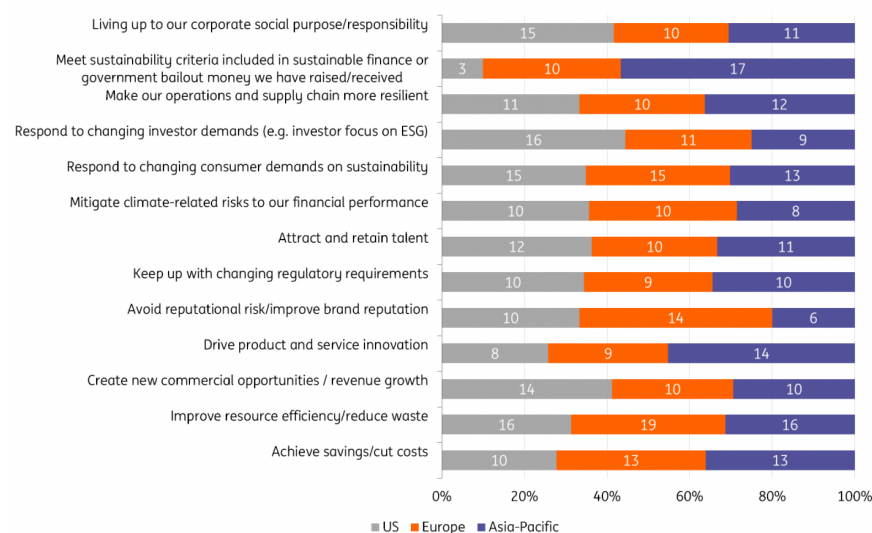
For European firms, the motivation that stood out was to “*avoid reputational risk/improve brand reputation*” given that chasing sustainability efforts is widely accepted and possibly even expected of firms based in Europe.

Firms in Asia cite “*Meet sustainability criteria*” and “*Drive product innovation*” as their main motivations, and more often than their counterparts in Europe and the US.

This doesn't deny the existence of a concerted push by firms in Asia to adhere to their sustainability frameworks but suggests that such frameworks may be less driven by outside investor perceptions and requirements than their peers in Europe or the US. That said, the differences between regions are not big, and we would not want to inflate their statistical significance.

What are the most important motivations or drivers for your company's sustainability efforts over the next one to two years?

Motivations that drive the push towards sustainability efforts



Source: Longitude and ING study "Now or Never, a new bar for sustainability"

Asia lags EU and US in green financing but expect some catch-up

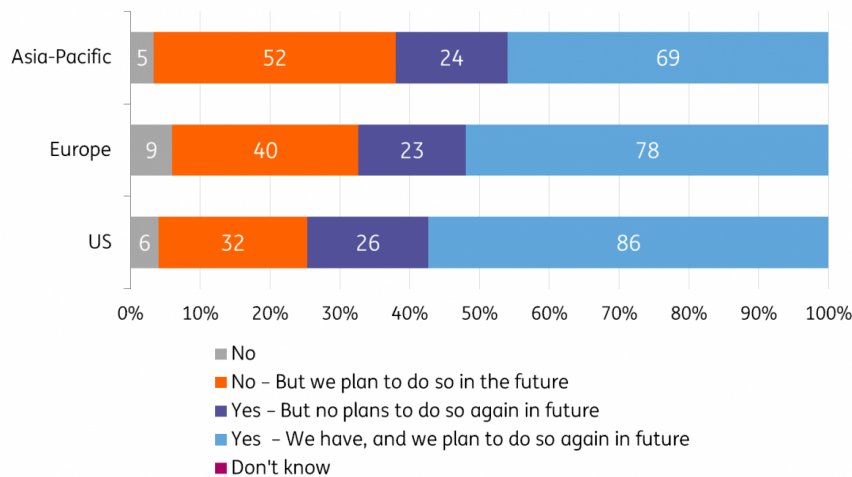
Other survey data also supports our hypothesis that Asia is still in transition towards integrating ESG into its operations as firms in the region work to set up sustainability frameworks aided by government support for select initiatives. One area that Asia appears to still lag is in utilising sustainable finance as a means to raise capital. Substantially fewer companies in Asia claimed to be doing this compared to companies in both Europe and the US.

One area that Asia appears to still lag is in utilising sustainable finance as a means to raise capital

In the coming years, we can expect more focus on sustainable finance from companies in Asia with the survey highlighting a substantial number of Asian companies (52) planning to do this in the future. We can only expect an increased number of capital raising exercises to be geared towards ESG as more companies in Asia successfully set up their sustainability framework and government support for these initiatives continues.

Has your company ever raised capital by using a sustainable finance instrument?

For instance, a green bond, social bond, sustainability bond or green loan.



Source: Longitude and ING study "Now or Never, a new bar for sustainability"

Asia is a region in transition in need of bold support

It does look as if the Covid-19 crisis, for all the damage it has done, had led governments, corporations, households and investors to wake up to the damage that unfettered economic activity had been unleashing on the earth for decades. It is no longer too controversial to claim that a corner has definitely been turned in terms of attitudes to such activity. And with increasing numbers of countries making future net-zero carbon pledges, the coming decades will see many changes in the way firms operate.

Perhaps the most glaring regional nuance thrown up by this survey, which otherwise fits many of our prior beliefs, is to describe Asia as a region in transition, a region in need of bold and clear legislation and support from governments to complement the positive steps already being taken by many companies. It is also descriptive of a region where the investor has yet to start demanding a greener portfolio, without thinking that this is somehow a trade-off from higher returns and a region that has yet to fully take advantage of the opportunities available from green finance. This is changing.

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