

SUSTAINABLE INTERNATIONAL INVESTMENT SOLUTIONS ACCORDING TO ESG STANDARDS IN VIETNAM

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Abstract

In recent decades, the remarkable economic growth of the world has brought significant progress for humanity. However, it has also posed numerous challenges related to issues such as climate change, environmental pollution, inequality, and ongoing economic crises, threatening sustainable human development. Among these challenges, environmental and natural resource issues continue to attract the most attention from most countries around the world.

In this new context, the green economy has become an inevitable trend of the era, aiming for economic development while ensuring the quality of the living environment, towards sustainable development. Not outside this trend, recently, The promotion of strategies and plans aimed at fostering green economic development in Vietnam has been gaining momentum. According to No. 1393/QĐ-TTg issued by the Government on September 25, 2012, after more than 10 years of implementation, significant results have been achieved in this field, demonstrated by progress in awareness of production and consumption behaviors, increasing popularity of green production and consumption trends, and people gradually becoming more environmentally conscious...

Keywords: ESG, SDG, green economy, sustainable investment.

I. THEORETICAL FOUNDATIONS OF SUSTAINABLE INVESTMENT AND RELATED CONCEPTS

1.1. Sustainable Development

“Sustainable development is the process of closely combining, rationalizing, and harmonizing three aspects of development, including economic growth, improvement of social issues, and environmental protection.”

1.2. Sustainable investment

According to ADEC Innovations, "ESG investing, also known as 'socially responsible investing' or 'sustainable investing,' combines three elements: Environmental, Social, and Governance (ESG), addressing investment activities prioritizing or optimizing outcomes for the environment, society, and governance. These are seen as investments that consider environmental and social welfare as well as economic considerations, based on the assumption of financial efficiency.

The Sustainable Development Goals (SDGs) are designed to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity by 2030 in each member country of the United Nations (UN).

1.3. The factors influencing sustainable investment

1.3.1. Two critical criteria of Corporate Governance

The issues of opacity and corruption lead to management conflicts, generate unstable profit margins, diminish market value, and erode shareholder loyalty. This behavior can be prevented through regular financial reporting, company policies, and management reports to investors.

1.3.2. Three criteria of Economic Efficiency

The first, investors are concerned with earning profits and high returns from their investments, thereby increasing market value. Increasing profits prompt companies to invest more in production and human resources. Second, market value influences investors' willingness to invest their money in companies. Third, investors consider well-performing ESG companies to have good loyalty. When shareholders of a company are loyal, it means that investors receive dividends from their stocks. However, not all profitable companies want to distribute dividends. Therefore, shareholder loyalty becomes the most important aspect for sustainable investors.

1.3.3. The relationship between social, environmental, economic factors, and corporate governance.

Corporate governance influences environmental management, including emissions reduction and efficient resource utilization. Emissions reduction leads to improved company quality, significantly impacting market value and superior profits. Another way to increase market value and superior profits is through resource reduction as it is cost-effective in raw material input and operational costs. Increasing profit margins positively affect surplus profits and enhance the market value of a company listed in SRI (Socially Responsible Investment).

II. SUSTAINABLE INVESTMENT TRENDS

2.1. Common Manifestations

2.1.1. Industry Structure

In the first year of the COVID outbreak, SDG investment was severely affected and significantly decreased in most sectors, except for the renewable energy industry. In 2021, the investment recovery trend led to a significant increase (70%) in the amount of capital flowing into SDGs compared to 2020. The total value of new investments and the provision of project financing in the international SDG sector reached \$371 billion in 2021. Apart from the renewable energy sector, only the education sector has recovered to pre-pandemic levels.

2.1.2. The quantity, quality of investment projects, and scale of capital inflows.

The number of projects in most industries decreased, with the agriculture and food sector experiencing a significant decline of up to 35%. Only the renewable energy and education sectors saw increases in the number of projects, by 2% and 17% respectively. The total value of global sustainable investments reached \$5.2 trillion in 2021, a 63% increase from 2020.

The rapid increase in the value of sustainable bonds can be observed in emerging markets, but concerns about greenwashing (where companies claim to operate according to SDGs but do not actually do so) and the true effectiveness of investment products still exist. Investment products labeled as "green" are often evaluated by the issuing company itself, lacking consistent standards and reliable data verification.

2.2. Current Trends in Sustainable Investment

2.2.1. Emerging Trends in Investment

The emerging trends in SDG investment began to recover from the third quarter of 2020 but remained below pre-pandemic levels, showing a downward trend in both quantity and value in the energy sectors (decreasing by 9% in value and 62% in quantity in developing economies, and 42% and 75% respectively in least developed countries). However, there are still notable developments in sectors such as education, particularly in less developed countries, where the value and number of projects increased by 229% and 50% respectively, compared to a 31% increase in value and 35% increase in new projects in developed countries.

2.2.2. Trends in International Project Financing

Trends in providing project financing suitable for risk levels in developing markets. In the healthcare sector, developing countries have received a huge influx of financing with values increasing by over 225 times and the number of projects quadrupling compared to the previous year. In least developed countries, data collection is challenging, making it difficult to assess the situation of international project financing reception. The strong growth of international project financing is mainly due to relaxed investment policies, infrastructure development, and investor interest.

2.2.3. Crossovers in Merger and Acquisition Patterns (Cross-border M&As)

Cross-border M&As reached \$728 billion in 2021, a 53% increase from 2020, with the services sector doubling in value. The COVID-19 pandemic acted as a strong catalyst for investment in the technology (information, telecommunications, etc.) and healthcare sectors. At the same time, there was divestment in the power sector, exemplified by PPL (USA) selling its Bristol electric distribution business to National Grid (UK) for \$20 billion.

2.3. Common Characteristics of Sustainable Investment Trends

After the global economic upheavals, most notably the COVID-19 pandemic, sustainable investment flows have been concentrated in developed countries, with developing countries showing a gradually increasing trend but still lagging behind significantly. Additionally, investors have withdrawn from least developed countries.

The trend of providing international project financing is seen as the most promising, as the growth rate and value of projects in both developing and least developed economies are on the rise. Furthermore, international project financing is perceived as less risky and more favored by investors when entering risky markets such as developing and least developed economies. Companies that align with SDG trends and demonstrate readiness to act for the community are more likely to attract investment into their businesses.

III. THE IMPACT OF SUSTAINABLE INVESTMENT TRENDS ON INTERNATIONAL INVESTMENT ACTIVITIES

3.1. Considering the global scope

3.1.1 The shift from CSR to RBP (Responsible Business Practice)

Previously, if a business violated regulations, it would face administrative penalties, but the compensation amount did not adequately address the consequences. A notable example is the 2016 Formosa incident, where despite compensating \$500 million, marine life continued to die en masse along the coast of four central provinces, leading to disruptions in business, tourism, and the livelihoods of fishermen.

To address this, instead of focusing solely on CSR (where companies may use it to offset their misconduct), businesses are now shifting towards RBP - a broader concept of CSR (Responsible Business Practice), considering environmental protection and social contribution to make informed decisions.

3.1.2 The changes in economic policies of nations

In order to achieve sustainable goals, governments of various countries have adjusted their economic-social cooperation investment policies towards ESG direction. An example of this is to reduce emissions, where the EU and China have introduced policy frameworks for green economy:

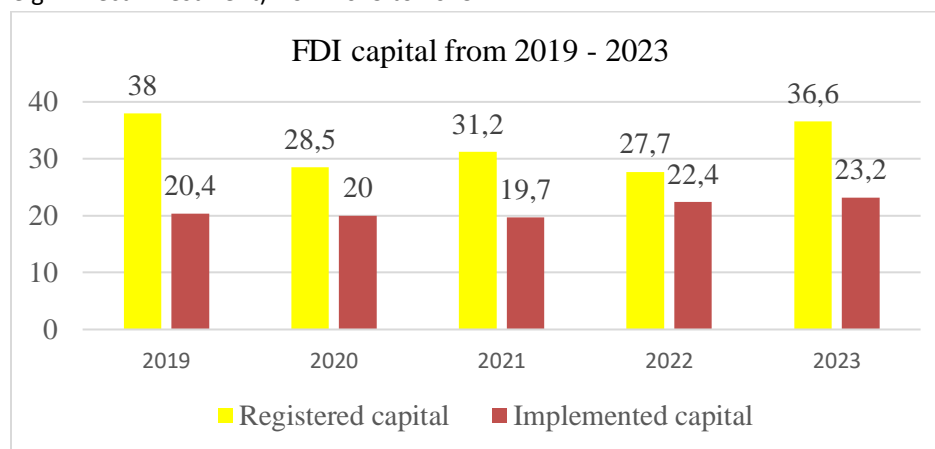
- EU: Creating conditions for entities to demonstrate adaptation and climate change mitigation.
- China: Removing fossil fuels and coal from the classification list.

3.1.3 Sự thay đổi về cơ cấu các nền kinh tế

Những thay đổi về chính sách còn gắn liền với sự dịch chuyển cơ cấu nền kinh tế ở từng quốc gia. Các quốc gia muốn đẩy lùi biến đổi khí hậu và phát huy các kế hoạch bền vững. Tính đến 2016, Tây Âu đã phát hành 195 tỷ đô la loại trái phiếu bền vững, thân thiện với khí hậu.

3.2. For the Vietnamese market (Impact of sustainable investment trends)

3.2.1 The FDI (Foreign Direct Investment) from 2019 to 2023



Source: General Statistics Office 2023

The situation of FDI (Foreign Direct Investment) from 2019 to 2023 has shown stability and positivity in Vietnam. Statistical data indicates:

In 2019: Vietnam attracted approximately \$38 billion in FDI, reaching a record high level. This result was attributed to various factors, including global supply chain shifts, Vietnam's economic growth, and investment support measures from the government.

In 2020: Despite the impact of the COVID-19 pandemic, Vietnam still maintained a stable level of FDI attraction, with around \$31 billion, a slight decrease compared to the previous year. Vietnam was considered one of the bright spots in the region in attracting FDI amidst global economic downturn.

In 2021 and 2022: Vietnam continued to attract significant FDI, with \$36 billion in 2021 and expected to reach a similar level in 2022. This demonstrates the stability and attractiveness of Vietnam's economy to foreign investors.

As of December 20, 2023, the realized foreign direct investment (FDI) in Vietnam is estimated to reach \$23.18 billion, increasing by 3.5% compared to the previous year, with a slight increase of 0.6 percentage points compared to the first 11 months of 2023. The exports (including crude oil) from FDI areas are estimated to reach nearly \$258.8 billion, decreasing by 6.2% compared to the previous year, accounting for 73.1% of the total export turnover. Exports excluding crude oil are estimated to exceed \$256.9 billion, decreasing by 6.1%. The imports from FDI areas are estimated to exceed \$210 billion, decreasing by 9.9% compared to the previous year, and accounting for 64.2% of the country's total import turnover. In 2023, despite a drop in export turnover, FDI sectors continued to boast a trade surplus of nearly \$48.8 billion, including crude oil, and almost \$46.9 billion, excluding crude oil. Conversely, the domestic enterprise sector recorded a trade deficit of over \$21.9 billion.

Foreign investment by economic sector in 2023



Source: General Statistics Office 2023

Wholesale and retail trade lead in the number of capital contribution transactions to purchase shares (accounting for 41.5%). The data reflects a robust interest and confidence from foreign investors across various sectors of the Vietnamese economy. Notably is the considerable increase in investment in the processing and manufacturing industry, as well as the real estate sector, compared to previous years. This underscores the attractiveness and potential of Vietnam's industrial and property markets.

Furthermore, the significant uptick in investment in sectors such as electricity production and distribution, along with financial and banking services, expanding signals opportunities and demand in these domains. Such investments can contribute to infrastructure development and bolster financial services, both of which are crucial for supporting economic growth.

Overall, the diversification of foreign investment across multiple sectors bodes well for Vietnam's economic outlook, indicating investor confidence and a favorable investment climate in the country.

3.2.2. The approach to sustainable investment trends. It can be said that Vietnam has come closer to the sustainable investment trend compared to before. In 2018, issuing green bonds in Vietnam still faced many challenges such as legal frameworks, insufficient support for sustainable growth, etc. However, after COVID-19, Vietnam has risen to second place (after Singapore) in issuing green bonds in ASEAN, with a total value of GSS reaching \$1.5 billion, mainly from the transportation and energy sectors.

Regarding sustainable investments abroad, Vinamilk is a notable example as it has prioritized and oriented towards ESG for many years, with initiatives like Green Farm and sustainable investments in several countries such as Laos, the Philippines, Thailand, and New Zealand.

In terms of attracting sustainable investments, most recently in 2022, the world's largest toy manufacturer, Lego, commenced the construction of its sixth factory globally, also the first carbon-neutral factory, worth \$1 billion, located in Vietnam. It is expected to create 4,000 jobs over the next 15 years.

3.2.3. Strengths and limitations (when approaching sustainable investment trends)

3.2.3.1. Strengths

Stable macroeconomic foundation: Through free trade agreements, Vietnam maintains export momentum and stability in domestic financial and currency markets against external challenges.

Political stability: A stable political environment provides Vietnam with peace, prosperity, and social order.

Legislative policies aligned with reality: During the COVID-19 pandemic, Vietnam demonstrated resilience with timely policies and regulations that effectively controlled the outbreak, leading to positive growth in exports and maintaining low inflation rates, interest rates, and exchange rates.

3.2.3.2. Weaknesses

Vietnam's investment environment, although improved, still faces numerous challenges, including complex paperwork, cumbersome procedures from business establishment to tax and import-export procedures, and notably, a high level of corruption.

Many enterprises lack knowledge about ESG standards, regulations, and objectives when implementing sustainable investments, leading to delays in Vietnam's sustainable investment process.

3.2.4. Opportunities and Challenges

3.2.4.1. Opportunities

Vietnam's brand reputation is on the rise, creating numerous opportunities for cooperation and investment with over 14 Free Trade Agreements.

Investors and international organizations maintain confidence in Vietnam's internal strength and potential.

In recent years, FDI inflows into Vietnam have been quite attractive, focusing on high-quality sustainable development projects. Additionally, the green energy, technology, processing, and manufacturing sectors are gradually becoming the main investment areas for FDI, opening up new opportunities in Vietnam.

3.2.4.2. Challenges

Instability in the global economic and political landscape, such as the Russia-Ukraine conflict or tensions between the US and China, creates economic volatility and impedes sustainable investment.

Pressure for economic growth and the need to transition production models, exploit natural resources, etc., pose challenges for Vietnamese businesses to participate in global supply chains due to insufficient capacity to transform their business models, thereby reducing competitiveness compared to foreign enterprises.

The decline in global FDI flows due to sustained high inflation, rising interest rates, and diminished investment prospects.

IV. CAUSE AND SOLUTIONS FOR SUSTAINABLE INVESTMENT ISSUES TOWARDS SUSTAINABLE DEVELOPMENT

4.1. Causes

For the world, the main causes are the disparity between rich and poor countries, leading FDI to concentrate in certain sectors in wealthy, technologically advanced nations. Additionally, countries are increasingly prioritizing shifting production from abroad to domestic or nearby countries to enhance their autonomy in supply chains, intensifying competition.

For Vietnam:

- There is a lack of sufficient infrastructure, technology, experience, and mechanisms or standards regarding the environment, CSR to effectively screen FDI projects.
- The coordination in controlling FDI projects between different levels and sectors is not yet efficient.
- Awareness among Vietnamese investors regarding compliance with ESG regulations during project implementation is still lacking.

4.2. Solutions

Integrating sustainable investment into legal frameworks and policies. It is necessary to establish and enforce criteria based on the principle of not attracting FDI at all costs

Adopting a "Triple Bottom Line" approach for businesses when making investment decisions. One of the foundations of CSR is the concept of TBL, which results from a sustainable development model and seeks to strike a balance between three factors: economic, ecological, and ethical. TBL reports on the results of business activities through social and environmental efficiency and encourages businesses to consider their impact on the environment and society. The main challenge of the model lies in quantifying the costs and real benefits of social and environmental responsibility.

Other solutions to mobilize sustainable investment in Vietnam:

Strengthening regulatory frameworks: Implementing and enforcing regulations related to eco-preservation, corporate social responsibility (CSR), and the promotion of sustainable growth are crucial. This involves establishing clear guidelines and standards for FDI projects to ensure compliance with ESG principles.

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