Sustainability at the Crossroads: ESG Pathways in ASEAN's Emerging Economies

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ABSTRACT

This conceptual paper critically examines the evolution and implementation of Environmental, Social and Governance (ESG) frameworks across selected ASEAN countries namely Malaysia, Indonesia, Vietnam and Thailand through a qualitative comparative analysis. The study aims to uncover the structural, institutional and policy-driven dynamics shaping ESG practices within the region, highlighting both progress and persistent challenges. Findings reveal Thailand as the regional frontrunner, driven by its integrated Bio-Circular-Green (BCG) Economy model that embeds sustainability into national policy and industry strategy. Malaysia and Indonesia possess relatively well-established regulatory frameworks, yet continue to face persistent challenges in enforcement, corporate readiness and stakeholder participation. Vietnam, on the other hand, demonstrates strong governmental commitment but slower adoption at the corporate level, largely due to limited institutional capacity and awareness. The comparative analysis underscores that ASEAN's collective progress in advancing ESG principles depends on harmonizing regional standards, strengthening institutional capacity and enhancing corporate governance mechanisms. Common challenges across the region include insufficient technical expertise, inconsistent policy enforcement and high compliance costs, all of which continue to constrain the effective and widespread adoption of ESG practices. The paper argues that regional collaboration, knowledge sharing and capacity-building initiatives are essential to bridge the gap between policy and practice. Ultimately, the study contributes to a deeper understanding of ASEAN's ESG trajectory and highlights the need for cohesive strategies to position the region as a sustainable and resilient economic bloc in the global landscape.

Keywords: Sustainability, ESG, ASEAN, Comparative Analysis, Bio-Circular-Green Economy

INTRODUCTION

Over the past decade, the concept of the green investment (GI) model has gained significant traction, driven by regulatory bodies to raise awareness, enhance accountability, and promote sustainability across organizations. This model shifts the traditional corporate objective from maximizing shareholder value towards integrating social responsibility, ethical practices, moral considerations, environmental stewardship, and social welfare (Chen et al., 2024; Cunha et al., 2020). The GI framework aligns closely with contemporary approaches to sustainable development, embedding sustainability principles into organizational operations and objectives to better meet stakeholder expectations (Bei et al., 2023). Furthermore, the GI model has served as a foundational

pillar for the evolution of the ESG paradigm observed today. ESG refers to the environmental, social, and governance factors, that are the main components for a company to assess its operation's impact on the broader society and key to its sustainability in the future (Rau et al., 2023). In addition to the impact of the GI model on ESG, the United Nations Environment Program's introduction of ESG as a primary criterion for investment decision-making in late 2006 under the Financial Initiatives has also contributed to the importance of ESG over the years.

Berg et al., (2022) defines environmental as evaluation on organizations in ensuring the sustainability of nature, including its energy use, waste, pollution, natural resource conservation and treatment towards other creatures. In relation to society, it examines the organization's relationship with its stakeholders such as employees, customers, supplies and communities. This includes broader issues such as employees' working conditions and their operation impact towards communities. Governance on the other hand represents the management of the organizations itself such as company leadership, executive pay, audit, internal controls and shareholders rights. All components of ESG served as comprehensive factors and measurement in accessing organizations ethical impact and sustainability practices (Berg et al., 2022).

The adoption of the United Nations Sustainable Development Goals (SDGs) in 2015 significantly accelerated the push for organizations to integrate ESG principles into their operations. This momentum was further reinforced by global initiatives such as the Principles for Responsible Investment (PRI, 2016) and the United Nations Environment Programme (UNEP, 2019). ESG has since evolved beyond a mere academic discourse or a successor to the Corporate Social Responsibility (CSR) era, emerging as a comprehensive framework for promoting corporate accountability and sustainable business practices. Previous studies (Neshat et al., 2022; Zoo et al., 2017) have highlighted persistent gaps, indicating that the quality of information disclosed by many organizations remains inadequately aligned with CSR objectives and initiatives. Today, ESG serves as a key benchmark for stakeholders to assess whether organizations are genuinely committed to environmental protection, social well-being, and sound governance while conducting their business activities (Gosling & Walkate, 2024; Matos, 2020).

A pivotal milestone was achieved in 2014 when the European Parliament, through the Non-Financial Reporting Directive (IASPLUS, 2014) in collaboration with governments worldwide, established ESG as a central element in promoting transparency and advancing corporate sustainability. The integration of diverse ESG dimensions ranging from climate policy alignment and governance regulations to the management of non-renewable resources and waste has created a cohesive framework influencing organizational actions toward key stakeholders (Konys, 2018; Pradhan et al., 2025). As a result, the adoption of ESG reporting has enhanced organizational accountability and transparency in achieving sustainability objectives, including equitable resource allocation and environmental protection (Aworunse et al., 2023; Eccles et al., 2014; Konys, 2018). Furthermore, ESG reporting has positively shaped investor and stakeholder perceptions, strengthening corporate reputation and disclosure practices (Arif et al., 2021).

In the ASEAN context, rising expectations from key stakeholders have positioned ESG as a strategic priority for governments, forming a central agenda to enhance CSR reporting practices. The integration of ESG principles into CSR is driven by both stakeholder influence and regional leadership, as evidence suggests that this alignment positively impacts corporate financial performance, enhances reputation, and strengthens long-term sustainability (Moneva-Abadía et al., 2019; Abu Afifa et al., 2023; Mooneeapen et al., 2022; Albitar et al., 2020). To support this shift, the Sixth ASEAN State of the Environment Report (2023) was introduced as a reference framework to guide ESG integration in corporate reporting and to address disparities in stakeholder expectations, which often stem from differences in cultural norms, levels of economic development, and regulatory environments (Al Amosh & Khatib, 2023; Liu et al., 2023; Pozzoli et al., 2022; Said & ElBannan, 2024).

LITERATURE REVIEW

The processes of urbanization and industrialization in developing Southeast Asian nations, namely Malaysia, Indonesia, Vietnam, and Thailand, have accentuated the critical need for effective management of unsustainable resource exploitation, ecosystem degradation, biodiversity loss, waste generation, and climate change. In response, the governments of these countries have initiated measures to address these pressing environmental challenges. This commitment is underscored in the Association of Southeast Asian Nations ASEAN State of the Environment Report (Sixth Edition, 2023), which delineates strategic approaches aimed at mitigating the profound environmental threats arising from rapid industrial expansion that jeopardize public health, agricultural productivity, and food security across the region. The Sixth ASEAN State of the Environment Report (2023) employs the Drivers-Pressures-State-Impacts-Response (DPSIR) framework to systematically analyze environmental challenges across ASEAN member states. The report's central objective is to provide a structured examination of the region's environmental landscape, focusing on critical issues such as climate change, biodiversity conservation, sustainable urban development, and the transition toward a circular economy.

In addition, the report outlines strategic approaches aligned with global multilateral frameworks, including the Sustainable Development Goals (SDGs) and the Paris Agreement, positioning itself as a policy-oriented tool to guide regional environmental governance. Beyond setting strategic directions, it also provides valuable insights into emerging environmental trends and underscores the importance of regional cooperation in addressing environmental degradation across ASEAN. Moreover, the majority of ASEAN member states have acknowledged the necessity of collective action to advance sustainable development through the adoption and implementation of harmonized environmental, social, and governance (ESG) standards. This commitment is underscored in the ASEAN State of the Environment Report (Sixth Edition, 2023), which delineates strategic approaches aimed at mitigating the profound environmental threats arising from rapid industrial expansion that jeopardize public health, agricultural productivity, and food security across the region.

Across Southeast Asia, the push for sustainability is no longer just a policy goal; it's becoming a financial reality. Carbon markets and sustainable finance are emerging as powerful tools to help ASEAN countries meet their climate commitments while attracting responsible investment. Take Vietnam, for example. In 2025, the government launched a pilot Emissions Trading Scheme (ETS), targeting heavy-emitting industries like steel and cement. This isn't just a trial run; it's the first step toward building a nationwide carbon market by 2029, designed to help Vietnam transition to a low-carbon economy (ICAP, 2025; Enerdata, 2025). Indonesia is also making strides. Its commitments under the Paris Agreement have led to stronger carbon pricing policies, and the government is weaving these efforts into its broader sustainable finance roadmap.

Sustainable finance, meanwhile, is reshaping how capital flows in the region. Thailand's Bio-Circular-Green (BCG) model is a standout example. Between 2021 and 2024, green investment in Thailand jumped from 16% to 24% of GDP,a clear sign that sustainability is becoming central to economic planning (Bangkok Post, 2024). Indonesia's Financial Services Authority (OJK) has gone even further, requiring all listed companies to submit sustainability reports and develop ESG-linked financial plans. Their Sustainable Finance Roadmap Phase II (2021–2025) aims to build a full ecosystem—from policy support and product innovation to skilled human capital (OJK, 2021).

These efforts are backed by regional frameworks like the ASEAN Taxonomy for Sustainable Finance, which helps define what counts as "green" and guides investors toward environmentally sound projects (ASEAN, 2023). But challenges remain. Many companies still struggle with limited technical expertise, fragmented regulations, and the high cost of compliance. That's why regional coordination, especially around carbon market interoperability and ESG standards, is so crucial.

In short, ASEAN's journey toward sustainability is gaining momentum. Carbon markets are creating new incentives to cut emissions, and sustainable finance is unlocking capital for green growth. Together, they're not just helping countries meet climate goals, they're reshaping the future of business in Southeast Asia.

Given the region's economic complexity, ASEAN cannot overlook the imperative of ESG, and its effective implementation relies on coordinated efforts from governments, businesses, and civil society. While CSR traditionally emphasized an organization's obligations to stakeholders, communities, and the environment, ESG extends beyond these considerations, reshaping conventional business practices and establishing itself as the prevailing benchmark for corporate accountability (Saleh et al., 2023; Van et al., 2025). Increasingly, businesses recognize the importance of adopting ESG frameworks, as they enable external stakeholders to influence and encourage more ethical, transparent, and responsible practices across ASEAN economies (Nguyen et al., 2023; Srouji et al., 2023; Abu Afifa et al., 2023).

RESEARCH METHODOLOGY

This study takes a qualitative and conceptual approach, focusing on how ESG has developed in Malaysia, Indonesia, Vietnam, and Thailand. Instead of collecting primary data, the paper relies on a review of existing

sources such as government policies, official reports, stock exchange guidelines, international frameworks, and peer-reviewed studies. This method is well suited for a concept paper, as the aim is not to test hypotheses but to bring together different perspectives and provide a comparative understanding of ESG in ASEAN.

A comparative case analysis was used to examine the four countries. Each case was explored through three key lenses: (1) how earlier CSR practices shaped the path toward ESG, (2) the role of regulations and institutions in supporting ESG adoption, and (3) the challenges and future directions faced by each country. At the same time, global influences such as the United Nations Sustainable Development Goals (SDGs), the Paris Agreement, and international reporting standards (GRI, TCFD) were considered, since these global frameworks strongly shape national policies and corporate practices.

To ensure balance, the study applied data triangulation by cross-checking policies with academic research and reports from key institutions like Bursa Malaysia, Otoritas Jasa Keuangan (OJK), the Vietnam Exchange (VNX), and the Stock Exchange of Thailand (SET). This helped reduce bias and provided a clearer, more reliable picture of ESG development.

Conceptual and comparative design is especially useful in the ASEAN context, where ESG is still new and standardized data is limited. By drawing together what is already known, this approach highlights both regional similarities and national differences. It also offers a strong foundation for future research and policymaking, showing where each country stands and where improvements are most needed. The Stakeholder-Inclusive Impact Strategy (SIIS) offers a practical and ethical lens through which the social pillar of ESG can be understood and implemented, particularly in the ASEAN context. Unlike traditional CSR models that often focus on philanthropic gestures, SIIS emphasizes a deeper integration of stakeholder voices into corporate decision making. It begins with stakeholder mapping and identifying all groups affected by a company’s operations, including employees, local communities, suppliers, and vulnerable populations. From there, it promotes inclusive engagement, ensuring that these stakeholders are not only consulted but meaningfully involved in shaping policies and practices. Crucially, SIIS also calls for measurable impact, using indicators such as employee well-being, community investment, and supply chain equity to assess social performance. This approach aligns with the United Nations Sustainable Development Goals (SDGs), particularly those related to decent work, reduced inequalities, and strong institutions (UNDP, 2023). In ASEAN, where social disparities and informal labour markets are prevalent, SIIS provides a framework for companies to move beyond compliance and toward genuine social accountability. For instance, in Indonesia and Vietnam, where ESG adoption is still maturing, SIIS can guide firms in building trust with local communities and addressing social risks that might otherwise be overlooked (Nguyen et al., 2024; Gunawan et al., 2022). By embedding stakeholder perspectives into ESG strategies, SIIS not only enhances social outcomes but also strengthens long-term business resilience and legitimacy.

Conceptual Framework

The conceptual framework for this paper positions Corporate Social Responsibility (CSR) as the foundation from which Environmental, Social, and Governance (ESG) practices have emerged. CSR in ASEAN was initially voluntary and philanthropic in nature, but global developments—such as the United Nations Sustainable Development Goals (SDGs), the Paris Agreement, and international reporting standards like TCFD—have accelerated the shift toward ESG, which provides a more structured and measurable framework.

At the regional level, ASEAN countries share common features in their ESG journeys. Governments and regulators play a central role in pushing disclosure and reporting practices, while companies face similar struggles with limited expertise, high compliance costs, and difficulties aligning with multiple frameworks. These similarities illustrate a shared regional challenge: balancing rapid economic growth with sustainability demands.

At the national level, each country demonstrates unique approaches. Malaysia built its ESG development on a strong CSR foundation, Indonesia emphasized regulatory mandates, Vietnam pursued government-led strategies but saw weak corporate adoption, and Thailand created the Bio-Circular-Green (BCG) model as an integrated national approach. Collectively, these cases reveal both convergence (shared goals and global alignment) and divergence (different levels of progress and implementation).

The framework, therefore, shows ESG development as a continuum: from CSR foundations, through regulatory and institutional drivers, to varying levels of ESG maturity. Among the four, Thailand stands out as the frontrunner, followed by Malaysia and Indonesia, while Vietnam remains in the early stage. This conceptualization helps explain how ESG in Southeast Asia is evolving and provides a lens for future regional comparisons.

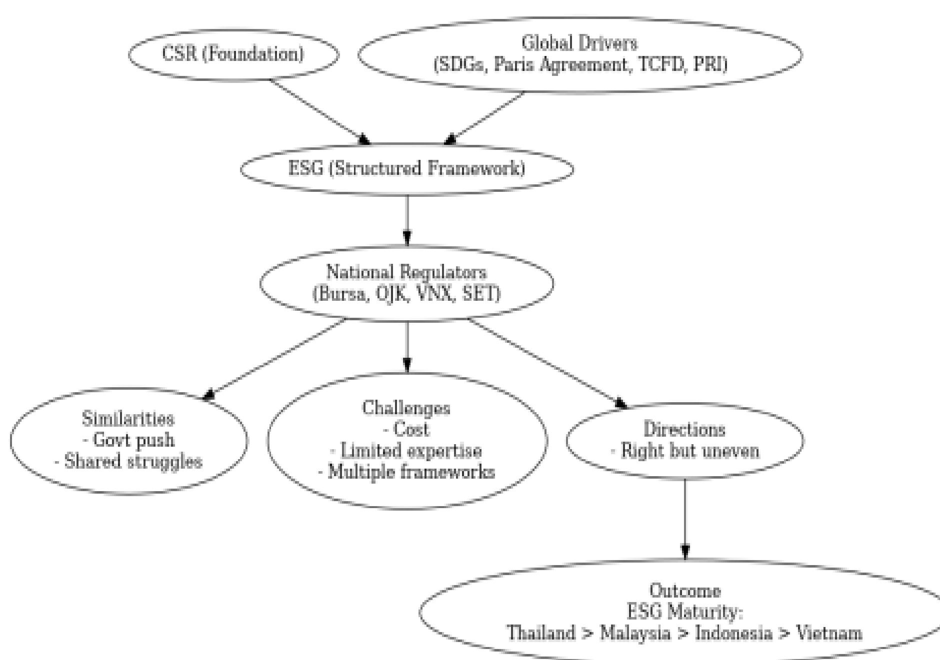

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Figure 1- Conceptual Framework Diagram

FINDINGS

A. Environmental, Social, and Governance (ESG) in Thailand

Thailand's growing population has become a significant factor influencing the country's efforts to achieve environmental sustainability (Correia et al., 2025). While foreign direct investment (FDI) has expanded in recent years, contributing to job creation and improvements in living standards, many investors have failed to adhere to sustainable practices, prioritizing short-term profits over long-term environmental protection (Eweade et al., 2024). Consequently, the consumption of energy and natural resources has increased markedly, creating mounting challenges for Thailand in balancing rapid economic growth with the preservation of environmental integrity (Eweade et al., 2024). Furthermore, inconsistent and fragmented coordination among policymakers, businesses, and local communities has exacerbated difficulties in integrating sustainability into the national development agenda (Wang et al., 2024; Terzi et al., 2020). In response to these challenges, the Thai government introduced the Bio-Circular-Green (BCG) Economy Strategy 2021–2026, which seeks to advance sustainable and green business practices while fostering innovation as a foundation for long-term development (National Science and Technology Development Agency, 2021).

The Bio-Circular-Green (BCG) economic model comprises four key strategies for ensuring sustainability. First, it emphasizes balancing biological resources through conservation and utilization, ensuring that natural ecosystems are preserved while enabling their responsible use to create value-added products. Second, it promotes the use of resource capital and innovative technology to strengthen the grassroots economy, thereby empowering local communities and fostering inclusive growth through community-based enterprises. Third, the model seeks to advance green technologies and provide incentives for innovative manufacturing processes, encouraging industries to adopt cleaner production methods that reduce environmental impacts while enhancing competitiveness. Finally, it focuses on building resilience to global changes, equipping the nation to better withstand challenges such as climate change, resource scarcity, and shifting economic dynamics (BOI, 2021).

According to Au et al. (2023), Suriyankietkaew & Petison (2019), and Wang & Berens (2015), the BCG economic model is linked to the ESG development in Thailand. This model is a groundbreaking approach to achieving a balance between social equity, environmental sustainability, and economic performance. The Thailand government's BCG activities, through the Stock Exchange of Thailand Sustainability Index (SETTHSI), aim to increase the beneficial impact of ESG through BCG on businesses' sustainability, performance, and profit (Nian & Said, 2025). Thailand's inferred BCG model is comparable to the ESG model by United Nations Sustainable Development Golas (Edyvean et al., 2023; Jaroenkietkajorn et al., 2024; National Science and Technology Development Agency, 2021).

The Bio-Circular-Green (BCG) model has emerged as a critical instrument for Thailand in balancing economic growth with environmental sustainability. Before its official adoption in 2021, green investment represented only 16% of the nation's gross domestic product (GDP), reflecting the country's reliance on conventional industrialization and resource-intensive development. By 2024, however, this proportion had increased markedly to 24%, signaling a structural transformation in Thailand's economic priorities and the growing alignment of investment with sustainability objectives (Bangkok Post, 2024; BOI, 2021; NSTDA, 2021). This upward trend underscores the effectiveness of the BCG framework in mobilizing capital toward environmentally responsible sectors while simultaneously strengthening long-term economic resilience.

The expansion of green investment from 16% to 24% of GDP within just three years is not merely a quantitative increase but a reflection of Thailand's strategic pivot toward sustainable development. It demonstrates how coherent policy frameworks, combined with international collaboration and private-sector participation, can accelerate the transition toward a green economy. Moreover, the diversification of investment across both industrial and community levels highlights the robustness of the BCG model in addressing environmental, social, and economic dimensions simultaneously.

In conclusion, Thailand's experience with the BCG model illustrates the potential of targeted policy frameworks to reshape national investment landscapes. The remarkable growth in green investment between 2021 and 2024 reinforces the model's effectiveness in aligning economic expansion with sustainability imperatives. As Thailand continues to build momentum, the BCG framework not only strengthens the nation's long-term economic resilience but also provides a potential blueprint for other countries seeking to harmonize development with environmental stewardship.

B. Environmental, Social, and Governance (ESG) in Vietnam

Vietnam can be seen as one of the best-performing nations in ASEAN in terms of economic growth. In 2024, the country recorded a growth rate of 7.1%, up from 6.5% in 2023 (World Bank, 2025). For 2025, Vietnam initially targeted an ambitious growth rate of 8%, but this figure was later revised downward to 5.8% after higher tariffs imposed by the United States raised concerns about a potential decline in export performance (Vietnam Briefing, 2025; IMF, 2025). These adjustments underscore both the resilience and the vulnerabilities of Vietnam's growth trajectory, which remains heavily dependent on external trade and global market dynamics.

In relation to ESG, Vietnam's Prime Minister Phạm Minh Chính launched the National Green Growth Strategy 2021–2030 (GGS) in 2021 as a key policy instrument, serving as the main framework for ESG development in the country (USDA, 2021). The strategy's primary objective is to ensure environmental sustainability and social justice in tandem with economic prosperity, with the ultimate goal of achieving a carbon-neutral economy that contributes to mitigating global warming. In 2024, to support the GGS, the Vietnamese government, in collaboration with private companies, introduced the Vietnam ESG Initiative, which aims to

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accelerate ESG adoption nationwide (Vietnam Briefing, 2024). The initiative's objective is to establish a clear ESG framework and reporting mechanism aligned with international ESG standards.

Despite these impressive economic figures and key developments on ESG, Vietnam has yet to achieve comparable progress in sustainability governance. As of 2024, no comprehensive ESG framework had been formally introduced at the national level (Oanh et al., 2025). Corporate Social Responsibility (CSR) practices also remain largely voluntary, with reporting requirements neither standardized nor mandated by the Vietnam Exchange (VNX). A study by PricewaterhouseCoopers (2022), revealed that 71% of companies listed on the VNX lacked adequate knowledge, capacity, and frameworks to adopt CSR or ESG reporting. Surprisingly, a recent study made by Nguyen et al., in 2024 has found that the percentage of companies in VNX reporting on ESG significantly drop to 14%. This gap between economic performance and sustainability practices highlights a critical challenge for Vietnam in sustaining growth while building the institutional and corporate capacity needed to meet global ESG standards. The limited adoption of ESG practices among companies listed on the Vietnam Stock Exchange (VNX) is primarily attributed to constrained financial capacity, insufficient expertise, and the absence of comprehensive ESG regulations issued by regulatory bodies such as the VNX (Do & Hoang, 2024).

In August 2025, the Vietnamese government advanced its ESG agenda through the launch of a pilot Emissions Trading Scheme (ETS). Designed as a transitional mechanism toward the establishment of a nationwide carbon market by 2029, the ETS supersedes elements of the earlier greenhouse gas mitigation framework under the Green Growth Strategy (ICAP, 2025; Enerdata, 2025). Targeting carbon-intensive sectors such as steel, thermal power, and cement, the scheme seeks not only to reduce emissions but also to align corporate practices with international ESG standards and enhance the rigor of disclosure and reporting (S&P Global Commodity Insights, 2025; Reuters, 2025). Collectively, the national strategy, the pilot ETS, and emerging multi-stakeholder initiatives constitute the foundation of Vietnam's evolving ESG architecture, signaling a decisive transition from aspirational policy commitments to operational regulatory instruments with direct implications for corporate governance and accountability.

In sum, Vietnam stands at a pivotal juncture where strong economic performance must be balanced with the institutionalization of sustainability practices. While robust growth and the launch of initiatives such as the National Green Growth Strategy, the Vietnam ESG Initiative, and the pilot Emissions Trading Scheme demonstrate clear government commitment, the persistence of weak corporate adoption and fragmented regulatory frameworks underscores a structural gap. The future trajectory of Vietnam's ESG development will therefore depend on bridging this divide by strengthening regulatory enforcement, enhancing corporate capacity, and aligning with international disclosure standards, so that economic growth is not only resilient but also environmentally and socially sustainable.

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C. Environmental, Social, and Governance (ESG) in Indonesia

Indonesia, often celebrated as one of the most biologically diverse nations on earth, is a country of striking contrasts. In 2025, its economy grew by 4.7 percent (IMF, 2025), making it one of the fastest-expanding in Asia, and under former President Joko Widodo the government launched the *"Golden Indonesia"* vision, aiming for developed-country status by 2045 (Strangio, 2024). Yet behind these achievements lies a harder truth: Indonesia is one of the world's largest contributors to greenhouse gas emissions and continues to face alarming deforestation rates (Bräuchler, 2025). Much of this destruction has been driven by economic interests, often undermining the livelihoods of rural communities, while weak regulations and limited media attention have allowed these issues to persist. However, as internet access spreads, public awareness is growing, and grassroots activist movements have begun to play a stronger role, with some succeeding in halting environmentally destructive practices across the country (Setiawan & Tomsa, 2023). In response, the government has increasingly turned to energy transition and sustainable development strategies, not only to counter environmental pressures but also to build confidence among investors and environmental advocates.

Indonesia's journey toward sustainability and responsible business practices has been shaped by both economic ambition and social realities. In the early 2000s, the government through Otoritas Jasa Keuangan (OJK) began recognizing the importance of corporate social responsibility (CSR) in balancing economic growth with environmental and social concerns. This awareness translated into Law No. 19/2003, which required state-owned enterprises to integrate social and environmental aspects into their business strategies. While this law laid an important foundation, many companies initially treated CSR as symbolic, with disclosures that were often vague and inconsistent. To address these shortcomings, the government followed Law No. 40/2007, expanding CSR obligations to private companies and clarifying reporting requirements. This marked a turning point in CSR development, pushing businesses to become more transparent and accountable in their operations. Over time, CSR began to move beyond compliance, with companies increasingly recognizing its role in fostering trust, improving community relations, and attracting investors who value sustainability (Gunawan et al., 2022).

The momentum gained in CSR paved the way for a more structured approach to environmental, social, and governance (ESG) practices. A milestone came in 2017, when the OJK introduced Regulation No. 51/POJK/03/2017, requiring commercial banks to include sustainability reporting in their annual disclosures starting in 2019 (Tiaraputra et al., 2024). This was seen as a groundbreaking move, signalling that sustainability was no longer optional but a fundamental expectation of corporate governance. By 2020, the regulation expanded to cover all publicly listed companies, including small- and medium-sized enterprises, making ESG reporting mandatory across the corporate landscape. For Indonesia, this step was not only about regulation but also about aligning businesses with global sustainability standards, while providing greater assurance to stakeholders that companies were taking responsibility for their environmental and social impacts.

These regulatory shifts were closely tied to Indonesia's broader commitments under the Paris Agreement, ratified through Law No. 16/2016. The country pledged to reduce greenhouse gas emissions by 31.89% through domestic efforts and 43.20% with international support by 2030 (IEA, 2016). This commitment pushed the government to strengthen policies on land use, forest conservation, and renewable energy transitions. In 2021, OJK made it mandatory for all companies to develop a sustainable finance action plan to show the allocation of funds for ESG activities to be included in the Sustainability Report (Rumansyah and Nainggolan., 2025). This requirement was to ensure the company's effort in sustainability action in the future and companies' continuous effort in the future. During the year also, OJK revised Regulation No. 51/2017 by unintroduced Sustainable Finance Roadmap Phase II that aims to build a comprehensive sustainable financial ecosystem, policy makers, government support, product innovation and human resources (Abubakar and Handayani,. 2019; Karyani and Obrien., 2020).

Indonesia Stock Exchange (IDX) also play a vital role in promoting and encourage ESG for public listed companies. One of the major action IDX takes in promoting ESG by introducing ESG-based indices that push companies toward more responsible practices. The journey began in 2009 with the launch of the SRI-KEHATI Index, developed together with the KEHATI Foundation, which features 25 companies recognized for strong environmental, social, and governance (ESG) performance while deliberately excluding industries linked to social and ecological harm, such as tobacco, weapons, and coal mining (KEHATI, 2023). As investors' interest in sustainable finance grew, IDX expanded its approach with the ESG Leaders Index in 2020, a collection of 30 companies with relatively low ESG risks and solid sustainability credentials (OJK Institute, 2021). Recognizing the need for more sector-specific and quality-driven assessments, IDX and KEHATI introduced two further indices in 2021: the ESG Sector Leaders IDX KEHATI, which identifies top ESG performers within each sector, and the ESG Quality 45 IDX KEHATI, which combines ESG scores with strong financial and liquidity performance (KEHATI, 2023). Beyond being technical benchmarks, these indices act as signals for rewarding companies that lead in ESG while giving investors a clearer path to align their portfolios with sustainability goals.

Despite significant progress by the Indonesian government, particularly through the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX), the adoption of ESG practices has not yet delivered the intended outcomes. Palupi et al. (2024) highlight that much of the ESG data disclosed by firms is of low quality and lacks measurable links to company performance. Similarly, Lauren et al. (2023) found that many companies in Indonesia approach ESG largely as a reporting exercise, focusing on environmental and social disclosures rather than leveraging it as a strategy for financial resilience and growth. These shortcomings are rooted in limited expertise, resource constraints, and the perception of ESG as merely a tool to satisfy "enlightened stakeholders' interests" rather than as a framework to identify material risks and opportunities.

Nevertheless, Indonesia has made commendable progress in advancing ESG, particularly by mandating sustainability reporting for all public listed companies (PLCs). Compliance, however, is not yet universal, with

94% of PLCs publishing reports in 2024 (Paluseri et al., 2025). The government's consistent revisions of ESG related regulations demonstrate a strong commitment to aligning with global standards. Going forward, the key challenge lies in strengthening enforcement and fostering genuine integration of ESG into corporate strategy, enabling firms to create sustainable value while supporting Indonesia's broader economic transformation. Compared with other ASEAN nations, Indonesia's journey reflects both shared challenges and unique approaches that warrant closer examination in a regional context.

D. Environmental, Social, and Governance (ESG) in Malaysia

The evolution of ESG in Malaysia is deeply rooted in the country's long-standing CSR practices. As early as 1974, the Malaysian government introduced the Environmental Quality Act (DOE, 1974), requiring companies to address environmental and pollution concerns before undertaking development projects. This move reflected growing public awareness and concern for environmental safety and community welfare in areas affected by industrial and urban development. Over the following decades, CSR gradually became a more structured and strategic concept. A pivotal moment came in 2004 with the establishment of the Malaysian Institute of Integrity (IIM) under the National Integrity Plan. The IIM was tasked with promoting CSR practices across both public and private sectors, working alongside institutions such as the Securities Commission and Bursa Malaysia (formerly KLSE) to encourage voluntary CSR disclosure. Although reporting was not yet mandatory, these initiatives laid a strong foundation for integrating social and environmental considerations into corporate decision-making, setting the stage for a broader ESG framework in Malaysia.

The real turning point came in 2006, when Bursa Malaysia introduced the Corporate Social Responsibility Framework, making CSR reporting mandatory for all public listed companies (PLCs). The government later reinforced this commitment under the Companies Act 2016, further solidifying CSR as a core element of corporate governance. These measures have led to a remarkable increase in CSR reporting, with 97 percent of Malaysian companies publishing reports—well above the global average of 72 percent (Peng et al., 2018). Studies such as KPMG (2022) show that this upward trend continues, demonstrating that consistent regulatory support and institutional guidance can transform CSR from voluntary philanthropic activity into a strategic tool for value creation.

The rise of ESG has often led to CSR being viewed as an outdated concept. Yet in Malaysia, the strong foundation built through the CSR Framework allowed for a smooth transition from CSR to ESG. Building on earlier initiatives, Bursa Malaysia introduced the Sustainability Framework in 2015, requiring companies to disclose ESG-related information in their annual reports (Bursa Malaysia, 2015). This shift was further reinforced by the introduction of the FTSE4Good Bursa Malaysia Index in 2014, which provided a benchmark for ESG performance, and the global adoption of the Sustainable Development Goals (SDGs) in 2016. Together, these developments positioned Malaysia's corporate sector to embrace ESG reporting as an evolution rather than a replacement of CSR, making the transition more practical and systematic.

The move toward ESG in Malaysia has not been driven by Bursa Malaysia alone; other regulators have also stepped in to strengthen the country's sustainability journey. Bank Negara Malaysia (BNM) took a significant step with the introduction of the Climate Change and Principle-based Taxonomy, a framework designed to

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guide companies and financial institutions in reporting climate risks more clearly while encouraging the flow of capital into greener projects. This move gives businesses not only a rulebook but also a sense of direction in aligning with global sustainability standards. At the same time, Rating Agency Malaysia (RAM) has contributed through the launch of the RAM Sustainability (RAMsus) Report, which evaluates and recognizes companies for the quality of their ESG practices. By attaching credibility and recognition to good reporting, RAM has helped push companies to take sustainability more seriously, adding momentum to Malaysia's broader ESG transformation (Salin et al., 2023).

ESG has also been recognized as addressing many of the weaknesses associated with CSR, particularly the lack of quality and consistency in data disclosures. Studies such as Bibi et al. (2022) and Dhoraisingam et al. (2022) highlight that ESG frameworks enhance the credibility of information by requiring measurable indicators tied to corporate performance. Unlike CSR, which was often limited to philanthropic or social activities, ESG provides companies with tools to improve transparency, reduce information asymmetry, and present non-financial data that is meaningful for investors. This shift reflects a broader transformation in Malaysia's corporate reporting culture, where ESG is no longer seen as an optional add-on but as an integral part of sustainable business strategy.

However, the development of ESG in Malaysia has not been without challenges. Many companies have expressed concern that the proliferation of ESG frameworks and reporting styles makes compliance confusing and burdensome. With different agencies introducing their own versions of ESG reporting, firms often struggle to identify which framework best suits their needs (Singhania & Saini,2023; Saini & Singhania, 2025). This lack of uniformity is further complicated by differences between Malaysia's reporting approaches and those adopted in other countries, creating additional hurdles for companies engaged in cross-border activities (Salin et al., 2023). Adapting to multiple standards not only increases complexity but also leads to higher compliance costs, making it difficult for smaller firms in particular to keep pace.

One of the biggest hurdles in Malaysia's ESG journey is the lack of expertise within companies themselves. Many businesses still have only a surface-level understanding of ESG, often treating it as a compliance requirement rather than a long-term strategy for resilience and growth (Arvidsson and Dumay, 2022). Building proper knowledge requires hiring or developing specialists, yet this is often seen as an expensive step. Larger corporations may have the resources to do so, but for small and medium-sized enterprises (SMEs), the cost of bringing in ESG professionals can feel overwhelming. As a result, many firms choose to delay such investments, which leaves them struggling to keep up with the growing expectations of regulators, investors, and international markets.

The journey of ESG in Malaysia shows that the country is moving in the right direction, even though challenges remain. Malaysia's earlier focus on CSR laid a strong foundation, which made the shift into ESG smoother compared to many of its neighbours. With initiatives like Bursa Malaysia's Sustainability

Framework, the FTSE4Good Index, and the support of regulators such as Bank Negara Malaysia and RAM, the country has shown that sustainability is no longer just an option but an important part of national priorities. These steps have raised awareness among companies and given them clearer guidance on how to report and improve their ESG practices.

Yet, the reality on the ground is more complex. Many companies still struggle with multiple reporting requirements, the rising cost of compliance, and a lack of in-house expertise. These barriers are most strongly felt by smaller firms, which often lag behind larger corporations. Even so, Malaysia is heading in the right direction. With stronger enforcement and better support for companies, ESG could become a real driver of resilience, growth, and international competitiveness in the years ahead.

Comparative Analysis

Table 1 Comparative Analysis

Country	Similarities	Key Challenges	Direction / Progress	Overall Standing
Malaysia	Strong Regulatory Base; ESG Built on CSR Foundations; Alignment with SDGs and TCFD.	Too Many Frameworks Create Confusion; High Reporting Costs; Shortage of ESG Experts, especially in SMEs.	Moving Forward with Solid Institutional Support (Bursa, BNM, RAM), But Adoption is Uneven.	Good Progress But Needs Stronger Enforcement And Capacity Building.
Indonesia	ESG Mandatory for Plcs; Regulators (OJK, IDX) Actively Involved; ESG Indices Launched.	Poor Quality of ESG Data; Weak Integration into Business Strategy; Limited Expertise; Inconsistent Compliance.	Ambitious Policies and Global Commitments but Results Still Patchy.	Strong Ambition, But Practice Lags Behind Regulation.
Vietnam	Strong Government Vision; Green Growth Strategy, ESG Initiative, Pilot Emissions Trading Scheme.	Weak Corporate Adoption; No Standardized Framework Until Recently; Lack of Expertise and Funding.	Policies Moving in the Right Direction, But Implementation Is Still Early Stage.	Promising Vision, But Slow Corporate Uptake Makes It Lag Behind.
Country	**Similarities**	**Key Challenges**	**Direction / Progress**	**Overall Standing**
Thailand	Clear National Model (Bio-Circular-Green Economy); ESG Tied to Development Agenda.	Coordination Gaps Between Policymakers, Businesses, And Communities; Pressure from Rapid FDI.	Significant Growth in Green Investment (16% → 24% of GDP In 3 Years).	Best Performer So Far—Tangible Results and Strong Framework.

The development of ESG in Malaysia, Indonesia, Vietnam, and Thailand highlights both common progress and distinct challenges. All four countries started by building on earlier CSR practices before moving into ESG, and each has been guided by regulators, government policies, and global frameworks such as the SDGs. There is no doubt that ESG has become a regional priority, viewed as essential for growth, reputation, and attracting global investment.

Similarities are easy to spot. Each country has created initiatives or frameworks to push ESG forward, and all face shared struggles: a shortage of expertise, high compliance costs, and difficulties for SMEs. Yet the depth of these challenges varies. Malaysia has strong regulations but suffers from too many frameworks and limited expertise. Indonesia is ambitious, making ESG mandatory, but reporting quality is weak. Vietnam has bold government strategies, yet companies are slow to adopt ESG. Thailand, in contrast, has tied ESG closely to its Bio-Circular-Green (BCG) economy model, delivering measurable progress, such as a sharp rise in green investment.

Looking at the direction, all four countries are moving forward, but at different speeds. Thailand clearly stands out as the frontrunner, with policies that translate into real outcomes. Malaysia comes next, thanks to strong institutions but in need of simplification and deeper capacity building. Indonesia shows commitment but must improve data and enforcement. Vietnam has the vision but needs to bridge the gap between policy and practice.

CONCLUSION

In short, ESG in ASEAN is heading the right way, though unevenly. Thailand sets the pace, while Malaysia and Indonesia build the foundation, and Vietnam works to catch up. Together, they show that ASEAN is taking sustainability seriously, but collaboration and stronger corporate capacity will be key to future success.

Taken together, the ESG journey in ASEAN reflects a region in transitioning steadily from traditional CSR toward a more structured and globally aligned sustainability agenda. While the speed and depth of adoption differ across countries, there is a clear recognition that ESG is no longer optional but central to competitiveness, investment, and long-term resilience. Thailand's BCG model demonstrates how a strong national framework can deliver real outcomes, Malaysia and Indonesia show the value of regulatory leadership despite uneven adoption, and Vietnam highlights the need to close the gap between policy ambition and corporate practice. What unites them is a shared determination to embed ESG into future growth. For ASEAN as a whole, the challenge now is to harmonize standards, build capacity, and encourage knowledge-sharing so that progress is not only national but regional. If these steps are taken, ASEAN has the potential to become a global example of how emerging economies can pursue growth while safeguarding people, planet, and prosperity.

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