

AN INTRODUCTION TO SUSTAINABLE AND  
RESPONSIBLE INVESTMENT (SRI) IN ASIA



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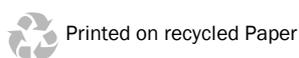
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## WELCOMING WORDS

### Tessa Tennant, Chair of ASRIA

ASRIA has touched a nerve. On any number of counts, from press coverage, to doors opening, to the strikingly intelligent and motivated people who have volunteered to work with us, it is clear that people are struck by our mission and want ASRIA to succeed. Our thanks go out to all those who have supported us so far.

There can be no let up. The Asian Development Bank's 2001 Report calls the region's environmental degradation "pervasive, accelerating and unabated." At the same time, the uncertain global economic outlook and the impact of September 11<sup>th</sup> signals a changed environment from the boom decade behind us. We are entering a more sober time when the principles driving SRI are more relevant than ever. Prosperity depends on political stability, and this stability depends on more equitable and caring relationships – between nations and between business and society. This goes to the heart of SRI philosophy and this is why ASRIA's mission to mobilise the Asian markets for sustainable development is timely and critical.



We are less than a year old and already our website, the first of its kind in Asia, is being used as the SRI resource we intended, with more than 2000 separate hits in July and August alone. Our subscriber list is growing, our membership package has been launched, we've completed research on a number of SRI related issues and organised the inaugural ASRIA conference in Hong Kong. This book has been compiled for your use at the conference and beyond. We wanted to share some insights about SRI in Asia, some of our research results, and thoughts from some of the industry's oldest and newest thinkers. We invite your feedback.

Help us spread the word and if you haven't already done so, please join us as a founding member. Our ability to fulfill the ASRIA mission depends on your financial, networking and knowledge support.

Thank you,



By Yulanda Chung

**What is SRI?**

Last November, Hong Kong’s Environmental Protection Department vetoed a blueprint by the Kowloon Canton Railway Corporation (KCRC) to build a spur line to Lok Ma Chau (a boundary crossing point between the Hong Kong Special Administrative Region and mainland China) to ease cross border congestion.

The Long Valley case is a watershed for Hong Kong... the business community are not accustomed to having their business interests succumb to ... rare birds!



The line would have allowed more convenient access to China thus expanding business links. However the proposed line cut through Long Valley, a vital bird habitat wetland, home to 210 bird species, almost half of the species recorded in Hong Kong since 1993. The decision sparked not only a ripple of criticism from villagers who stood to benefit from the sale of land, but also a groundswell of concern from the business community who were not accustomed to having their business interests succumb to... rare birds!

business interests succumb to... rare birds!

SRI, is also called “triple bottom line” investing. Social, environmental and financial factors are given comparable weighting in reaching a financial investment decision.

The Long Valley case was a watershed for Hong Kong where seemingly for the first time, the government took into account a project’s ecological impact alongside financial calculations. The spur line decision also illustrates the nature of sustainable and responsible investment (SRI). SRI is an investment approach that integrates social and environmental considerations into the investment process. For this reason, it is also called “triple bottom line” investing. Social, environmental and financial factors are given comparable weighting in reaching an investment decision. In this case, the bird haven survived without compromising business interests. The KCRC has since adopted a tunnel option for extending the rail line, an alternative that protects the bird life as well as facilitating cross border traffic. Although the tunnel option is more expensive, the extra cost can be justified because of the rarity value of the land that has been preserved. In totality the decision enhances Hong Kong’s economic value, especially in the longer term.

In the same vein, Hotel Nikko in Hong Kong now enjoys a boost to its bottom line after it implemented a whole host of energy-conservation measures. It saved HK\$1 million (US\$125,000) between 1992 and 2000.

For corporations, SRI challenges the limited view of immediate gain whatever the environmental and social costs. The focus is on investment that creates value long term, and profits that are more sustainable. Investors can opt to put their money in line with

**The most successful SRI funds provide investors with dual returns:**

- 1. Financial returns that compare well to, and often exceed, the returns of conventional investments.**
- 2. Social and environmental rewards that go beyond the direct financial return to the investor.**

**SRI is therefore a positive economic choice about the way we live and the world we live in.**

**SCREENING:**

The inclusion or exclusion of corporate securities in mutual funds, investment trusts and other portfolios on social and environmental grounds.

their personal values. SRI yields both societal and financial rewards. SRI investors are individuals and also institutions such as universities, hospitals, foundations, insurance companies, pension funds, non-profit organisations and churches.

**How does it work?**

Three key SRI strategies have evolved over the years: **Screening, Shareholder Advocacy** and **Community Investment**.

**Screening**

**Negative screening** is the exclusion of companies in certain industries such as arms manufacturers, nuclear, alcohol and the tobacco trade. Sanctions against countries may also be included, such as South Africa before the end of apartheid, and more recently Burma.

**Positive screening** includes companies that are considered to create long-term benefits for the community. Socially conscious investors invest in companies that operate with environmental and social considerations, for example energy efficiency, environmental conservation, good corporate governance and equal opportunities policies.

**EXAMPLES OF SRI CRITERIA COMMONLY ADOPTED BY SRI FUNDS**

ENVIRONMENT	SOCIAL	ETHICAL
<p><b>ENERGY:</b> Electricity from grid, non-renewable fuels, renewable energy, CO2 emissions</p> <p><b>WATER USE:</b> Volume/turnover/pollution</p> <p><b>AIR POLLUTION:</b> Ozone depletion and acid rain, volume pollutants/turnover</p> <p><b>WASTES &amp; TOXICS:</b> Hazardous waste, waste burned in incinerators and waste for land-fills</p> <p><b>TRANSPORT:</b> Total commuter mileage/no. employees, product miles. Some funds do not invest in car companies because of pollution</p> <p><b>ISO 14000:</b> % sites covered</p> <p><b>RESOURCE PRODUCTIVITY:</b> Eco-efficiency metrics</p> <p><b>BIODIVERSITY:</b> Impacts on wildlife and habitats</p> <p><b>PRODUCT IMPACT:</b> % of products with eco and/or energy efficiency rating, LCA, and/or product take-back schemes in place.</p>	<p><b>PROFIT SHARING:</b> % of employees benefiting in profit sharing or stock option schemes</p> <p><b>WELFARE AT WORK:</b> Employee turnover, health and safety record, family friendly policies</p> <p><b>EQUAL OPPORTUNITIES:</b> women and minorities in-line &amp; senior management positions</p> <p><b>CIVIL OR EMPLOYEE ACTIONS:</b> % unionised, No of employee disputes/ strikes etc, community demonstrations and regulatory notices/action</p> <p><b>COMMUNITY &amp; PUBLIC POLICY:</b> Community action and giving (\$ and kind) , progressive policy participation</p> <p><b>SUPPLY CHAIN:</b> Standards required, verification &amp; % covered</p> <p><b>PUBLIC DISCLOSURE:</b> externally verified public reporting, frequency, % of operations covered.</p>	<p><b>MILITARY</b></p> <p><b>GAMBLING</b></p> <p><b>PORNOGRAPHY</b></p> <p><b>ALCOHOL</b></p> <p><b>TOBACCO</b></p> <p><b>REPRESSIVE REGIMES</b></p> <p><b>GENETIC ENGINEERING</b></p> <p><b>NUCLEAR</b></p> <p><b>ANIMAL TESTING</b></p>

These screens are for illustration only, and are the types of issues which social investors may consider. Not all funds will look at all these issues (for example religious groups tend to pay more attention to ethical issues) and they may be interpreted from both a negative or positive perspective.

In 1997, the UK Social Investment Forum reported that three-quarters of a trillion dollars (US) are controlled by investors who are active in shareholder advocacy.

The first SRI funds used these screening techniques and many still continue to do so. However a more recent and interesting development is the emergence of a new generation of fund managers whose worldview is strongly influenced by the sustainability agenda. These fund managers select stocks that are well positioned to benefit from impending legislation and consumer demand. While these investors may use some screening techniques, they are most interested in backing “industries of the future” such as renewable energy and healthcare, as well as in some cases “best of class” companies in other sectors.

### Shareholder Advocacy

Some investors feel that the screening approach restricts the investment universe and hence increases risks as a result of limited diversification. Therefore a more holistic approach has been developed: Shareholder Advocacy. Rather than barring investment in certain companies, this approach involves engaging with all companies in the portfolio and seeking to influence company behaviour on social and environmental grounds. It encourages shareholders to claim their rights as company owners and have a say in the manner companies operate. Through proxy voting at annual general meetings, divestment (selling of shares), corporate engagement and shareholder proposals (also known as shareholder resolutions), shareholders’ voices are heard.



shareholder advocacy

Shareholder dialogue can be effective. Shareholders negotiate with company management on a particular issue to effect change. Issues such as environmental performance, sweatshop practices, labour relations and equal opportunities can be discussed, and improvements made over the course of months or years.

If this dialogue is unsuccessful, shareholders may have recourse to making recommendations to the company by way of formal resolutions that can be voted on at the company’s annual general meeting. Shareholder rights differ from country to country. In Asia, there is limited scope to make resolutions. However in the West, shareholder resolutions are gathering momentum. In 1997, the UK Social Investment Forum reported that investors who are active in shareholder advocacy control three-quarters of a trillion dollars (US).

### Community Investment

The UK Social Investment Forum (UKSIF) defines community investing as supporting a particular cause or activity by financing it, usually in low-income communities or in developing countries. Financial returns for community investment are expected, but may be lower than market rates. There are four main types of institutions: community banks, community credit unions, community loan funds and micro-enterprise lenders.

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### SRI Facts

**"\$2.16 trillion invested in SRI in the US", USSIF**

**The assets of socially responsible mutual funds grew about five times faster than those of all other mutual funds over the last thirty years.**

**UK legislates for compulsory SRI disclosure for all pension funds in 2000.**

**Dow Jones and FTSE launch SRI indices.**

**Domini 400 Index outperforms S&P 500 over a 3, 5 & 10 year horizons.**

**Ten SRI funds launched in Japan in the last two years.**

**Significant Growth:** In the UK, assets of ethically screened funds in 2000 were over £3 billion vs. less than £200 million in 1989. In the US, funds using some sort of SRI principles expanded from close to US\$50 billion in 1984 to over US\$2 trillion by 1999, representing more than 10% of total assets under management.

**Widening Appeal:** The SRI fund management industry started in the US and UK, but has become very popular in Australia, Canada, Italy, Sweden, Switzerland, and the Netherlands. It is growing elsewhere in Europe, and also now in Japan.

**Good Performance:** Many SRI funds have outperformed fund averages over 1, 3, 5, and 10 year periods. Several SRI fund indices have outperformed or matched major market indices over an extended period.

**Part of the Mainstream:** Many well known fund managers have launched SRI funds. The recent introduction of the Dow Jones Sustainability Global Index, and the FTSE4Good Global Index is another sign that SRI is gaining in importance.

**Catching on in Asia:** In Japan the first SRI fund, the Nikko Eco-Fund was launched in 1999, and now there are ten SRI choices available in Japan. Funds are now available in Singapore and Hong Kong, and there are several Islamic funds in Malaysia. There is also a large and rapidly growing SRI industry in Australasia.

**Embraces Multiple Strategies:** In addition to stock market investments, SRI options exist for fixed interest, property and venture finance. Community investment is widely considered to play a key part in alleviating global poverty. Micro-credit, a concept which originated in 1976 in Bangladesh, has spread all over the world providing loans to the worlds' poorest people.

## About ASRIA

ASRIA is a community of individuals and organisations who want to increase the value of SRI for the region.

"We are convinced that this (ASRIA) is an essential and vital project. The question for Calvert is not whether to commit, but at what level"

Barbara Krumsiek,

ASRIA promotes global best practice in Asia. ASRIA aims to bring SRI into Asia on local terms.

ASRIA is a not-for-profit, membership association dedicated to promoting sustainable and responsible investment (SRI) within the Asian capital markets.

Through its web portal, [www.asria.org](http://www.asria.org), and through conferences, workshops and seminars, ASRIA facilitates continuous learning. It is a unique resource for the region. Supported by leading international SRI practitioners, ASRIA promotes global best practice in Asia, while at the same time reflecting Asian viewpoints and priorities. Corporations, financial institutions, independent financial advisors, as well as non-governmental organisations are welcome to join as members.

ASRIA aims to increase momentum for sustainable investment practice in four ways:

- **Raise awareness and provide information to develop sustainable investment at a regional and national level.** The web portal for SRI in the region, [www.asria.org](http://www.asria.org), forms the platform for networking and continual learning.
- **Facilitate the provision of high quality SRI products and services by financial institutions.** ASRIA aims to increase the flow of data, encourage corporate transparency, assist in the launch of funds and indices, and carry out research to grow the SRI market.
- **Drive the development of policies within the financial community and the public sector.** Encourage policies which shape Asian capital markets so they reward sustainable enterprise. Conduct research which facilitates understanding among policy-makers.
- **Develop an outreach program to educate all sectors of the investment industry in SRI techniques and practices.**

THE BEST RESOURCE FOR  
SRI IN ASIA...

[www.asria.org](http://www.asria.org)

# Historical Perspectives on Sustainable and Responsible Investment

SRI began with 'Ethical Investment', an investment approach based on exclusionary screening started in the United States in the 1920's with church organisations who wanted to bring their investment policies in line with their opposition to such things as alcohol, tobacco, and arms manufacture.

The 1960's saw the rise of popular civil rights, women's rights and environmental movements, and with them the beginnings of interest in investment in line with the values these movements represented. So from its early beginnings, SRI reflected a wide spectrum of values based issues.

The Vietnam War polarised public opinion and led to the first investment fund, The Pax World Fund, being launched that avoided military related companies. This period also saw the establishment of organisations like The Council on Economic Priorities, the Interfaith Centre For Corporate Responsibility, and the Investor Responsibility Research Center, all providing services which facilitated the further development of the SRI industry.

Elsewhere, a growing awareness of areas not well addressed by traditional economic policies and development aid led to beginnings of modern micro-credit, most notably with the launch of the Grameen bank in Bangladesh. In developed economies, frustration with the lack of credit for minorities and social projects led to community lending initiatives in the US such as South Shore Bank and Mercury Provident in the UK.

In the 1980's, the issue of apartheid in South Africa drove many public boycotts of companies doing business there and several mutual funds were established in the US and UK to oppose the apartheid regime. The ability of many investors, large and small, to rally together and use their investment leverage to impact on a common cause created a new awareness of the power that investors and shareholders could have. This helped make the SRI industry a credible force for the first time.

During the 80's, globalisation was also taking on its modern form. Improvements in technology, accelerating economic growth, and the move of many countries towards more open economies - including shifts towards freer trade regimes, deregulation of financial markets, and privatisation of domestic industries - made corporations, capital, and investment ownership international and unaccountable in new ways. As a consequence, con-

## SRI TIME LINE

- 1920's** US religious organisations adopt screening
- 1960's** Civil & women's rights movements
- 1969 The Council on Economic Priorities, US
- 1970's** Vietnam War
- 1970 Pax World Fund, US
- 1971 Interfaith Centre For Corporate Responsibility, US
- 1972 Investor Responsibility Research Center, US
- 1973 South Shore Bank, US
- 1974 Mercury Provident, UK
- 1976 Grameen Bank, Bangladesh
- 1980's** Apartheid in S.Africa, growth of environmentalism
- 1980 Ethical Bank, Triodos, Netherlands
- 1984 Friends Provident Stewardship Fund, UK
- 1985 Institutional Shareholder Services, US
- 1989 Coalition for Environmentally Responsible Economies, US
- 1989 Australian Ethical Investment Trust, Australia
- 1990's** Explosive growth in SRI industry
- 1991 UK Social Investment Forum, UK
- 1997 Global Reporting Initiative, UNEP
- 1999 Dow Jones Global Sustainability Index
- 2001 FTSE4Good World Social Index.

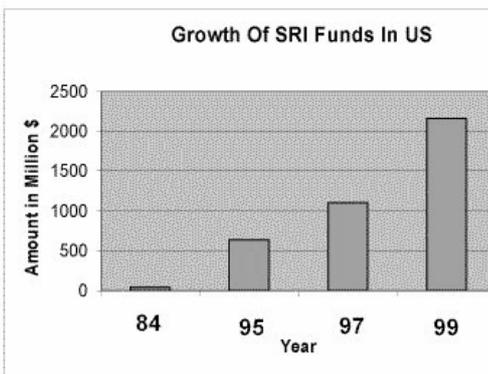
The 1990's have seen huge growth in the SRI industry.

Increasingly, large institutions like CalPERS and TIAA-CREF have been incorporating SRI criteria in their investing

cerns grew about the impact of corporations on social fabrics, quality of life and the natural environment. The mechanisms to address these issues - the national and international policy and legal frameworks - were often inadequate in dealing with new global commerce. Increasingly, financial markets drove corporate strategy and national policies.

The rise of the power of finance was accompanied by changes in pension regulations, changes in labour markets, and booming stock markets which made many more people investors - particularly in the developed western economies. Many institutional and individual investors began to identify themselves as owners for the first time. In the US, corporate governance became a live issue, and Institutional Shareholder Services and the Council of Institutional Investors were established to foster collaboration between shareholders.

Against this backdrop of the shifts in capital's reach and ownership, many new SRI initiatives and investment products were launched. Triodos bank, one of Europe's first "ethical banks" was launched in the Netherlands. The Friends Provident Stewardship fund became the UK's first ethical fund. The late 1980's saw a wave of environmental concerns. The first sustainable development fund was launched in the UK and the Coalition for Environmentally Responsible Economies was launched in the wake of the Exxon Valdez disaster.



The 1990's have seen explosive growth in the SRI industry. Milestones include the launch of the Domini 400 Social Index - the first major attempt to maintain an SRI index for benchmarking purposes - as well as the establishment of the UK Social Investment Forum. In North America and Europe SRI investment managers began to achieve credibility for the first time, compiling impressive track records, and attracting increasing numbers of investors. From their humble beginnings, socially conscious funds were recognised as one of the leading growth areas in investment management in the late 1990's. In Europe, the number of funds have grown from a handful to over 200. According to the Social Investment Forum,

money in the US that was invested using at least some SRI related principles skyrocketed from less than \$US700 billion in 1995 to more than \$US2 trillion in 2000 – almost 1 in every 8 dollars under management. Though not all of this money would be classified as fully SRI, the fact that social principles and investment are being linked is highly significant.

One of the driving forces fuel-

**DSI Performance Statistics**

Total Return as of 09/30/01	DSI 400	S&P 500
September 2001	-8.40%	-8.08%
YTD	-20.42%	-20.39%
Last Qtr	-14.17%	-14.68%
One Year	-26.75%	-26.60%
Three Year *	2.04%	2.06%
Five Year *	11.25%	10.25%
Ten Year *	13.79%	12.71%

\* Annualised Returns

ing the rapid growth in SRI investment in recent years has been a shift in the legal, regulatory and popular perception of the nature of fiduciary responsibility. Large institutions like CalPERS and TIAA-CREF are incorporating social criteria in their investment strategy, arguing that this is a natural extension of their fiduciary role. This shift is highly significant, since the money controlled by large institutional investors (e.g. pension schemes and insurance companies) dwarfs the amount that is invested in other fund categories.

**In the last decade SRI has become a global force.**

Important precedents include the “Calvert Letter”, in which the US Department of Labour indicated that SRI investment options in pension plans do not compromise fiduciary duty. Going even further, the UK recently adopted pensions regulations that requires trustees to disclose the extent that they have taken account of social responsibility considerations in their investment strategy. Similar policies are currently under consideration in other European countries and Australia has also adopted a similar scheme but which covers not only pensions but all public funds.

**Micro-credit has backing from all ends of the political spectrum.**

In the meantime, the micro-credit and community lending initiatives begun in the 1970’s continued to strengthen. The Grameen Bank, beginning with a single \$6 loan, had by the year 2000 successfully lent over US\$3 billion to some of the world’s poorest people. This micro-credit model, copied by hundreds of institutions around the world, has been hailed as a revolutionary and inspirational development concept by people at all ends of the political spectrum. In developed countries, rising affluence and the growing income inequality of the 1980’s and 1990’s saw a dramatic numerical increase and mainstream acceptance of socially focused lenders. Their success in making social finance work caused foundations and other socially concerned organisations to look towards market-based solutions as a source of opportunity and benefit for a wide range of communities.

In the 1990’s, SRI also took on global proportions, with substantial SRI industries emerging in Canada, the US, Australia and several European countries - most notably the UK. The newest generation of SRI can be seen as a reaction of a highly articulate owner class aware of the social implications of international corporations and capital flows. Many people want to see the “right thing” done, and where governments, self-regulation or global agreements appear to be failing, they are open to the idea that investment itself can be used as a tool to promote sustainable and responsible business practices.

**The Japanese industry has taken off at a dramatic pace in the last two years**

Current international initiatives include the Global Reporting Initiative, launched in conjunction with the United Nations Environment Programme, to develop globally applicable guidelines for reporting on the economic, environmental, and social performance of corporations, governments, and non-governmental organisations. Sustainable Investment Research International, a consortium of social research organisations around the world that brings together knowledge and co-operation on social research issues and standards, is another signal of global collaboration.

Perhaps the strongest indication of SRI’s acceptance within the finance industry is the launch in 1999 of the Dow Jones Sustainability Global Index, followed in the UK by the FTSE4Good World Social Index.

In South America, Unibanco, a major Brazilian Bank, has launched a social investment product - a first for the region. The continent’s first SRI fund is due to be launched in Brazil later this year.

By Yulanda Chung

## HONG KONG PERSPECTIVES ON SRI

**Let's put the cards on the table. Business rarely does anything for free unless it benefits. This statement, rather than being crass, embodies an aspect of what sustainable and responsible investment (SRI) is. SRI presents a win-win situation for society, the environment and business.**

This is exemplified in the Integer Project, where a group of UK-based architects, IT specialists, building experts and environmentalists decided to apply green and intelligent technologies to designing and building houses. A Hong Kong pavilion featuring two 800-square foot model flats is open for public view at the Tamar site from November 2, 2001. It demonstrates to the local construction industry that this technology can be applied now in private and public housing developments. Founding corporate sponsors of the not-for-profit project all want a piece of the action. Swire Properties wants to learn the latest technology for their own future projects. Gammon Construction wants to showcase their innovative construction capabilities and seek business opportunities. With renewable energy agreed as the way forward, CLP seek to demonstrate their knowledge and capabilities. Hence, corporates win new contracts and the environment and society benefit - exactly what SRI is about.

Hong Kong has a wealthy and educated population with increasing awareness of their natural endowment and social policy.

Hong Kong has a wealthy and educated population with increasing awareness of their natural endowment and social policy. It is a market in which SRI is ready to take off. It is encouraging to see Kingsway Fund Management as the first group in Hong Kong to apply SRI principles in the management of all its public funds. By the end of this year, it will launch another fund: SRI Active, which caters to a more selective group of investors wishing to employ more stringent guidelines. Friends Ivory and Sime is one of the largest SRI money managers in Europe and is waiting for authorisation from the Securities and Futures Commission to market its global SRI fund in Hong Kong. Both fund management houses believe SRI is not just a fringe investment targeting a small group of people.



Much of the demand for SRI in Hong Kong is driven by a growing concern for sustainable development. The debate in Hong Kong is gradually moving from environmental protection to a more holistic concept of sustainable development. A sustainable development council, to be set up at the end of 2001, will require all major government policies to pass a sustainability impact assessment .

Barrie Cook, Executive Director at Cheung Kong Infrastructure, believes that Hong Kong can not attract and keep the talented people needed for future industries unless it has a sustainable environment. The debate on sustainable development is not limited to



the government. “Hong Kong essentially has no industries. It’s a service industry,” he says. “The pollution is due to the people - transportation, domestic waste, water pollution. That’s why we have to involve all the stakeholders including the communities and small and medium-sized businesses.”

One aspect of sustainable development, however, lacks input in Hong Kong, according to Anna Wu, chairperson of the Equal Opportunities Commission. “The human development side.” “It is not just the physical infrastructure that needs to be sustainable. In Hong Kong, there are few natural resources, but we have human capital.” She is committed to the SRI debate. “We should marry business with social accountability,” she

explains. Business power is phenomenal. “We cannot afford a segregation of human rights and business.” She praises textile manufacturer Esquel and banking giant HSBC for being the only two Hong Kong companies which have signed up to the UN Global Compact, committing themselves to a set of sustainability principles. “It’s the answer to the negative impact of globalisation.”

As a trumpeter for equal rights, Wu pays ardent attention to Hong Kong’s corporate governance development. Many Hong Kong companies, large and small, are family-held entities, which can be a hindrance to corporate governance demands of greater accountability and transparency. “Equality plays a role,” she says. “Equal access to information is pivotal to a level playing field.” Changing the attitudes of companies to open up and respect minority shareholders’ rights may take time, but it is clearly on the government’s agenda. The Hong Kong Association of Minority Shareholders (HAMS), launched by David Webb, an independent activist for corporate governance, keeps up the pressure for more government action.

Educating the next generation is the key to spreading the word. The Integer Project works with the local education authorities to include the exhibition in school agendas. Robert Tatlow, a trade promoter for the British government involved with the project, says: “we want children to see the demonstration and ask: ‘why can’t we have the same smart flats?’ Their enthusiasm will hopefully motivate property developers to build more sustainable flats.” There are about 80,000 to 100,000 primary and secondary school kids in Hong Kong, the pillars of our future society. Their aspirations for better living conditions will be compelling.

Despite all the telltale signs of a fervent debate on SRI and sustainable development, efforts to raise its awareness in Hong Kong may be clouded by the economic downturn. Indeed, SRI development in the US and the UK has been buoyed by nearly a decade of economic prosperity. In Hong Kong, both the government and the public’s attention are currently focused on immediate priorities such as employment. To many, the concept of sustainable development is still misty and intangible. Given Hong Kong’s track record, all stakeholder groups must keep up the pressure and instill a sense of urgency again. At the end of the day, Hong Kong cannot prosper unless it is sustainable.

**We cannot afford a segregation of human rights and business**

## IS SRI FOR ASIA?

**Mishko Hansen** has been an investment manager for several Asia based hedge funds. He has an MBA from McGill University and is a Chartered Financial Analyst. He is currently working as a financial researcher and consultant focusing on issues of sustainability.

The “democratisation of capital” and the expansion of micro and community lending initiatives are examples of SRI-related movements that are having a significant positive impact on disadvantaged people around the world.

Many promoters of SRI believe that at least in certain areas “sustainability comes for free”, and that assumed negative trade-offs are illusory.

Sustainable and responsible investing is admittedly not a mainstream concept in the Asian region. The last several years have seen tremendous growth in the SRI industry globally, but there are many people who question the transferability of western concepts and practices to other cultures and economic systems. Even those who believe in the desirability of SRI are often skeptical as to whether business and finance in Asia can move in this direction in the foreseeable future.

To what extent are these concerns and doubts valid? This is a complex question, given Asia’s diversity, with it’s widely diverging economies and cultures. A first step is to examine the merits of three of the main arguments against the relevance of SRI for Asia.

A first objection is that many of the countries in the region are grappling with widespread poverty and social pressures, and therefore cannot afford the luxury of putting “cosmetic” ethical questions on the agenda. Higher priority must be given to economic growth to create jobs and political stability despite the costs, such as ecological damage and suppression of workers’ rights.

This is a serious objection. There is no doubt that some of the SRI concerns of wealthier countries may not be high on the list in developing nations. However, the reduction of poverty and social tensions is a major focus of SRI policies. The “democratisation of capital” and the expansion of micro and community lending initiatives are examples of SRI-related movements that are having a significant positive impact on disadvantaged people around the world. Similarly, it can be argued that SRI facilitated dialogue between corporations, the financial industry, governments and community groups may allow alternative corporate and policy thinking that recognises the importance of the quality as well as quantity of economic growth. This shift towards “quality growth” can contribute to economic advance that is equitable, prosperous and sustainable.



**Mishko Hansen**

Looking from another perspective, one may also question the extent to which key sustainability and societal priorities actually hinder economic development. To use an analogy: Western business leaders historically believed that too much focus on quality issues would cost jobs and hurt growth. However, in the 1970’s and 1980’s many Japanese companies significantly outperformed their American and European counterparts by making quality their first priority. Counter-intuitively it turned out that “quality comes for free” because a focus on process increases efficiency and spurs innovation. In the same way, many promoters of SRI believe that at least in certain areas “sustainability comes for free”, and that assumed negative trade-offs are illusory. This is particularly in the ecological area where, for example, redesigning production processes to reduce or eliminate wastage can often lead to surprising gains in competitiveness.

A second major objection towards SRI in Asia is that cultures have their own internal logic and dynamics, and that foreigners should not presume to impose alien values on

It should also be said that many SRI issues are in no way alien to Asian cultures, and a dialogue on how to address these issues is probably beneficial to all parties. For example, micro-credit, one of the most successful SRI formats, essentially originated in Asia.

others. SRI may be appropriate to Western societies and economies, but to try and extend this to other parts of the world is misguided. Although individual elements of SRI may be relevant and applicable to specific non-western settings each nation must make nation-specific decisions as to the how and when of implementation.

This objection is cogent, and needs to be incorporated into an understanding of the possibilities in the region. Most SRI industry participants agree that it is not the business of SRI to impose values, but rather to offer support for the view that societal values and investment decisions can be profitably combined. The Islamic investment funds in Malaysia, for example, can provide a vehicle for Muslim Malaysians to invest according to their principles, but this need not impinge upon other people's lives and investment choices.

Furthermore, many SRI concepts and values are in no way alien to Asian cultures. An international dialogue on how to address these issues probably is likely to benefit all parties. For example, micro-credit, one of the most successful SRI formats, is primarily of Asian origin. Similarly, many valuable approaches to environmental, workplace, and other social issues have been developed internally within Asian countries and industries. For example, energy efficiency and ecological awareness is a higher priority in Japan and Korea than in many western countries. Similarly, mass transit is highly developed in Hong Kong and Singapore, and is being enhanced elsewhere in Asia as well. Solar and other alternative energy sources are being used and experimented with throughout the region. Marrying these Asian approaches with the power of global finance could be a dynamic combination for achieving domestic and international goals.

Another way to put the issue of imposed values into perspective is to note that many Asian countries and companies are part of global organisations and agreements, and have voluntarily adopted international standards as essential to international cooperation and effective competition in foreign markets (e.g. ISO 9000 & 14000, SA8000). Such standards and agreements form a ground of convergence on SRI issues that goes beyond questions of local vs. foreign. For example, multi-lateral adoption of conventions on human rights, on environmental protection and on working conditions can form a future basis for SRI engagement.

An example would be CalPERS, a leading investment company which has begun to screen its emerging market portfolios on several non-traditional criteria. As part of this process, CalPERS has awarded a contract to Verité, an independent workplace practice auditing firm, to assess the ability of each country to follow the ILO (International Labour Organisation) conventions and standards to which they have agreed. According to Heather White, Executive Director of Verité, "where we find factories in serious violations of the ILO standards their countries have agreed to, they are in fact violating the local laws and regulations of the country where they live." So by being part of international bodies and participating in the global economy, most countries have agreed to abide by at least a base level of environmental and social standards. The implication of these agreements is that SRI investors need not question local arrangements or values, but rather simply hold countries and companies to their own rules. White echoes this thinking, adding that "in this particular context, I don't really buy the argument of Asian nations deserving a special cultural context which allows them to violate basic human rights."

The third major doubt about SRI in Asia is that these issues are simply not seen as pressing

Things can change very fast. The rapid and surprising spread of SRI funds in Japan is a clear example.

in Asian countries. Though there may be room for some cosmetic attention in the general direction of SRI, it is considered unrealistic to expect SRI concepts to affect mainstream finance and business any time soon. Structural impediments to effective shareholder activism, limited disclosure regulations, and lack of legal and political flexibility make any nascent inclination towards SRI irrelevant for the foreseeable future.

There are several ways to address this concern. The first relevant observation is that SRI only recently became a credible force in western developed markets. For many years SRI was considered on the idealistic fringe of mainstream investment, much as it is today in Asia. However as the western experience illustrates, such things can quickly change. The surprisingly rapid spread of eco funds in Japan is a clear example. Before the Asian crisis, corporate governance was more or less an Asian non-issue. Now it has become a mainstream topic, recognised by corporations, governments, and investors alike. One may reasonably ask:., might SRI also catch on in an unexpected and rapid way?

Any casual dismissing of the issues surrounding sustainability and responsibility ignores Asia's rapidly emerging framework for SRI. As countries continue to industrialise and deal with high density populations, environmental problems inevitably become more obvious. So, for example, China has become increasingly vocal about the need to incorporate sustainability criteria into economic decision-making. How well they are carrying through with effective action is another question, but the fact remains that in China, as in many other countries, a discussion has begun on issues that previously would not have been considered. Even Hong Kong, which is famous for its light regulatory framework, has produced a distinctive sustainable development decision making process.

The corporate governance movement may also hold the seeds for heightened investor awareness of company behaviour. Admittedly, there are impediments to translating heightened investor awareness into real action. But again, there is increasing movement where there had previously been none. And as noted above, the continued globalisation of industries and trade has established standards, whether it be in terms of manufacturing processes and environmental procedures, or in terms of workplace conditions. In this way, traditional SRI issues are beginning to be embraced by Asian corporations for purely competitive reasons.

So after this preliminary consideration of the objections to SRI in Asia, what can we conclude? In the first place, it is clear that there are issues that will need to be addressed in creating Asian SRI initiatives. However, because of the pace of change and growth in Asia, and because of the region's increasing economic, social, and ecological footprint, it is also reasonable to conclude that SRI has urgent relevance for Asia's economic, social and political future. The form and evolution of the engagement between SRI and the countries of Asia will only emerge over time. While it is true that experiences of SRI throughout the world can provide valuable insight into the viability of different paths and approaches, clearly the future of the SRI movement in Asia will ultimately be determined by the insight and creativity of Asian corporations, entrepreneurs, shareholders and citizens.

# SRI Perspectives

## – A “Road Map” For The Future

SRI is a rapidly expanding field made up of many diverse approaches. To provide a “road map” to the current trends shaping the SRI movement, ASRIA conducted a series of interviews with people from SRI businesses and drew together their views about SRI’s future in Asia.

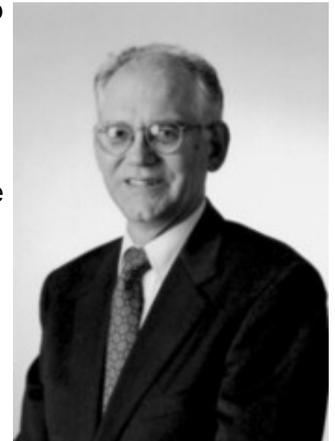
**Steve Lydenburg** is a director of Domini Social Investments, a leading U.S. based socially responsible investment firm. He was a founding member of KLD, now the largest social investment research service in the US. He was co-author of the groundbreaking book ‘Rating America’s Corporate Conscience’ in 1987 and in 2001 was awarded a Lifetime Achievement in SRI Award for his outstanding contributions to the growth of the industry.

**Steve Lydenburg** has been involved in the SRI industry for over 20 years. He recounts how at the beginning it was difficult to change mindsets, “no one was there, no companies, no regulations at all, no corporate information on pretty well anything. No one knew what you were talking about.” Owing to these initial difficulties, the US industry developed outside of the financial community. In Europe on the other hand, it has been much more integrated with the mainstream. For this reason, the European industry looks very different, and in some ways has been able to go beyond what is happening in the US.

Whatever form it takes, social investing is quickly becoming global. Lydenburg believes this is partially because the issues around globalisation and SRI have now converged. People interested in or concerned about globalisation are looking towards social investing for answers. This is one of the main reasons why he feels “things will happen pretty quickly in Asia.”

The ASRIA initiative is “very important”. In a way, the industry in Asia is starting with a clean slate, and ASRIA can be an integrator and catalyst. This is needed since the opportunities in the region are considerable. At the same time, there is an interesting challenge that social investing faces and it affects corporations as well. “Global organisations are needed, but also local organisations with local differentiation.” At its best, this is “a dynamic tension, and a fruitful one.”

How do you develop something that captures the spirit of social investing while at the same time captures the essence of the local situations? For Lydenburg, diversity is a key concept, one that needs to be added to sustainability and responsibility. Each culture has something to bring to the table. With its economic dynamism and cultural heritage, Asia can make an impact. It has an opportunity to come into something where there is already a lot of momentum.



**Steve Lydenburg**

**Richard Yin** is Chairman of Kingsway Fund Management Limited and Deputy CEO of the Kingsway Group. Kingsway is the first funds management company in Hong Kong to introduce a Sustainable and Responsible Investment (SRI) Fund. Yin has over a decade's experience in the securities industry. Prior to Kingsway, he was Director of Intermediaries Supervision at the Hong Kong Securities and Futures Commission. His comments demonstrate how SRI funds can be incorporated into mainstream funds management.

“Performance tells the story”, says **Richard Yin** of Kingsway. Kingsway applies SRI principles in the management of all their Hong Kong public funds, in the form of screening. The funds do not invest in companies involved in tobacco, casinos, military equipment manufacturing, nuclear power, logging, timber or animal testing. Integrating environmental and social concerns, on top of looking at companies' balance sheets has not hampered performance. According to rating agency Standard & Poor's, four of Kingsway's funds featured among the top ten Mandatory Provident Fund performers in first six months of 2001. “There is this misconception that SRI will give you poor performance, or that this is fringe investment” says Yin, “but good investment return has always been our overriding concern and we do achieve it.”



**Richard Yin**

Nevertheless, the driving force for Kingsway's SRI funds is more than just money. “It's a question of conviction and commitment. We need to invest for future generations,” Yin says. Kingsway has always been an ardent supporter of various charitable causes. Yin is a founding member of a not-for-profit group GAP (named after the knowledge 'gap'), and Kingsway has donated RMB1.1 million (US\$135,000) to build schools and orphanages for special needs children in China. It also donated HK\$1.9 million (US\$244,000) to many Hong Kong charities in the last year. “SRI is not something that we wake up one day and say this is a superb business opportunity and let's exploit it,” Yin says. one's environmental and social efforts should be raised constantly,” he concludes.

The debate inside Kingsway, prior to launching its SRI fund, centred on the application of western SRI values in Asia. “Are there Asian values of SRI because of the uniqueness of Asian culture, history, religion and political background?” asked Yin. “The jury is still out.” Kingsway has reached a consensus that core value thresholds must be upheld. However everyone has his or her own value set. Kingsway, for instance, does not exclude investing in alcohol companies. “The bar measuring one's environmental and social efforts should be raised constantly,” he concludes.

The company is well poised to capture the emerging SRI market in Hong Kong and Asia. It has offices in China, Indonesia and Australia, and is seeking alliances with other partners in the region.

Kingsway will launch another SRI fund, SRI Active, by the end of 2001. This second product line caters to a more selective group of investors who wish to employ more stringent and comprehensive SRI principles. Yin hopes to raise HK500 million in funds. It is hoped that institutions and not-for-profit organisations will be interested in what the funds house has to offer. “It'll be a slow start,” Yin concedes of the trailblazing funds. However the early bird always get the worm.

**Barbara Krumsiek** is the CEO of the Calvert Group, one of the world's premier SRI investment firms. Her comments serve as an excellent introduction to the fund management perspective on the globalisation of SRI. She is joined by **Alya Kayal**, Calvert's Senior Analyst, International Research.



For **Barbara Krumsiek**, one of the big myths that SRI funds have dispelled in recent years is that there has to be a performance trade off associated with social investment. There are now many highly credible track records across a variety of asset classes to suggest that

the dual goals of SRI funds are highly compatible. It is a testament to the insight and forward thinking of many company management teams that they can, in many cases, not only deliver good short-term financial results, but also think about the long-term impact of their operations. Some of the most enlightened and dynamic managements are those that can accomplish both of these goals.

In the next few years, Krumsiek believes that SRI will continue to be brought to larger audiences. In the US, a major achievement in the past five years has been making SRI options available in defined contribution retirement plans. In the mid 1990's, SRI would have been available in only about 20% of the largest plans; today it is available in over 90%. She is intrigued by the pension reform going on in different **Alya Kayal** countries around the world, such as Germany, Japan and other Asian countries, and the opportunities these reforms present to broaden SRI's appeal still further.



Technology and biotechnology issues represent a growing area of SRI activity. The same is true of energy and the move towards more sustainable forms of power generation and use. Another area is global poverty. Some countries cannot even be classified as "emerging markets"; they are simply undeveloped. For example, does social investment have a role to play in parts of Africa or the Middle East? Can they be addressed through existing SRI practices?

Regarding Calvert's Asian exposure, **Alya Kayal** explains that they are active investors through the Calvert World Values International Portfolio, and also through the international operations of US multinationals. Asia is quite important. For example, Japan comprises 20-25% of their total international portfolio, but Asia also is indirectly included as a producer of goods and as a growing market. However the complexity of understanding Asia means that there is a strong need for an ASRIA-like local presence.

Kayal noted that along with the boom in eco-funds in Japan, companies there were moving to disclose environmental factors in their annual reports. A company like the **Mass Transit Railway Corporation** in Hong Kong, for example, has positive environmental and workplace practices even if they do not publicise it much. In a sense, the initial stages of SRI outside of Japan are very much in the form of "good corporate citizenship", combining social programs with improved corporate governance.

Barbara Krumsiek adds that corporate governance is a very multi-layered concept. In the US, corporate governance has been traditionally focused on mechanisms for shareholders to put forward their views. It is one of the three legs of SRI in the US. These include social research, community investments, as well as shareholder driven corporate governance. The concentration of ownership is an issue in Asia that may hinder the activist

model of shareholder engagement. Nevertheless, it may be possible to appeal to companies' reputational and brand sensitivities, and there is scope for moving to financial regulation that requires greater disclosure.

She feels that many of the levers for change are institutional and legal arrangements that give SRI options to savers. In the US for example, many people did not have SRI included in their pension plans because of perceived conflicts of fiduciary duty. However the US Department of Labour has now issued a letter of clarification – the 'Calvert Letter' - signifying that there is no compromising of fiduciary principles. In Asia, the route to bringing SRI into the mainstream will depend on the political and economic landscape in each country.

Kayal concludes by adding that "Asia has to define for itself what SRI means for them and how to best measure it". It is not appropriate to simply transplant American and European values. "A lot of Asian people and companies feel quite strongly about this." At the same time, international principles including the Universal Declaration of Human Rights, ILO conventions, and the UN Global Compact should play an important role in setting standards. These can form a basis for future international SRI engagement.

**Kirsteen Morrison** is the Head of SRI Funds Management at Henderson Global Investors. She oversees 18 SRI funds, including the first Asian dedicated fund to employ traditional SRI principles. Her comments reflect her Asian experiences tackling social and environmental issues.

**Kirsteen Morrison** believes that contrary to what some people think, a growing number of Asian companies are aware of SRI issues. For example, many technology companies in Asia have quite good environmental programs. Siliconware Precision, Hon Hai, TSMC, UMC, Samsung Electronics and Johnson Electric are all examples of this. For Morrison, "The important thing is that they are thinking about environmental and social issues and doing something about them."

In Japan, Daiwa Securities now has environmental disclosure and proactive workplace policies, as does Mitsubishi Fire and Marine. Morrison notes that it is interesting to look at "why some countries have adopted certain policies. In Japan companies are very environmentally aware, and the government is very eager to expand recycling programs and other initiatives. I think environmental issues have become very prominent. because Japan is very densely populated. Since they import everything, resource efficiency is incredibly important. In the US on the other hand, companies are much more socially conscious because of the litigious nature of the legal



system and because of the emphasis placed on constitutional rights. Employment law

and making sure you are doing the right thing on the workplace front is much more the focus. When it comes to environment, there is so much sprawl that if something happens in one place, you can always relocate it somewhere else." Morrison is hoping in

**Kirsteen Morrison**

time to see a raised awareness of social issues in Japan and environmental issues in the US.

In Asian countries, you can take Taiwanese technology companies as another example, says Morrison. "The reason they are so proactive on the environment is that they want to prove that they are world leaders in their industries, not some second rate operator in the middle of

nowhere. Chinese companies do not have that mindset. They are seeking to be the lowest cost provider and have not yet moved far up the value added chain.”

In Korea, many companies, Samsung for example, have very high standards. Morrison relates that “sometimes certain chaebols may not understand why you are asking questions about their policies, but it often is the case that they do have systems in place but have not declared them because nobody asks. We found that in Japan a lot as well. We went to meet Pioneer for example, and they have recycling programs, they have an efficiency drive, they have an environmental disclosure document, but it is not something they have actively handed out. When we explained our interests they were excited, and took our pictures to help raise awareness within the company that investors care about such things.”

Generally however Morrison concedes that despite the growing acceptance of SRI issues by many Asian companies, SRI is a difficult concept to interest Asian investors in. They simply tend not to understand why they should limit their investing universe. They are not generally interested in environmental and social issues, and also tend to have a very rotational style of investing, whereas SRI investing is all about buying and holding investments and reaping benefits over the long term. The whole idea of exclusions is hard for Asians to understand. Other forms of SRI, however, that emphasise corporate governance and the engagement approach, may be more appealing.

SRI is in some ways a western concept, but Morrison

notes that “western companies are much quicker to fire people, to make redundancies, to chop and change, to restructure, and effect significant social dislocations for people who work for them. Asian companies who say they are not socially responsible, such as the chaebols, the Chinese and many Hong Kong and Singapore companies, are quite slow to lay people off because they recognise their role as being the employer and that along with this there is an obligation to provide.” In some ways it may be that for some Asians, there is a feeling that there is not as much need for individuals to take responsibility on SRI issues because to a certain extent companies already have.

Morrison feels that it is true to an extent that countries have to create economic wealth first and worry about the environmental impact later. They do have to worry about stability. Imposing huge environmental regulations in China, for example, could cause those seeking cheap manufacturing to look elsewhere. This is why it is very easy for countries to bid away labour and environmental standards. There is a need for some sort of international cooperation on this issue, so that wealth from the west actually does get transferred over time. Morrison agrees that “it is hard to argue against the need for development, but perhaps one way is to get global operators to increasingly raise their own standards.”

**Andrew Kwek** is the Managing Director of Morley Fund Management in Singapore. As a long time participant in the Asian financial industry, his comments sketch out some of the opportunities and challenges facing SRI in the region.

**Andrew Kwek** does not hesitate to affirm SRI’s place in Asia. For him, “it depends in part on how you define it. If you emphasise the ‘ethical’ theme in terms of social responsibility, then not too many investors in Asia may be interested; but if you talk about sustainable investment, then this is a whole other arena because here you are talking about businesses with long term staying power.” The formulation of SRI as sustainable and responsible investment, rather than as socially responsible investment, is probably better terminology for Asia.

Kwek’s personal view about sustainable investment is that it is closely aligned with good corporate governance, good management, and good strategy that will ensure that earnings continue to grow. He feels that most companies that can afford to take SRI issues on board will tend to be the better-managed and successful ones. They will therefore tend to be blue chips, so a lot of mainstream investors will already own a lot of stocks in the SRI universe without calling them SRI per se.



Kwek cautions that “transplanting the European or American model of SRI directly to Asia is just not going to work”. He feels that making too loud and clear a stance on SRI is a difficult proposition and comes with a whole lot of PR issues. If an investment manager stands up with a certain message, a lot of NGO’s and other groups may start to criticise them. However if the company switches to another perspective, then a whole other group of business leaders may begin to criticise them. This will be a lose-lose situation. Kwek identifies this as a potential issue holding back a number of institutions from publicly calling themselves SRI managers.

For Kwek, the area that will lead Asian SRI efforts is definitely corporate governance. This is because “the issues around management and disclosure are no longer controversial. Sustainability, in terms of quality of businesses and long-term strategy, is becoming more accepted as well.” Other issues, such as environmental ones, will be the product of the evolution of Asian corporates and will become possible as they become more successful.

Asian investors are looking for returns, cautions Kwek. Any move to SRI will have to come from these investors. They are the ones that need to start asking fund managers to begin including SRI criteria. It will not be possible for the investment firms to take the lead on this. Retail investors are not even interested in corporate governance, however pension funds and other institutions are. Their boards often tend to be made up of people who are already pretty successful, and these people may want to leave a legacy for their children and their children’s children. “Something as idealistic as that may be needed to trigger a move towards SRI.” If SRI stocks begin to keep their values over cycles, then this will also begin to convince people that you can enhance investment returns by taking this strategy.

Turning to the question of SRI’s relevance to poorer developing countries, Kwek feels that “countries that need to feed people will do what they need to do. People need jobs. SRI cannot take the moral high ground. It has to be a win-win proposition to be relevant to people.” The minimum international standards may not be relevant to the poorest countries and people. Every country has its own unique characteristics and not everything in international standards is applicable.

In the long term, “bosses may want people to work harder and longer, but in order to make their business sustainable they are going to have to be sure that they do not endanger the workers. There is a sort of natural attrition and if you run a company badly and treat your workers badly, the end result is that you will only be able to run it for a short while.” As soon as there is another company or other option, then they will lose out. Thus Kwek believes that SRI issues will sort themselves out. Kwek acknowledges though that these are all very controversial questions and a lot depends on defining the issues correctly.

**Calvin Cheung** is CEO of FormalWin Consultants, a company specialising in ISO14000 and SA8000 certification. Cheung, an ex-chairman of the Hong Kong Quality Management Association, has 20 years experience in quality management, training and development in China and South East Asia. His remarks suggest that the ‘clean’ way is the only way forward for Chinese enterprises.

How do you grant a mainland Chinese factory SA8000 certification when there is no national minimum wage, staff very willingly work 80 hours a week, and 14-year-old workers use the ID cards of their 18-year-old siblings? These are the sorts of questions frequently confronting **Calvin Cheung**.

There is no minimum wage legislation in China. A factory in Dongguan may set the monthly wage rate at RMB400 (US\$49.00). In Shenzhen the going rate is closer to RMB600 (US\$73.50), while in northern China it is lower than RMB300 (US\$36.80). Factories wishing to apply SA8000 standards have to accept the average provincial wage as the de facto minimum wage, and take into consideration the opinions of the local unions and non-government organisations.

Apart from the minimum wage, the thorniest problem in getting this international stamp of approval is the issue of overtime. SA8000 specifies a maximum of 42 working hours weekly with one day off, a condition that does not have the support of most Chinese workers nor employers. A Chinese factory manufacturing plastic Christmas trees employs 5,000 during the peak season and then only 3,000 following shipment of the goods. “During busy times, workers work 12 hours continuously a day and seven days in a row; but at other times they work less than five hours a day,” Cheung says, “it’s a seasonal factor.”

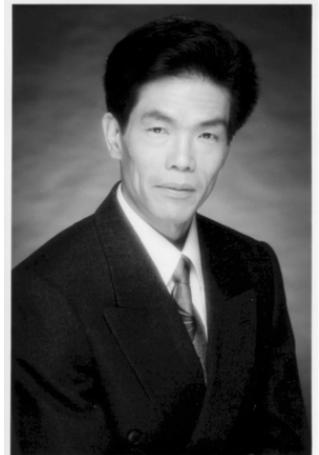
In addition, the workers themselves want to do as much overtime as possible and earn as much as they can in as short a period. “The girls want to earn enough to get married, the guys want to return to their villages and start their own business.” They would rather work for an employer that allows longer hours but pays less. It is

Ironical that while both the restriction on working hours and the minimum wage requirement is aimed at protecting the workers, they do not want to avail themselves of these.

Cheung says the factories get around the restrictions by calculating the total number of working hours by season rather than on a weekly basis. Although unethical, some factories account for only 1,000 workers when there are in fact 1,200 so that the average number appears smaller.

Despite the difficulties involved, most joint-venture factories based in China adhere to compliance requirements at the request of their buyers, who are often big multinational firms. “You either do it or they move the orders elsewhere,” Cheung says.

Factory managers are beginning to realise that complying with ISO14000 and SA8000



**Calvin Cheung**

can save them a lot of money. A factory in Guangdong (Southern China), did a survey and showed that after establishing the certification requirements, the amount of sick leave took a double-digit percentage dive. In addition to that, efficient energy use, reduction of wastage and lower pollution emissions boosted staff morale and improved productivity. Cheung says that the initial cost of getting certification ranges from a few tens of thousands of dollars to up to HK\$4 million (US\$513,000), depending on the factory’s set up. Factories built approximately seven years ago tend to be rather dilapidated and therefore there is a need to spend more. “The hardware costs have to be amortised, sometimes over a five-year period, otherwise it takes only a couple of years to recoup the rest of the costs,” says Cheung.

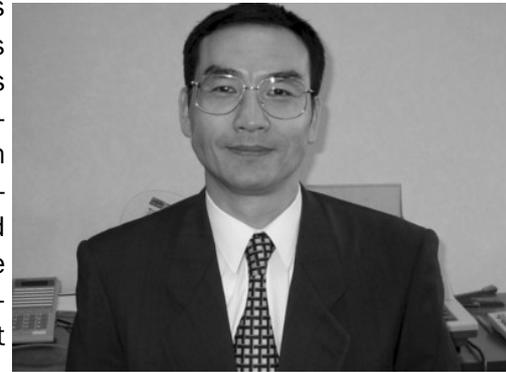
It is almost a prerogative for factories in China which are partly Hong Kong or foreign-owned, to get certification. This requires ongoing monitoring every six months to ensure continual qualification. The joint ventures are the most eager to comply with the international certification requirements, “especially if one of the partners are Japanese,” says Cheung. The regional offices of Sony

and zipper manufacturer YKK are competing to be the first to be certified. Furthermore, export-oriented and well-managed state-owned enterprises are eager to join the ranks. The hard nuts to crack are the village enterprises in China which make up more than 50% of the total number of enterprises. They are hard to regulate and have their eyes on the quick buck. They prefer to be fined rather than change.

The region is reeling from the recession and Cheung foresees a slowdown in pushing ISO14000 and SA8000 certification forward. A Chinese client of his has already put back by a year the plan to build another factory complex after the terrorist attack in the U.S. However the direction for change is patently clear: the Chinese way of wining and dining environmental officials to bypass scrutiny is giving way to serious reform.

**Katsunosuke Ozawa** is Managing Director of Nikko Global Asset Management (Singapore & Hong Kong). The recent success of SRI related funds in Japan is one of the brightest spots in the Asian SRI industry.

According to **Katsunosuke Ozawa**, Nikko's launch of Japan's first eco-fund in 1999 was jointly initiated by the CEO's of Nikko Securities and Nikko Asset Management, with research support from Good Bankers. Nikko was interested in the ecological philosophy of business development and was exploring how a securities-related company could contribute to promoting these ideas in Japan. With one of the leading reputations in the Japanese market, they decided that the best way to reach both the public and companies would be to launch a retail fund oriented towards ecological sensitivity.



They believed that the promotion and news around the fund would help educate investors, and also that companies would take notice if such a large well known investment house was to begin promoting ecology. However Ozawa relates that we "never expected it to happen quickly, we thought it would take time. But the fact is that when we launched the fund, the media took an immediate interest... and this fund grew to almost 300 billion yen (US\$3 billion) in a very short time." It turned out that there was a lot of demand there.

He also notes that the clients were different from the typical buyers of unit trusts. There were a lot more women, and a lot more people in the 30-40 year age range. In Japan, sales are usually done through personal relationships and the skills of sales agents, but in this case Ozawa relates that "investors actually approached us to buy." In addition, the fund management department received many calls from companies eager to know if their company was going to be included in the portfolio. "This was a big surprise." Many leading companies in Japan such as Canon and Sony are now a lot more open about their ecological initiatives.

After the success of the Eco-Fund, Nikko also launched a global SRI fund. They feel that SRI is part of a longer-term trend. Nikko has a very good position in the Japanese pension industry, and they observe a groundswell of interest surrounding SRI and environmental issues by pension clients. Ultimately Ozawa feels that as pension funds are long-term investors interested in the well-being of employees, it is natural that they are open to SRI. He sees Japan evolving in a similar way to the UK, and that Nikko will play a major role because of its strong presence in the market.

Although KLD has traditionally been a US focused company, **Thomas Kuh** notes that they are now more involved with international research. For example, they are now tracking “all the no’s – i.e. tobacco, military, gambling, etc. on a global basis.” They are also involved with SiRI (Sustainable Investment Research International), a consortium of research companies around the world. Through this network, their international research contracts are increasing.

He feels that Asia is an important market for social research. First of all, most major multinationals have significant operations in Asia, and these operations are on the radar screen of many investors in the US and Europe. Additionally, the recent move by CalPERS to begin screening their emerging market portfolios is “incredibly significant.” As other financial institutions follow, this will create a viable market for emerging market social research over the next few years.

Kuh believes there has to be an effort to lobby companies. At first, they don’t tend to be very responsive, but on the other hand there is now a lot of pressure on emerging market companies to be part of a global framework. Two ends of a spectrum are presently in place. With ASRIA, there is now an educational industry body, and with institutional investors like CalPERS moving in this direction, he foresees pretty rapid changes in corporate responsiveness.

Ultimately Kuh envisions a day when analysts writing research on companies will integrate social criteria into their normal report writing. “The holy grail of analysis in some way is quality of management”, and since sensitivity to corporate governance and other SRI issues seems to correlate quite strongly with competent, innovative and responsive management, it makes sense that analysts in Asia and elsewhere become more aware of these issues.

**Thomas Kuh** is the Director of Business Development at social investment research service, KLD. Along with innovative screening products, KLD is also a leading provider of SRI investment indexes, including the Domini 400 Social Index. His views provide a perspective on the role of SRI research in developing SRI on a global basis.

**Robert Rubinstein** is head of Brooklyn Bridge, a “knowledge broker” linking SRI related projects and products with investors. Rubinstein also organises the annual Triple Bottom Line Conference, Europe’s largest SRI event. His comments point towards the possibility of SRI becoming both global and mainstream in the coming decade.

According to **Rubinstein**, the differences in SRI and mainstream investment will disappear over the coming years. It will simply “come to be known as smart investment.” SRI-related private equity flows will be a key growth area over the next few years. Similarly, FDI (foreign direct investment) is a huge pool of capital and is still not being screened. In the future, FDI will also start to be seen in terms of its environmental and social impact.

Rubinstein points out that if we look at bank lending, the better banks do some sort of environmental audit for lending, but the vast pool of money is not being screened. Also a lot of pension funds are putting more money into “alternative” asset classes like private equity, but they often have no knowledge of the SRI options. If only a small percentage were focused on SRI criteria, this would make a huge difference. Attitudes are changing rapidly. In Europe, the concept of sustainability is definitely getting through to the mainstream, much more than in the US. Rubinstein feels that



**Robert Rubinstein**

there has to be a fork in the road". With raised awareness, it will be understood that SRI is not merely a niche concept but rather it is about building a better investment model.

In Asia, Rubinstein has seen rapidly increasing interest in large scale sustainability related projects. SRI issues are beginning to loom large because of the pace of change. For example, it is unfortunate that "China has decided to embark upon the largest road construction project in the world, but not the largest public transit project in the world." Nonetheless, the pressures to incorporate sustainable growth criteria are growing and the business opportunities are increasing. "When people begin to see that there is money in this, then they will move quickly."

**Juliet Altham** - is an SRI analyst at CIS, one of the largest insurance companies in the UK. CIS provides an excellent example of the institutional push towards "engaged shareholding", where a fiduciary addresses SRI issues through shareholder activism. Her comments reflect the impact of globalisation on SRI strategy.

The Co-operative Insurance Society (CIS) has a long history of social responsibility, explains **Juliet Altham**. It was founded to create insurance products accessible to people of all levels of income. As a co-operative insurer, all profits are for the sole benefit of policyholders. Since 1990, it has operated the Environ Fund which invests in companies that make a positive contribution to social or environmental issues, and avoids those engaged in practices of ethical concern. However in 1999, as part of a broader social accountability drive across the company, CIS decided to apply an SRI policy to all the company's investment holdings.

The term they use is "responsible shareholding", which means that while not screening out any investments, except in the Environ Fund, they have committed themselves to engage on environmental, social and ethical issues with companies in which they hold shares. A major part of this policy is active voting. Corporate governance issues are the focus of voting decisions, and executive pay in particular has become an important concern for CIS. According to Altham, the issue of executive pay is an example of how management issues have also become more international. "Companies are starting to cite 'global competition' - i.e. the US market - as a reason for large increases in pay, with little corresponding increase in performance targets. However we have to decide in the context of our own markets whether such levels and methods of pay are either in the best interests of shareholders, or even socially acceptable."

SRI itself is beginning to take on a global presence. However Altham cautions that sustainable solutions to social concerns must fit with local cultures. For example, Altham feels that you wouldn't use the same measures to evaluate employee relationships in Japan as in North America. Altham believes that "the Japanese need to decide what corporate social responsibility should look like in Japan. You can share concerns internationally but implementation should be local. It will work or not work depending on local acceptance." She expects that increasing demands for better corporate governance within developing markets will be the first real test of translating investor concerns across borders. In turn, this should pave the way for the globalisation of SRI principles.



**Juliet Altham**

**Michelle Chan-Fisher** of Friends of the Earth-US is in charge of their environmental investment initiatives. Her views provide a good example of how an NGO can complement financial institutions in increasing the acceptance of SRI.

**Michelle Chan-Fisher's** work focuses on promoting corporate environmental disclosure and trying to get more people to take account of this information in decision-making. For example, she works with the US Securities Exchange Commission and other regulatory bodies trying to get more environmentally relevant material included in company documents. Similarly she talks to investment banks in the US, encouraging them to pay more attention to social and environmental issues in their lending activities. She regards the SRI community as natural allies in her work since both share an interest in "mainstreaming" environmental and social issues.

Chan-Fisher identifies a few big trends shaping SRI's current momentum:

- 1) **In the mainstream investment community, corporate governance is a given.** It is no longer a fringe issue and there are the first signs of corporate governance embracing SRI issues.
- 2) **The UK, pension fund disclosure law is now in effect** and is being emulated in Germany and other countries. Thus SRI issues are beginning to be accepted by regulators and practitioners.
- 3) **Also important is the move to new accounting standards.** Accounting groups are finally addressing environmental and other issues. This is tied to the whole issue of intangible assets and liabilities, which has received increasing attention in recent years.

Given SRI's momentum, she feels that there is a huge capacity for it to grow and impact developing countries. Global investing has a greater developmental impact and SRI is part of the answer. An idea becoming more popular is that the quantity of economic growth may not be as important as its quality.

The globalisation of capital markets has a good side in that it fosters the creation of beneficial public policy frameworks in emerging markets. At the moment however, most SRI investors only have small exposure to these countries, and this is usually in the form of investments in multi-national corporations. SRI research is needed in Asia, though Chan-Fisher feels it may still be a little bit before its time in practical terms.

**Tim Freundlich** is the Director of Strategic Development for the Calvert Social Investment Foundation; a non-profit enterprise dedicated to ending poverty through investment. The Foundation's aim is to promote "community investment" as a new asset class in the financial services industry. Freundlich's comments give insight into this important approach to SRI.

**Tim Freundlich** introduces the Calvert Foundation's investment activities by explaining how on the portfolio side they place money with a wide variety of non-profit development groups. These range across micro-credit institutions and community banks, as well as development groups that build real estate facilities including day-care and health care facilities. They also support developers of affordable housing, residential mortgage providers and small business lenders. Internationally the portfolio is mostly weighted towards community lending. In Asia, for example, they have mostly been involved with micro-credit or co-operative small business lending. There are already many micro-credit initiatives in southwest Asia in such countries as Bangladesh, Sri Lanka, Vietnam and Indonesia as well as more recent initiatives in China.

The Foundation has capital placed with about 150 different organisations. On a project basis they sometimes invest directly, but in general the money they commit is on-lent by other institutions. Freundlich explains that "Calvert is essentially managing a due diligence and monitoring process with a team of analysts with different

areas of specialty and expertise.”

On the funding side, Calvert raises money from institutions and individuals. Their sales pitch is that “there is a very high and quantifiable social return,” and they package it with a financial product that will give investors a fixed return over a one, three, or five year periods. Investors can choose the return they want, up to a limit. Freundlich points out that they have had an excellent record to date, with no losses in the fund. In fact, they have only experienced one non-performing loan in ten years so there is stability as well as a decent financial return.

The Foundation is trying to quantify social returns as well. The three legs: risk, financial returns and social returns all need to be measured. Freundlich feels “this is an issue that social investing in general is still wrestling with. Most discussion is still very much in the area of traditional investment, i.e. financial risk and reward, with anecdotal social benefits tacked on. The real challenge is to fully incorporate the social return part.”

He adds, “we make a lot of disclaimers when we present or talk about our programme, since it is really an

emerging and iterative process. It will probably take 50 or 100 years to really change people’s thinking about returns. What we have been trying to do is build into the portfolio process a number of metrics so that at least we can begin to track and present certain social return indicators.” They have developed a rough tool on their website that gives an idea of the social benefits of different levels of investment. “On one level it is very superficial, but on the other hand it is a commitment, and it does put the topic on the table.”



**Tim Freundlich**

Freundlich concludes by explaining that the different parts of SRI have different modalities based on the user, engager and client base. What the Foundation is doing is probably not appropriate for traditional return based fiduciary institutions. However some individuals, institutions and corporates are in a position to define their own fiduciary outlook, and may be quite willing to invest a

small portion of their assets where the financial return is softer but the social return is very high. This “ultimately involves a very sophisticated discussion about what people consider to be the role of their financial, human or other assets.”

**Emma Hunt** is the Head of SRI research for Friends, Ivory & Sime, Europe’s largest SRI fund manager. Her comments set Asian SRI developments in a global context.

**Emma Hunt** identifies several drivers for the increasing popularity of SRI. The first is that over the last several decades, more people have made the connection between their own money and their ethics. This has also been happening with companies and institutions and is a trend that is likely to continue. People also have more knowledge of financial markets and the different investment options available to them.

For Hunt, the second key is the changes in pension legislation in the UK and the disclosure requirements for all Australia managed pension funds, to now to disclose the extent to which social, environmental and ethical issues are taken into account in investments. Similar proposals are also currently being considered for pension funds in several European countries. This coincides with the third factor, that it no longer appears that you have to compromise financial returns to invest using SRI principles. There is now a sufficient long-term SRI investment history to prove this. This has created a huge difference in perceptions.

“On the company side, corporate reputation is now considered a valuable asset”, says Hunt. “As corporations and communications become increasingly global, issues affecting reputation such as corporate governance and social responsibility will need to be better identified and managed by companies so as to not have a negative impact on overall company value.”

With regards to Asia, there is a widespread recognition of the need for improved corporate governance. This need is further stimulated by increasing foreign shareholdings in Asian companies, which brings with it greater expectations on issues such as corporate governance and social responsibility. The recent establishment of the Asian Corporate Governance Association and ASrIA reflect these developments.

The pieces for SRI in Asia are starting to come together. She notes that “the saving rates in Asia are comparatively high, but most savings still go into low yielding bank deposits. This may be partially because of a general lack of confidence in equity markets.” Investment in equity markets may begin to rise if there are products in the marketplace that can win the confidence of investors. This may provide a place for SRI funds. She believes that with “the current state of the market, the early Asian SRI domestic funds to be launched may have a strong corporate governance element.” The negative screening approach may not be suited to Asian culture, while a ‘corporate engagement’ approach may be. Large local players and institutions are starting to be consulted on this, and it is likely that they will take a lead on the style of funds when they do emerge.

Given the ownership and institutional obstacles in Asia, things will take time. However Hunt is optimistic it will happen. Over the past few years, activists in the SRI and corporate governance have learned a lot, and there is beginning to be a greater understanding of how to bring about better governance within companies. She admits that there is a lot to be still learned and it will probably involve some painful lessons, but in the end a global consensus and best practices will emerge on good governance in companies worldwide.

At the end of the day, some of these issues are just about good management. A number of leading Asian companies are already open to dialogue on governance and SRI issues. She feels that in many ways her experience to date “has been very encouraging. Awareness of good governance and the implementation of practices to facilitate this are already beginning to take place and some companies are confi-

dent to report on these issues too. However this is still far from the norm at the moment.

The lesson from Europe is that after companies are repeatedly asked what is their position on issues of corporate social responsibility, they then are happy to disclose such information to everybody.”



**Emma Hunt**

**Chandran Nair** might not be a tree hugger but he is certainly an activist at heart. “I have been an activist all my life,” says Nair. “I was a volunteer in South Africa for many years involved with the liberation movement during the apartheid period.”

Today, Nair dons a business suit but he is still staunchly committed to caring for the environment. However his role has changed from that of an activist brandishing placards on the street to advising corporations on how to manage their environmental resources. He is fairly upbeat on the attitude of businesses towards the environment, contrary to the views held by some green groups. Earlier this year when Walt Disney hastily completed an environmental impact assessment on Lantau Island, the site for a future Disneyland, environmentalists were up in arms. Nair brushes them aside. “The final outcome is that Disney passed. They may have done it in haste, but they met the requirements.”

His seemingly protective attitude of business does not mean he does not care. Nair owns a house in Malaysia which sits in the middle of a jungle ecological sanctuary.

**Chandran Nair** is the Chairman of ERM Asia-Pacific, a major environmental management organisation with over 80% of Fortune 500 companies as their clients. Nair is on the worldwide ERM management board. He directed a groundbreaking study on sustainability for the Hong Kong Government, SUSDEV21, which included the development of key indicators to measure progress within the Government to ensure a balance of the economic, social and environmental aspirations of the community. His views advocate that government and the business world can join forces for a better environment.

He claims that “one square foot of this jungle is more bio-diverse than Long Valley (a wetland in Hong Kong), but does it mean that we shouldn’t protect Long Valley?”

Nair also believes the Hong Kong government has done a lot to mitigate environmental pollution. “I came from a school of thought of not constantly criticising the government. I don’t want to play doom and gloom. I don’t think that is positive. It only creates more confrontation.”

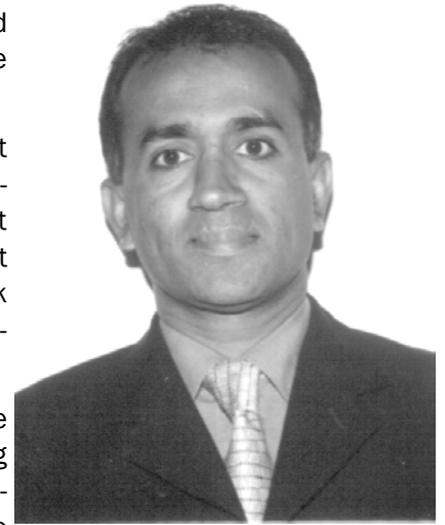
To outsiders, the government’s sustainable development agenda has been limping along without much achievement. However Nair believes they have done a good job in getting the message across. “Three years ago, hardly anyone knew about sustainable development, but now you do. It’s not easy to get a discourse like that going.” By the end of the year, every major government initiative will have to pass a sustainability impact assessment. “No other country has attempted the same thing as Hong Kong,” according to Nair.

The debate on whether Hong Kong has done enough to protect its living environment boils down to a political dilemma. “Who is going to pay the extra costs of

which is currently languishing. It is tied up in politics after the return of Hong Kong to the Chinese, A similar situation exists with regard to air pollution. “Legislators don’t want their voters to pay extra for clean air. Everyone wants clean air. Nobody wants to pay for it.” It might be fashionable to talk about recycling, but “we all live in a consumer-driven economy and lead wasteful lives.” “Recycling - where is the market in Hong Kong?” Nair asks.

Environmental quality is a reflection of political effectiveness he believes. “The environment is just a subset of a whole host of governance issues. When people say they suffer from the environment, they are actually suffering from poor governance. The environment is an outcome of a social and political situation.”

ERM works with political institutions. The company’s growth has been a reflection of rising public awareness and government dedication to clean up the territory. Starting with ten people in Hong Kong in 1990, ERM grew to 110 staff by 1998. It now has close to 500 people in the overall Asia Pacific region. With so many people to manage, Chandran now devotes much of his activism to the ERM cause.



## ASrIA RESEARCH

By Yulanda Chung

ASrIA commissioned a research project over summer 2001 to gauge market demand for SRI in Hong Kong, China and Taiwan.

Key findings are summarised and the full reports are available from ASrIA

## IS THERE A MARKET FOR SRI IN HONG KONG, TAIWAN AND CHINA?

To many, the perennial question for SRI is on the one hand we know people care about their environment, community and workplace welfare. However, are they willing to invest in line with their personal values? The Asian financial community seems reluctant to commit to SRI, because they think there is little demand. Is that true?

ASrIA commissioned a research project over summer 2001 to gauge market demand for SRI in Hong Kong, China and Taiwan. The research provides insights on the vast Greater China market. We believe Hong Kong is the most promising of the three given its affluent and educated population, a sophisticated market and rising awareness of environmental and social issues. China has a way to go, but there is a strong drive to promote high standards of corporate governance in the markets and the country could easily steal a march on the rest of the world once domestic investors become more experienced and affluent. Taiwan is a highly volatile market and the Taiwanese are active investors with strong views about environmental and community issues. SRI could spread like wildfire there.

The findings are based on existing surveys of people's views on various issues. We hope this study will prompt other institutions to undertake larger-scale and more comprehensive research.

To say that you don't want to offer SRI products to a market because it is ignorant of SRI is like telling a child not to go to school because he is illiterate. ASrIA believes Asia is a potential market waiting to be tapped, and the rewards will be more than just financial returns. The emergence of statutory pension provisions makes SRI even more relevant to these markets.

### Hong Kong

There is every reason to believe Hong Kong is ready for SRI, that more funds will emerge this year and that SRI is here to stay. While acknowledging the current economic downturn, we believe SRI presents a relatively stable, long-term investment opportunity.

In addition to considering further analysis of the Mandatory Provident Fund (MPF) and its market potential, our research also looks at public and corporate attitudes to environmental protection and the legislative drivers in Hong Kong. Key findings include:

- Hong Kong has a significant pool of workers in the caring professions, there are 3,435 charities and non-profits registered.
- Every working person earning HK4,000 (US\$513.60) a month or more is required to contribute 5% of their salary, matched by their employer, to the MPF.
- Hong Kong people want a cleaner environment, better labour relations and corporate governance.
- The Hong Kong Government, which has vowed to incorporate sustainable development into their policy making process, could also take the lead by offering their 182,000-strong civil service an SRI pension option.
- The number of SRI options at present is small. Hong Kong-based Kingsway Fund Management is the only MPF provider with an SRI option. The company applies SRI principles in the management of all its public funds. By the end of this year, it will launch another fund: SRI Active. Friends Ivory & Sime is waiting for authorisation from the Securities and Futures Commission to market its global SRI fund in Hong Kong.

### China

The finance industry in China is at an early stage, but it has the opportunity to leapfrog in areas such as corporate governance and environmental protection as it does not have the baggage of family-owned enterprises. State-owned enterprises dominate the business scene. Once the state is determined to change, reform is unstoppable. With WTO accession and the hosting of the Green Olympic Games, the state has a great incentive to reform.

The survey unlocks the myths that China is only interested in the “growth first, clean up later” development model.

Key findings include:

- The level of environmental awareness in China, especially in the cities, is high. Contrary to general perception, a high number of consumers are willing to pay a premium for socially responsible products and services.
- The caring professionals in China are poorly paid, therefore the retail market is unlikely to be a driver for SRI in the short term. Government support will be necessary and there are good signs that SRI is starting to be noticed. SRI has a long way to go before it establishes itself in China but the prospects are nevertheless bright.
- China has made considerable efforts to plant good corporate governance into its state-owned enterprises restructuring drive, which has the powerful sponsorship of senior government officials.
- Government blessing bolsters China’s growing fund industry. Open-ended funds were introduced in September 2001. The state is beginning to allow pension funds to purchase equities. The fundamentals are still being put into place. To educate investors on SRI while they are in their formative learning stage is the most effective strategy.

### TAIWAN

Taiwan has a rapidly changing economy and a growing fund industry although the fund penetration rate to investors remains relatively low. Many Taiwanese people are concerned about environmental trends and social justice. SRI funds could find a ready market as Nikko discovered in Japan in 1999.

Our survey looks at the size of caring professionals and religious groups, public opinion and the state of the mutual funds industry. Public attitudes on environmental and social issues are also examined in more detail.

Key findings include:

- Taiwan's religious communities are active in voicing their concern on government policies and social agendas.
- The government has been vigorously driving investment industry deregulation and Taiwan's mutual fund industry has grown at a compound annual growth rate of 39.94% over the past 17 years.
- The public is dissatisfied with their environment and are demanding the government promote "Industries of the Future".
- The impending release of public pensions for private management opens up opportunities for SRI.

**The summary presented here is only a snapshot of the three reports. The reports are freely available to Voting Members. If you are not a member and wish to obtain copies, please contact [yulanda@asria.org](mailto:yulanda@asria.org) +852 2982 1272.**

## ASrIA RESEARCH

By Donna Situ,  
August 2001

Companies are moving away from a business philosophy of simple cost-reduction to one based on adding true value to clients/customers.

## The Asian Workplace

At the start of 2001, as much as one-third of the world's workforce of three billion people are unemployed or underemployed. Among them, 20 million more workers are unemployed now than before the onset of the 1997 Asian financial crisis. At the same time, many Asian economies have weathered the financial troubles in the region with resilience and have emerged with marked signs of recovery. Coupled with the rise of the knowledge economy, companies throughout the world vie for global talent, and Asia again becomes an attractive marketplace for human capital.

The financial crisis has spurred companies to consider greater transparency, competitiveness, and liberalisation. It has forced enterprises to restructure and revise business strategies. One area of change is the perceived role of the workforce in the success of a company. Although manufacturing continues to be an area where Asia is very strong, companies are moving away from a business philosophy of simple cost-reduction to one based on adding true value to clients/customers. Both Asian and international employers are more committed now than ever before to investing long-term in their workforce. Many believe that competitiveness and success ride on a human resource strategy that equips people with skills and knowledge, allowing employees a range of options and the opportunity to be accountable to new ventures and ideas.

The gradual dismantling of trade barriers and the expansion of the market economy have created numerous new jobs for people everywhere. Yet globalisation has also brought about a host of issues for developed and developing countries: a gap between market and society; greater income disparity between the rich and the poor; widening polarity between urban and rural, and an increasing divide between those with and those without intellectual capital.

Governments in all major Asian economies now face the dilemma of maintaining a balance between the desire to attract potential employers with appealing investment opportunities and the need to contain the negative effects of globalisation and industrialisation on local workers' basic living and working conditions. The impact of the financial crisis has also intensified tension between unions and employers. As a result, regulations governing labor relations, workplace standards, working hours, wages, termination, and numerous other terms pertaining to employment practices are constantly re-evaluated and revised.

**The following table provides a list of some basic mandatory requirements for employers in a number of Asian countries.**

**DONNA SITU**, a founding advisor to ASrIA, is an independent research consultant with a regional focus on Asia. She has conducted social and environmental audits of Asian companies for the Global Care Asia Pacific Fund managed by NPI Asset Management (U.K.). She has also completed specialist reports on EU-China trade and investment for the Transnational Institute (Netherlands) and provided market entry research into mainland China through K.K. Yeung Consultancy (Hong Kong). Donna served as a policy analyst for the Hong Kong Legislative Council and the ICFTU in 1998.

## Mandatory/Statutory Employment Terms and Conditions

TERMS	AUSTRALIA	CHINA	HONG KONG	INDIA	JAPAN	KOREA	SINGAPORE	TAIWAN	THAILAND
<b>Minimum Wage</b>	Set by agreement	Set by region	None	Set by state/ sector	Set by region	W 421,490 per month	None	NT\$15,840 per month	Set by region
<b>Medical</b>	(Insurance)	6% of pay to <i>SS</i>	(Insurance)	4.75% of pay to <i>ESI</i>	4.25% of pay to <i>HIP</i>	3-8% of pay to <i>SS</i>	Part of <i>CPF</i> contributions	2.55% of pay to <i>NHI</i>	(Insurance)
<b>Retirement/ Pension</b>	8-9% of pay to <i>SUPER</i>	5-20% of pay to <i>SS</i>	5% of pay to <i>MPF</i>	11 % of pay to <i>EPF</i>	8.675% of pay to <i>EPI</i>	4.5% of pay to <i>NPP</i>	3.5-16% of pay to <i>CPF</i>	Minimum 2% ( <i>DE</i> )	On hold by gov- ernment
<b>Working Hours</b>	35-38 hours per week	40 hours per week	None	48 hours per week	40 hours per week	40 hours per week	44 hours per week	44 hours per week	48 hours per week
<b>Overtime</b>	50-100% premium	50-200% pre- mium	None	100-150% pre- mium	25-50% premium	50% premium	50-200% pre- mium	33-100% premium	50-200% premium
<b>Sick/ Short-term Disability</b>	5 – 8 days to 2 year	Set by contract	Day 5 – 6 months	Day 3 onwards	Day 4 – 18 months	None	First 14-60 days paid	Day 1 – 1 year	First 30 days paid
<b>Holidays</b>	9 (set by region)	10	12	Set by state	14	18	11	12	11 to 13
<b>Vacation</b>	4 weeks	Flexible regula- tion	7 – 14 days	12 days	10 – 20 days	10 – 20 days	7 – 14 days	7 – 30 days	6 days
<b>Maternity</b>	52 weeks (parental)	Set by province	10 weeks	12 weeks	14 weeks	12 months (unpaid)	8 weeks	56 days	90 days
<b>Disability</b>	<i>SUPER</i> coverage	(Insurance for TPD)	(Insurance)	(Insurance)	(Insurance)	(Insurance for TPD)	(Insurance)	(State benefits)	(Insurance)
<b>Workers' Comp</b>	Industry insurance	0.2-2.4% pay to <i>SS</i>	Compulsory in- surance	Industry insur- ance	0.6-13.4% pay to <i>SS</i>	0.2-21% of pay to <i>SS</i>	Compulsory in- surance	Payment of pre- mium	0.2-2.0% of pay to <i>SS</i>
<b>Termination Notice</b>	1 – 4 weeks notice/ pay	Set by contract	7 days' notice/ pay	1-3 months' notice	30 days' notice/ pay	30 days' notice	1 – 4 weeks' notice/pay	10 – 30 days' no- tice	At/before next payment
<b>Others</b>	Leave loading	% to unem- ployed	13 months' pay	Bonus & allow- ances	16 – 18 months' pay	16 – 18 months' pay	13 months' pay	13 – 14 months' pay	About 4.5% of pay to <i>SS</i>

Note: 1) SS = Social security; 2) DB = Defined benefit plan; 3) TPD = Total & Permanent Disability; 3) This table summarizes only the most basic minimum requirements; common market practice of providing company-sponsored benefit plans, which are not required by law, are indicated as (Insurance).

This table is an indication of policies in the region, and was correct as of spring 2001. It serves as an example only of the type of data or reports that ASRIA will be compiling in the future. Please note that some data may already have altered.

By Mishko Hansen

## SRI And The Pursuit of Economic Freedom

When thinking about the role of sustainable and responsible investment (SRI) in Asia, and particularly in markets like Hong Kong, it is natural to inquire into the relationship between SRI and the pursuit of economic freedom. Hong Kong has consistently been ranked as one of the world's freest economies, and is justifiably proud of this recognition. Governments of the region have been trying, with mixed success, to move towards more open economies in response to weaknesses made clear by the Asian crisis and the prolonged economic stagnation of Japan.

SRI implies attention towards environmental and social concerns that, in traditional free market thinking, are best addressed through the market itself. So it is not surprising that mainstream business would think that these issues should be divorced from investment considerations. But is this division necessary or even sensible? A central value in liberal economic thought is the right for people – within the confines of a basic legal structure – to do what they want with what they own. If they want to be environmentally friendly in how they live, or support social causes, they are free to do so. If they own a business, and want to make it a supportive place for employees and to focus on products that promote societal good, then that's their choice as well. And if they as shareholders in a public company want the company to pay more attention to SRI issues, it is their right to voice their concern and vote accordingly. To insist that investors should be required to divorce non-financial concerns (as traditionally conceived) from investment decisions, actually runs counter to the exercise of economic freedom.

It is true that SRI has its origins in promoting morality-based investment screens that catered to pacifists, environmentalists, religious groups and the like—and this is still the image that it has for many mainstream business people. However SRI now embraces a larger sphere. The connection with the past is an awareness

and acceptance that business and investment decisions, as well as government policy, profoundly affect the societies in which we live and breathe. Therefore, as market participants we have an obligation to sustain the basis of the market itself.

A growing number of people see these “big picture” questions as crucial for the enlargement of economic freedom on a global scale. For example, in his recent book “The Mystery of Capital”, Hernando de Soto argues passionately that capitalism cannot work without bringing the world's poor into legitimate legal and economic frameworks. This can only occur through a democratisation of capital that brings opportunity to the most disadvantaged of society. This has long been an important SRI issue, but it is also an issue for liberal economic thinkers, as testified by the endorsement of de Soto's book by Milton Friedman, Margaret Thatcher and others—a virtual who's who of liberal economic thinkers.

This suggests there is crossover between SRI issues and the issues that occupy proponents of increased economic freedom. Moreover, if we trace the philosophical roots of libertarian thinking, there is always an emphasis that the marketplace is not just a marketplace of commodities, it is also a marketplace of ideas. And it is this second role that gives the society the ability to really prosper. The ability to innovate and adapt, to carry on “experiments of living”, to bet on new ideas, these are increasingly seen as the cornerstones of economic growth. But what is SRI, if not a new way of thinking about prosperity and sustainability, which is competing with numerous other views? There are parts of SRI thinking that may make sense, some that may not, but it is imperative for defenders of economic freedom to engage with this thinking. They need to try to understand it, and try to rebut it and improve it. Where freedoms are lost is in the refusal to encounter other points of view, and they are gained in the dynamic interplay of minds, money and the moving of the world.



## SUSTAINABLE & RESPONSIBLE INVESTMENT IN ASIA

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For many people, SRI related issues are an integral part in enlarging and enhancing economic freedom. Freedom is constrained without some concept of democracy, without some concept of justice, without checks and balances, and without meaningful alternatives from which to choose. Sustainability can be viewed negatively, as an undefined concept that will only place costs on companies. And there is that danger. But our civilisation, our economy, our lives, do need sustaining. The question is how best to do that.

SRI assumes that dialogue on environmental and social issues is part of that. Responsibility is not only caring for others, respecting justice and the like, but also the active promotion of the freedoms that we cherish. SRI, though comprised of a markedly diverse group of ideas and institutions, collectively represents a shift in thinking and practice that has the potential to solidify and increase the value of economic freedom on a global basis.

By Mishko Hansen

## Sustainability and September 11th

**Sustainability is a central concept for the socially responsible investment movement. But what exactly does sustainability mean? Often it is thought of in terms of environmental parameters. The classic definition of sustainable development is that it “meets the needs of the present generation without compromising the ability of future generations to meet their needs”, and this usually invokes images of balancing the need for current jobs and consumption with the preservation of the ecological base to support future livelihoods.**

However sustainability is a much broader concept, one that points towards a potentiality, rather than any defined form or end state. It is the “ability to sustain” life, cultures, ecologies, and webs of meaning. There is no single answer to the challenge of sustainability, no single approach or system because the world is complex and ever changing. However, in the background of all efforts to maintain the possibilities of the future is the ever present spectre of war and violence. As Tony Fry, the head of the Sydney-based Eco-Design Foundation and himself a former member of the military points out, “war is the ultimate form of the unsustainable because it is predicated on a negation of life and a removal of futures on a mass scale.”

The tragic events of September 11<sup>th</sup> and the continuing aftershocks remind us that peace is the basic ground of sustainability. SRI has always recognised that there can be no sustainability without peace, but current global tensions and armed conflict call for a greater and wider effort to address the roots of hatred, powerlessness, and hopelessness. According to Barbara Krumsiek, CEO of U.S. based Calvert Group, September 11<sup>th</sup> has re-focused attention on a range of

pressing and interrelated problems and issues around the world. She feels that the social investing community “provides a positive influence on financial markets by combining investment returns with social issues. So while we do not represent any sort of comprehensive world view of the issues and the challenges different nations are grappling with in the wake of September 11<sup>th</sup>, we feel our mission is, if anything, more highly relevant.”

Her views are echoed by Connie Takamine, the Treasurer of the Women’s Division of the United Methodist Church. For her, “September 11<sup>th</sup> shows that there is a lot of resentment around the world against the west dictating what the world should be. Some people have termed it a clash between modernism and traditional values, but modernism is being defined as really western, and if you don’t fit that you’re not in the real world. I think we have to find a way to incorporate other cultural values. I think we know that the SRI movement has to recognise that there are some different values, and though we may want the same kind of final outcomes, the path may be different.”

I was at the SRI in The Rockies Conference in Arizona on September 11<sup>th</sup>. The event was a terrible shock to everyone, but as the trauma began to sink in, people began to look towards the future. The feeling was one of great sadness, but also of one of grappling with why this happened, and a determination to not let it happen again. SRI has long been saying that there is no power without responsibility, that economic systems are not value free. Owing to the incredible impact and reach of finance, its effects need to be understood and directed to creating a more peaceful and just world.

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