

# Application and Impact of ESG Investments in the Pacific

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**Abstract.** This paper explores the application and impact of ESG investments in the Pacific. It first introduces the basic concepts, principles and classification methods of ESG investment, and then analyses the economic and environmental characteristics of the Pacific region and the sustainable development challenges it faces. The practical application and impacts of ESG investment in the region are discussed in detail, including the promotion of corporate performance, market competitiveness, social responsibility and environmental protection. At the same time, the challenges facing ESG investment are analysed and future development trends and policy recommendations are presented, emphasising the key role of cross-border cooperation and technological innovation in promoting the sustainable development of ESG investment.

**Keywords:** ESG investment, Pacific, sustainable development, CSR.

## 1. Introduction

In recent years, environmental, social and governance (ESG) factors have attracted a lot of attention in the global investment community. ESG investment focuses not only on financial returns, but also on corporate performance in environmental protection, social responsibility and corporate governance. This investment philosophy is gradually becoming mainstream, especially in addressing climate change, social inequality and corporate governance issues, and ESG investment is seen as an important way to promote sustainable development<sup>[1]</sup>. The unique geography and economic environment of the Pacific, as a diverse collection of economies, makes ESG investment of particular importance in the region. It encompasses both developed countries, such as Australia and New Zealand, as well as a number of developing countries and small island states, which have different needs and pressures in facing environmental change and sustainable development challenges. This thesis will explore the application of ESG investments in the Pacific, analyse their impact on the regional economy, society and environment, and propose future trends and policy recommendations. By providing insights into ESG investment practices in the Pacific, we hope to reveal their potential and challenges in promoting sustainable development.

## 2. Overview of ESG investments

### 2.1. Basic Concepts and Principles of ESG Investing

ESG investment is an investment philosophy that incorporates Environmental, Social and Governance (ESG) factors into the investment decision-making process. Compared with traditional investment approaches, ESG investment not only focuses on financial returns, but also emphasises the performance of companies in terms of sustainable development. Environmental factors include climate change, resource management, pollution prevention and biodiversity conservation; Social factors relate to employee relations, human rights, community impact and product responsibility; and Governance factors cover corporate governance structure, board composition, business ethics and shareholder rights.

The basic principles of ESG investment can be summarised as follows: firstly, the principle of integrity, i.e. systematic consideration of ESG factors in investment analysis and decision-making;



secondly, the principle of responsible investment, whereby investors are required to undertake certain social responsibilities and moral obligations in their operations; thirdly, the principle of long-term value, whereby ESG investment focuses on the long-term sustainable development and stable returns of an enterprise; and lastly, the principle of transparency and disclosure, whereby the requirement of enterprises to disclose ESG-related information to enhance investors' understanding of the enterprise's sustainable development capability.

ESG investments guided by these principles not only help investors assess risks and opportunities more comprehensively, but also promote improvements in environmental protection, social responsibility and corporate governance, thereby achieving harmonious development of the economy, society and the environment.



**Figure 1** Basic Concepts and Principles of ESG Investing

## 2.2. Classification and methodology of ESG investments

ESG investing can be categorised into a number of categories and specific practices based on their strategies and methodologies. The main categories include negative screening, positive screening, ESG integration, thematic investing and impact investing.

Negative screening is one of the earliest approaches to ESG investing by excluding companies or industries that have poor environmental, social or governance performance, such as the tobacco, arms and fossil fuel industries. This approach ensures that the companies in the portfolio meet specific ethical and value standards. Positive Screening, in contrast, selects companies for investment that are leaders in ESG performance<sup>[2]</sup>. Using a range of ESG criteria, investors select companies that excel in environmental protection, social responsibility and corporate governance with the expectation that these companies will generate better financial returns over the long term. ESG Integration is the systematic incorporation of ESG factors into traditional financial analyses and investment decision-making processes. This approach evaluates not only financial metrics, but also considers the sustainability risks and opportunities of a business, resulting in a more holistic investment decision. Thematic investing focuses on specific ESG themes or topics, such as clean energy, water management or social inclusion. This approach typically selects industries or companies to invest in that relate to specific sustainability goals. Impact investing, on the other hand, seeks to achieve

specific social or environmental goals while generating financial returns through investments. This approach emphasises a double return on investment, whereby financial returns are pursued while positive social or environmental impact is actively created.

### **3. Economic and environmental characteristics of the Pacific**

#### **3.1. Overview of major economies**

The Pacific region encompasses a number of economically important countries and territories, each with distinctive characteristics in terms of economic structure, resource endowment and stage of development. Australia is the largest economy in the region, known for its rich mineral resources and highly developed service sector, and its financial markets are globally influential. New Zealand, on the other hand, has agriculture and tourism as its mainstays, with particular strengths in dairy exports and natural landscape tourism. In addition to these two developed countries, the Pacific region also includes many small island countries such as Fiji, Papua New Guinea and the Solomon Islands. These countries have a relatively homogenous economic structure, often relying on agriculture, fisheries and tourism, while facing the challenges of weak infrastructure and frequent natural disasters<sup>[3]</sup>. In South-East Asia, part of the Pacific region also encompasses fast-growing emerging economies, including Indonesia and the Philippines. These countries have large population bases and fast-growing middle classes, fuelling the rapid expansion of manufacturing and services. In addition, Japan and the Republic of Korea, as important Asian economies and global leaders in technological innovation and industrial manufacturing, have a significant influence on the regional economy.

#### **3.2. Environmental issues and sustainable development challenges**

The Pacific region faces a range of serious environmental issues and sustainable development challenges. Climate change was the primary issue, with sea-level rise and frequent extreme weather events posing an existential threat to many small island States. Island States such as Fiji, Tuvalu and Kiribati are facing problems of land erosion, saltwater intrusion and infrastructure destruction that not only affect the quality of life of their inhabitants but also threaten the very existence of their countries. In addition, biodiversity loss and ecosystem degradation are important environmental challenges in the Pacific. Massive deforestation, overfishing and marine pollution have led to the extinction of many species and the destruction of ecosystems. In Papua New Guinea and the Solomon Islands in particular, illegal logging and overexploitation of resources have increased ecological vulnerability. These problems are further exacerbated by the unbalanced use of resources in the process of economic development and inadequate environmental protection. Accelerated industrialisation and urbanisation have led to air pollution, water scarcity and waste management problems. Emerging economies such as Indonesia and the Philippines, despite rapid economic growth, are under tremendous pressure to achieve sustainable development. Against this backdrop, promoting sustainable development has become an important task for countries in the Pacific<sup>[4]</sup>. Countries need to strengthen environmental governance, promote green economic transformation and implement effective resource management and environmental protection policies. At the same time, international cooperation and assistance played a key role in helping those countries to address environmental challenges and achieve sustainable development goals.

### **4. ESG investments in the Pacific region**

#### **4.1. Key ESG investment trends and practice examples in the Pacific region**

In recent years, ESG investments in the Pacific have shown rapid growth. Countries have been incorporating ESG factors into investment decisions to address environmental, social and governance challenges. In Australia, the scale of ESG investment has grown by more than 50 per cent over the past five years to reach A\$200 billion by 2023. According to statistics, about 80 per cent of Australian Stock Exchange (ASX) listed companies have included ESG reports in their annual reports. New

Zealand is also actively promoting ESG investment, particularly in the areas of renewable energy and green buildings. The New Zealand Superannuation Fund (NZSF) has allocated 40 per cent of its portfolio to ESG-related assets and has a significant position among global green investment funds. In small island states, such as Fiji, governments and international agencies have partnered to promote green bond issuance to raise funds for sustainable development projects. In 2022, Fiji issued its first FJD100 million (\$50 million) green bond, with the funds going primarily to renewable energy and climate adaptation projects. Developed countries such as Japan and South Korea are also accelerating the pace of ESG investments. Japan's Government Pension Investment Fund (GPIF), one of the world's largest public pension funds, has incorporated ESG considerations into all of its investment decisions, with more than \$1.7 trillion in assets under management. South Korea's National Pension Service (NPS) has also increased the proportion of ESG assets in its portfolio, with a particular focus on clean energy and sustainable infrastructure projects. These practical examples show that ESG investment in the Pacific is gaining traction, with countries actively promoting the SDGs through policy guidance, market incentives and international co-operation. These trends and cases not only provide new opportunities for investors, but also inject new vigour into the sustainable development of the regional economy.

#### **4.2. ESG integration of companies and investors**

Companies and investors in the Pacific have made significant progress in ESG integration. Large Australian and New Zealand companies are integrating ESG standards into their operations and strategic decisions. More than 75 per cent of the top 100 companies on the Australian Stock Exchange (ASX) have published detailed ESG reports and established dedicated ESG committees. For example, Australian mining giant BHP Billiton (BHP) is committed to reducing its carbon emissions and plans to reduce greenhouse gas emissions from its operations by 30 per cent by 2030. In New Zealand, leading dairy company Fonterra has introduced stringent ESG standards in its supply chain management, with the goal of achieving net-zero carbon emissions by 2050. Fonterra is also working with local farmers to promote sustainable agricultural practices and reduce the negative environmental impacts of farming. Companies in smaller island nations such as Fiji and Vanuatu are also moving towards ESG integration. Energy Fiji Limited (EFL) has implemented a series of renewable energy projects and plans to achieve 70 per cent of its electricity from renewable sources by 2030. The company is also actively involved in community development projects to enhance the quality of life of local residents. On the investor side, institutional investors in the Pacific have also shown a positive attitude towards ESG integration. Australia's sovereign wealth fund, the Future Fund, has incorporated ESG considerations into its portfolio management, with more than A\$200 billion in assets under management<sup>[5]</sup>. The New Zealand Superannuation Fund, on the other hand, has made ESG a core part of its investment strategy, with ESG investments accounting for more than 40 per cent of its total portfolio.

In addition, pension funds in Japan and South Korea are also actively promoting ESG investments. Japan's Government Pension Investment Fund (GPIF) has made ESG investments an important part of its US\$1.7 trillion in assets. South Korea's National Pension Service (NPS), on the other hand, incorporates ESG factors into its investment decisions and manages more than \$70 billion in ESG-related assets<sup>[6]</sup>. The activism of these companies and investors demonstrates the Pacific's continued progress in ESG integration, driving the region's transition to a more sustainable and responsible economic model.

### **5. Impact of ESG investments in the Pacific region**

#### **5.1. Impact of ESG investments on firm performance and market competitiveness**

ESG investments have had a significant positive impact on business performance and market competitiveness in the Pacific. Studies have shown that companies that incorporate ESG criteria typically exhibit greater financial stability and long-term growth potential. For example, according to

an MSCI study, companies in Australia and New Zealand that have implemented ESG strategies have improved their average shareholder returns by more than 15 per cent over the past five years. These companies have significantly enhanced their market competitiveness by reducing operational risk, improving resource efficiency and attracting investors<sup>[7]</sup>. In Australia, BHP Billiton (BHP), through its comprehensive ESG strategy, has not only reduced its environmental risks, but also attracted more investment from ESG funds and increased its stock market capitalisation by 10 per cent in 2023. Similarly, New Zealand's Fonterra has won international recognition for its efforts in sustainable agriculture and carbon reduction, increasing the share of its products in the global market year on year. Small island countries such as Fiji have also improved their competitiveness in the international market by implementing ESG strategies<sup>[8]</sup>. By increasing the proportion of renewable energy, the Fiji Electricity Company (Energy Fiji Limited) has not only reduced its energy costs, but also gained support from the International Green Fund, which has further strengthened its market position. In addition, ESG investments have enhanced the company's brand reputation and employee satisfaction. Corporate activism in social responsibility and environmental protection increases consumer trust and loyalty. For example, Westpac in Australia has seen a 15 per cent increase in customer satisfaction as a result of its excellence in social responsibility and sustainability.

## **5.2. ESG Investments for Social Responsibility and Governance**

ESG investments have contributed significantly to corporate social responsibility and governance practices in the Pacific. By incorporating social and governance considerations into investment decisions, enterprises have become more proactive and transparent in areas such as employee welfare, community development and corporate governance. In the area of social responsibility, many enterprises have taken concrete actions to improve employee welfare and community relations. For example, Australia's BHP Billiton (BHP) has implemented a number of employee health and safety programmes and has reduced its workplace accident rate by 20 per cent over the past five years. In addition, the company is actively involved in community development projects, donating A\$50 million in 2023 to local communities for the improvement of education and healthcare facilities.

For its part, Fonterra in New Zealand has strengthened its partnership with the community by supporting local farmers and promoting sustainable agricultural practices. Fonterra not only supports farmers financially, but also provides technical training to help them adopt more environmentally friendly production methods, enhancing the sustainability of agricultural production. In terms of corporate governance, ESG investments have driven improvements in corporate transparency and accountability. Many companies have established independent ESG committees to monitor and report on ESG performance<sup>[9]</sup>. Westpac in Australia, for example, has introduced stricter compliance and risk management measures into its governance structure, ensuring greater transparency and stronger internal controls.

Enterprises in Korea and Japan have also made significant progress in corporate governance. South Korea's Samsung Electronics has upgraded its governance by improving its board structure and increasing the proportion of independent directors. Toyota Motor in Japan, on the other hand, has strictly monitored its supply chain management by introducing an ESG scoring system to ensure that its suppliers are also compliant with ESG standards.

## **5.3. Effectiveness of ESG investments in promoting environmental protection and sustainable development**

ESG investments have been effective in promoting environmental protection and sustainable development in the Pacific. By introducing environmental considerations, investors encourage businesses to adopt greener production methods and resource management practices that reduce carbon emissions, conserve biodiversity and optimise resource use. In Australia and New Zealand, ESG investments have driven many companies to implement renewable energy projects and energy efficiency improvements. For example, Australia's BHP Billiton (BHP) has successfully reduced its greenhouse gas emissions through the adoption of cleaner technologies and energy efficiency

measures and has set a target of a further 25 per cent reduction by 2025. Similarly, Fonterra in New Zealand has made significant progress in reducing the carbon footprint of dairy production by investing in clean energy and innovative solutions to reduce packaging waste.

ESG investments help small island nations such as Fiji and Vanuatu, which face serious problems such as climate change and marine pollution, to promote environmental protection policies. Energy Fiji Limited (EFL) actively promotes renewable energy projects to reduce dependence on fossil fuels and boost the economy of local communities. Companies in Japan and South Korea have also demonstrated significant achievements in environmental protection. Toyota Motor in Japan is committed to reducing carbon emissions from its vehicles by promoting the development and sale of electric and fuel cell vehicles. Samsung Electronics of South Korea, on the other hand, has made outstanding progress in green supply chain management, reducing the environmental impact of its production processes by promoting energy-saving and resource-waste-reducing technologies.



**Figure 2** Effectiveness of ESG investments in promoting environmental protection and sustainable development

## 6. Challenges and prospects

### 6.1. Challenges for ESG investment in the Pacific region

While ESG investments are showing growth and progress in the Pacific, some important challenges remain. First, the issue of inconsistent disclosure and data quality is a key barrier. Many small and emerging market companies lack standardisation and transparency in ESG data collection and reporting, making it difficult for investors to assess their ESG performance. Second, the Pacific region has a diverse policy and legal environment with varying ESG standards and regulatory requirements. This fragmented and inconsistent regulatory environment increases compliance costs and risks for companies, while also restricting the development of ESG investments. Third, the lack of professional ESG investment talent and technical support is a common problem. Many investors and companies lack sufficient internal capacity to effectively implement and manage ESG strategies, which limits the scale and depth of ESG investments.

In addition, there are differences in investor understanding and acceptance of ESG standards and methodologies, and some investors may be more concerned with short-term financial returns and ignore the long-term value of ESG factors. This lack of cognitive and cultural shift may reduce the attractiveness and impact of ESG investments.

### 6.2. Future Development Trends and Policy Recommendations

Going forward, ESG investments in the Pacific face a trend of diversification and deepening. First, ESG investment is expected to continue to expand its market share as investor demand for sustainable

development increases. Governments can enhance market transparency and stability by developing more stringent and consistent ESG regulatory frameworks, while promoting the inclusion of more companies in ESG standards. Second, technological innovation will drive ESG investment. Artificial intelligence, big data analytics and blockchain technology will be widely used in ESG data collection, assessment and monitoring to improve data quality and real-time performance, reduce information asymmetry, and provide investors and companies with more accurate assessments of ESG performance. Third, cross-border co-operation and the promotion of international standards will have a significant impact on ESG investment in the Pacific. Strengthening inter-regional and global cooperation and promoting the integration of and dialogue on ESG standards will help attract more international investors to the region, while enhancing the international competitiveness of companies in the region.

Policy recommendations include establishing a more uniform and transparent ESG standards and reporting framework, as well as providing more ESG training and education to strengthen corporate and investor awareness and capabilities. Governments can encourage companies to adopt environmental, social responsibility and good governance practices through incentives and tax incentives to promote the healthy development of the overall ESG investment market.

## 7. Conclusion

The application and impact of ESG investments in the Pacific has demonstrated significant results and potential. By integrating environmental, social and governance factors, ESG investments not only promote sustainable development and market competitiveness of enterprises, but also facilitate the practice of social responsibility and the promotion of environmental protection. Practical examples from Australia, New Zealand and island countries such as Fiji show that by adopting ESG standards, companies are able to achieve better financial performance and higher investor recognition in the market. However, ESG investing still faces diverse challenges in the Pacific, including inconsistent data quality, fragmented regulatory environments, and talent shortages. In order to further promote ESG investment, there is a need to strengthen cross-country co-operation, promote the integration of international standards, and enhance data transparency and investor education to address global and regional environmental challenges.

Future trends show that ESG investment will become more popular and deepened by technological innovation, and policy support and incentives will play a key role in the market. It is recommended that governments focus on cross-sectoral collaboration when formulating ESG-related policies, and develop a more consistent and effective regulatory framework, while incentivising companies to actively adopt ESG standards, so as to promote a win-win situation for both economic growth and sustainable development.

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