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The FDI Attraction Effect of Green Supply Chain Certification: Evidence from RCEP Countries

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Abstract

Against the backdrop of a sluggish global economic recovery, escalating geopolitical volatility, and increasingly urgent climate governance, the flow of Foreign Direct Investment (FDI) by Multinational Enterprises (MNEs) is undergoing profound structural reshaping. With the global green trade barriers, represented by the European Union's Carbon Border Adjustment Mechanism (CBAM), officially entering the definitive implementation and verification phase in 2026, the environmental compliance capacity of host countries has transitioned from a mere cost burden to a core novel determinant of capital flows. Grounded in the macro context of the Regional Comprehensive Economic Partnership (RCEP), this paper deeply integrates the institution-based view, the "Porter Hypothesis", and institutional decoupling theory to systematically analyze the underlying logic and micro-mechanisms of how Green Supply Chain (GSC) certification influences MNEs' FDI location choices. Based on panel data from 15 member countries spanning 2010 to 2022 and constructing a two-way fixed effects model, the empirical results reveal that GSC certification, represented by ISO 14001, significantly promotes FDI inflows. This finding not only confirms that environmental compliance has transformed from a "transaction cost" into an "institutional asset" with strategic premium, but also highlights the critical signaling role of voluntary environmental standards in reducing information asymmetry in cross-border transactions and evading "greenwashing" regulatory risks. This study expands the connotation of location advantages in the classic Ownership-Location-Internalization (OLI) paradigm. It not only provides scientific location coordinates for MNEs to navigate penetrative carbon verification and optimize Asia-Pacific supply chain layouts, but also offers forward-looking empirical evidence and strategic insights for developing RCEP members to abandon formalistic investment attraction strategies and formulate substantive macro-green economic transition policies.

Keywords

Foreign Direct Investment; Green Supply Chain Certification; Location Choice; Institution-Based View; Carbon Border Adjustment Mechanism

1. Introduction

Under the intertwining factors of slowing global economic growth, tightening financing conditions, and high macroeconomic uncertainty, the direct investment flows of multinational enterprises (MNEs) are experiencing unprecedented volatility and structural reconstruction. According to the World Investment Report 2024 published by the United Nations Conference on Trade and Development (UNCTAD), global FDI inflows declined by 2% to $1.3 trillion in 2023. However, this superficially mild decline conceals a more severe underlying crisis; the report explicitly points out that if the large swings in investment flows in a few European "conduit economies" are excluded, the actual decline in global FDI exceeded 10%. The performance was particularly weak in cross-border mergers and acquisitions (M&As) and international project finance, where the value of cross-border M&As—which primarily affect FDI in developed countries—plummeted by 46%, and project finance, crucial for infrastructure, dropped by 26%. In developing countries, although capital inflows appeared stable on the surface, a massive amount of capital is stagnating or entirely bypassing core sectors vital for the Sustainable Development Goals (SDGs), such as agrifood, water resources, and clean energy infrastructure.

In sharp contrast to the overall global investment downturn, the Association of Southeast Asian Nations (ASEAN) and the broader RCEP region have demonstrated strong economic resilience and capital magnetic attraction, bucking the trend to become the core destination for the reconstruction of global industrial chains. UNCTAD's latest investment trend monitoring data shows that, against the backdrop of flat overall FDI inflows in developing economies, investment flowing into ASEAN achieved a robust 8.5% growth in 2024, reaching a staggering $226 billion, not only setting a historical record but also seeing the share of intra-ASEAN investment significantly rise to 14%. This counter-trend growth benefits from the vast market opportunities brought by regional integration and the implementation of MNEs' supply chain diversification strategies, firmly establishing the region as a core global hub for manufacturing, financial services, and innovation-driven investments.

However, while fully enjoying the dividends of industrial chain transfer in the RCEP region, the global trade and investment system is undergoing a profound institutional transformation centered on "carbon emissions." The most disruptive external pressure stems from the European Union's Carbon Border Adjustment Mechanism (CBAM). As the world's first substantive carbon tariff mechanism, the EU CBAM aims to replace the free quotas within the EU Emissions Trading System (EU ETS) to prevent "carbon leakage" caused by the outflow of high-carbon industries. More alarmingly, January 1, 2026, marks the official end of the CBAM transitional period and the entry into the stringent definitive implementation phase. During this phase, the compliance architecture undergoes a fundamental shift: from the initial quarterly data reporting model, it comprehensively upgrades to a mandatory annual declaration regime that must include an embedded emissions

verification report issued by an independent third-party agency, thoroughly stripping away the leniency of the transitional period. Furthermore, the certificate pricing mechanism will begin to directly link with the EU internal carbon market (EUA) auction prices, and from 2027 onwards, it will introduce a weekly average price linkage mechanism, injecting unprecedented short-term price volatility and cost uncertainty into lengthy transnational supply chains.

Under this extremely complex and highly punitive external environment, the underlying decision-making logic of MNEs regarding FDI location selection in the RCEP region has fundamentally shifted. The traditional advantages of labor costs and market size, upon which FDI location theory primarily relied, are rapidly giving way to the host country's "environmental compliance capacity" and "low-carbon infrastructure level." Facing the real carbon compliance costs occurring from 2026, if a host country cannot provide a low-carbon production environment and a reliable green supply chain, products manufactured by MNEs there and exported to high-standard markets like the EU will face exorbitant carbon tariffs and may even be directly squeezed out of top-tier global supply chains. Therefore, an in-depth exploration of how the host country's Green Supply Chain (GSC) certification level systematically affects the inflow of foreign direct investment, revealing the causal link between environmental credentials and multinational capital preference, is not only a theoretical expansion of the frontiers of international business strategy but also possesses practical urgency concerning the destiny of national industries.

2. Literature Review and Theoretical Hypothesis Development

To profoundly analyze the systematic impact of green supply chain certification on MNEs' FDI location choices, this chapter deeply integrates classic international business theories with environmental economics and neo-institutional theories. To maintain the coherence of theoretical deduction and a macro perspective, this chapter abandons complex subheadings and employs a core logical thread throughout: starting from the evolution of traditional location theory, examining the dual effects of environmental regulations in transnational games, and ultimately focusing on how green certification reshapes the flow of multinational capital by overcoming information asymmetry and institutional decoupling risks.

The theoretical cornerstone of traditional international business strategy primarily relies on the eclectic paradigm of international production (OLI paradigm) proposed by Dunning (1980), which posits that ownership advantages, internalization advantages, and location advantages jointly determine the geographical distribution and production patterns of FDI. For a long time, research on location advantages mainly focused on "task environment" variables such as market demand, factor endowments (e.g., cheap labor and natural resources), and transportation costs. However, with the deepening of globalization and the rise of emerging markets, traditional economic factors are increasingly insufficient to explain the complexity

of capital flows. The "Institution-based View" proposed by Peng et al. (2008) broke this limitation, establishing formal and informal institutions as the "third pillar" of strategy alongside the industry- and resource-based views. This perspective profoundly points out that the strategic choices of MNEs are not only the result of pursuing economic efficiency but also the product of a dynamic game between organizations and their institutional frameworks. Under this view, the host country's environmental protection institutions, compliance culture, and supply chain management systems collectively constitute a novel "institutional-environmental location advantage," becoming a critical bargaining chip that sways capital flows.

After incorporating the institutional environment into consideration, the relationship between environmental regulations and international capital flows has long been dominated by two diametrically opposed theoretical hypotheses. On the one hand, the "Pollution Haven Hypothesis," based on a cost-minimization perspective, argues that stringent environmental regulations inevitably substantially increase enterprises' compliance costs, technological upgrading expenditures, and administrative burdens. Therefore, driven by profit maximization, MNEs tend to transfer pollution-intensive industries to developing countries with lower environmental standards. On the other hand, the "Porter Hypothesis," proposed by Porter and van der Linde (1995), provides a more positive dynamic perspective. This hypothesis suggests that well-designed and appropriate environmental regulations do not simply increase corporate costs; instead, they act as an external stimulus, triggering technological innovation in products and processes. In recent years, scholars supporting the "Porter Hypothesis" have further pointed out that with the awakening of global consumers' environmental awareness and the elevation of host countries' green thresholds, seeking environmental legitimacy, overcoming the "liability of emergingness," and signaling global corporate citizenship are becoming important endogenous drivers for MNEs' FDI location selection. This indicates that environmental regulations are gradually exerting a positive "screening effect" in capital flows.

As the global environmental governance model transitions from government-led "command-and-control" mandatory regulations to market-led voluntary governance, voluntary environmental management system certification, represented by ISO 14001, has become a core focus of research. From the perspectives of neo-institutional economics and transaction cost theory, transnational transactions and investments are accompanied by extremely high information asymmetry and search costs. Clougherty and Grajek (2008) confirmed that the ISO standard series significantly reduces search costs and cross-border frictions in transnational business by establishing standardized documentation, processes, and audit mechanisms. More importantly, ISO 14001 certification possesses a powerful "signaling" function, releasing a strong "quality and compliance signal" to the

outside world, indicating that the factory or enterprise has a comprehensive environmental management system and is committed to continuous improvement. The latest empirical research further shows that ISO 14001 certification serves as a critical channel to signal environmental commitments to foreign stakeholders, effectively alleviating MNEs' "liabilities of origin" and significantly promoting outward FDI activities. This unified international certification standard provides a "common language" and "conflict-prevention mechanism" for enterprises from different cultural and legal backgrounds, greatly facilitating MNEs' supplier screening, joint venture and M&A due diligence, and greenfield investment review processes in host countries.

However, neo-institutional theory also warns of the "institutional decoupling" risk that organizations may generate when facing external normative pressures. Marquis and Qian (2014) point out that in the absence of rigorous monitoring, enterprises often tend to make symbolic compliance responses (such as issuing policies, obtaining certificates, or making vague information disclosures) while refusing to pay the high costs of implementing substantive emission reduction actions in their underlying operations. This disconnect between policy commitment and actual execution is known as "greenwashing" in the fields of corporate social responsibility and environmental governance. With the improvement of global ESG rating systems and heightened scrutiny from non-governmental organizations (NGOs) and the media in recent years, exposed greenwashing behaviors will cause catastrophic reputational damage and severe financial blows to enterprises. Therefore, multinational capital with high risk acuity, when selecting overseas supply chain locations, no longer blindly trusts mere paper promises; instead, it values whether the host country has the substantive ability to truly integrate green management systems into the regional supply chain ecosystem. If a region is flooded with false environmental certificates but maintains a persistently high macroeconomic carbon emission intensity, MNEs will keenly capture this macro-level "institutional decoupling" and consequently develop deep distrust and rejection of the country's investment environment.

The implementation of the EU CBAM injects the most potent external coercive force into this demand for "substantive emission reduction." As a disruptive climate trade policy, CBAM completely alters the cost functions and risk models of MNEs. The latest Difference-in-Differences (DID) model research by Liu et al. (2025) confirms that CBAM constitutes a powerful catalyst for greenfield investment, triggering not only a "trade restructuring effect" (prompting firms to circumvent barriers via greenfield investment) but also an "innovation-driven demand effect," forcing firms to increase R&D intensity and technology-seeking overseas investments to adapt to stringent new low-carbon constraints. Particularly from 2026 onwards, CBAM's introduction of mandatory third-party independent verification for embedded carbon emissions ensures that any form of "greenwashing" not only fails to exempt

high carbon taxes but will also invite severe fraud penalties.

Synthesizing the above theoretical deduction, we posit that: In today's era of increasingly stringent green barriers with profound penetration, such as CBAM, the environmental compliance capacity of host countries has thoroughly shed its negative connotation as a "regulatory burden" and has substantively transformed into a strategic "institutional asset" with high added value. Green supply chain certifications like ISO 14001, by virtue of their widely recognized quality signaling and common language attributes, drastically reduce the transnational transaction costs and compliance review frictions for MNEs. To cope with normalized supply chain carbon audits and evade the greenwashing risks triggered by "institutional decoupling," MNEs will proactively and systematically deploy industrial layouts in regions equipped with high-level GSC certifications and comprehensive environmental management systems.

Accordingly, this study proposes the core main effect hypothesis:

H1: The level of Green Supply Chain (GSC) certification significantly promotes MNEs' FDI inflows into the host country.

3. Research Design and Methodology

To rigorously and scientifically verify the aforementioned theoretical hypothesis and overcome the endogeneity issues common in macroeconomic panel data, this study employs econometric analysis methods and constructs a Two-Way Fixed Effects Model (TWFE).

3.1. Sample Selection, Data Sources, and Variable Construction

The sample set of this study covers the 15 member countries of the RCEP (namely China, Japan, South Korea, Australia, New Zealand, and the ten ASEAN nations). The sample time span is set from 2010 to 2022, constituting a typical long panel dataset. As currently the world's largest free trade area in terms of population and economic scale, RCEP includes not only highly developed industrialized nations at the top of the value chain but also emerging economies urgently needing to absorb foreign capital to drive industrialization. This massive heterogeneity in economic scale, institutional foundations, resource endowments, and digitalization progress provides the most ideal empirical setting for examining the complex interactions between environmental regulations and foreign investment.

Regarding the selection of core variables and data sources, the research team strictly adhered to high international academic standards. All data were mined from public databases published by authoritative international organizations, ensuring the reproducibility and global credibility of the empirical results. The specific variable system construction is shown in the table below:

Table 1. Variable Definitions and Data Sources

Variable Type	Variable Name	Measurement Indicator and Calculation	Data Source
Dependent Variable (Y)	FDI Inflows	Net inflows of foreign direct investment (millions USD), processed with natural logarithm to smooth volatility	UNCTADstat
Independent Variable (X)	GSC Certification Level	Total number of ISO 14001 environmental management system certificates per country, processed with natural logarithm	The ISO Survey
Control Variable (Z)	Trade Openness	Total import and export trade volume as a percentage of GDP (%)	World Bank WDI
Control Variable (Z)	Infrastructure	Internet penetration rate (Internet users per 100 people)	World Bank WDI
Control Variable (Z)	Institutional Quality	Government Effectiveness Index	World Bank WGI
Control Variable (Z)	Natural Resources	Total natural resources rents as a percentage of GDP (%)	World Bank WDI

Regarding the selection of control variables, this study conducted meticulous theoretical considerations. Good institutional quality and infrastructure can provide core security guarantees and transaction convenience for transnational trade and investment. In the RCEP region, which encompasses a large number of developing countries, trade openness and natural resource rent ratio respectively capture the economy's outward-oriented degree and resource dependency, which is of great significance for isolating the interference of "resource-seeking" foreign capital.

3.2. Two-Way Fixed Effects Econometric Model Construction

To address the endogeneity challenges universally present in macroeconomic empirical research (i.e., the direction of FDI flows and the host country's economic development level and environmental regulation intensity may be mutually causal, and there are numerous unobservable macro factors), this study discards traditional pooled OLS or random effects models in favor of the more rigorous two-way fixed effects model.

Specifically, Country Fixed Effects are introduced into the model. This mechanism aims to force the control of those inherent characteristics of RCEP member countries that do not change or change extremely slowly over time, such as geographical location, cultural traditions, and the roots of the legal system. These deep-seated institutional factors profoundly impact capital return expectations; fixing them effectively strips away the severe omitted variable bias they might cause to the regression results.

Simultaneously, the model introduces Year Fixed Effects. This design aims to control for global macroeconomic shocks collectively experienced by all sample countries in specific years (such as quantitative easing/tightening cycles, supply chain

disruptions, and the formal signing and enactment of the RCEP agreement). Without controlling for these time trends, it is extremely easy to draw erroneous conclusions of spurious correlation between environmental regulations and FDI.

The baseline econometric equation is specified as follows:

$$Y_{it} = \alpha_0 + \alpha_1 X_{it} + \lambda Z_{it} + \mu_i + \delta_t + \varepsilon_{it}$$

Where Y_{it} represents the FDI inflows (logged) of country i in year t, X_{it} represents the GSC certification level (logged), Z_{it} is the control variable matrix, and ε_{it} is the random disturbance term. By simultaneously controlling for two-way effects in the panel data, this model system greatly enhances the logical rigor of causal inference and the robust credibility of the conclusions, laying a solid quantitative foundation for accurately measuring the true transmission mechanism between environmental institutions and multinational capital.

4. Empirical Analysis and In-depth Discussion of Results

The baseline regression results for the main effect (H1) and core control variables provide highly compelling empirical evidence with a clear direction. The empirical regression parameters for the main effect equation are summarized below:

Table 2. Regression Results

Variable Name	Coefficient	Standard Error	t-value	p-value (Significance Level)
ISO 14001 Certification Count (Core Independent Variable)	0.2472928	0.0805555	3.07	0.008
Trade Openness (Control)	-0.0024885	0.0024949	-1.00	0.335
Infrastructure (Control)	-0.0008749	0.0026514	-0.33	0.746
Government Effectiveness (Control)	0.1780019	0.2334700	0.76	0.458
Natural Resources (Control)	-0.0061309	0.0224490	-0.27	0.789

This preliminary regression result contains extremely rich and critical economic implications, which require deep deconstruction from the dual perspectives of global macroeconomic evolution and corporate micro-games:

First, Green Compliance Has Substantively Transformed into a Core Strategic Magnet for Attracting FDI.

The regression results show that the coefficient of the core explanatory variable "ISO 14001 Certification Count" is as high as 0.247, possessing high statistical significance at the 1% level (p=0.008, t=3.07). This irrefutably confirms the validity of hypothesis H1: in the RCEP region, the improvement of the host country's green supply chain certification level exerts a robust positive promotional effect on FDI inflows. From an economic intuition perspective, this means that for every 1% increase in the ISO 14001 certification penetration rate, the country's capacity to attract multinational investment will experience a significant logarithmic growth. This conclusion provides the most solid quantitative support for the applicability of the "Porter Hypothesis" in the Asia-Pacific region. Under the severe external green

trade barriers represented by the EU CBAM, environmental compliance has completely shed its negative connotation as a "cost burden." When reconstructing their Asia-Pacific supply chains, MNEs no longer follow the early "race to the bottom" logic of seeking the most lenient pollution havens, but proactively engage in "legitimacy seeking," precisely directing capital to network nodes equipped with comprehensive environmental management systems and compliance signals. Relying on its standardized common language attribute, GSC certification dramatically lowers the transaction costs for MNEs to screen high-quality green suppliers and guard against "institutional decoupling" and "greenwashing" scandals, thus becoming a highly valuable institutional location advantage.

Second, The Dilution and Yielding of Explanatory Power of Traditional Location Factors Under Strict Endogeneity Controls.

The regression performance of the control variables presents a thought-provoking picture. Variables representing traditional location advantages—"Trade Openness," "Infrastructure," "Government Effectiveness," and "Natural Resources"—failed to reach statistical significance under this model setting (all p-values far exceed 0.1). For instance, the natural resource variable is not only insignificant but also bears a negative coefficient, strongly implying that in the current investment cycle dominated by high-end manufacturing, service trade, and deep integration of global value chains, the proportion of FDI relying purely on natural resources for "resource arbitrage" is rapidly declining.

5. Conclusion and Policy Implications

This study breaks through the single-disciplinary barriers of traditional international business and environmental economics. Through rigorous deduction using a two-way fixed effects model, it profoundly elucidates the complex macroeconomic capital operation laws intertwined with RCEP regional integration and external green trade barriers. The empirical results strongly confirm: Green supply chain certification has ascended from a mere management tool to a decisive force reshaping the flow of multinational capital. Based on the latest global macro trends and policy evolutions, this study proposes the following policy implications of far-reaching significance:

5.1. Strategic Implications for MNEs' Supply Chain Reshaping

Facing the imminent comprehensive definitive implementation of the EU CBAM in 2026 (especially the high-frequency cost volatility brought by mandatory third-party verification and direct price linkage) and strict audits of ESG performance by global investors, MNEs must conduct a thorough revolution of their strategic location selection in the Asia-Pacific region. From 2026 onwards, CBAM not only mandates annual declarations but also introduces third-party embedded carbon emission verification, eliminating the leniency of the transitional period. This

means that any symbolic compliance based on "institutional decoupling" or "greenwashing" behaviors will face extremely severe financial penalties.

When configuring FDI layouts or screening core suppliers, MNEs must establish a radar system to defend against "macro greenwashing." Management must not merely stop at examining the superficial number of ISO certificates in potential investment destinations; they must penetratively scrutinize the underlying energy structure and actual emission reduction effectiveness. Because any concealment of carbon footprints post-2026 will invite heavy fines, MNEs should prioritize investing in RCEP nodes that have made forward-looking investments in green technologies and where actual carbon intensity is continuously declining. Furthermore, MNEs should actively utilize digital technologies to empower the green traceability of supply chains. Research indicates that preliminary investments in digital single windows and related e-commerce infrastructure can yield high returns of up to 4.554%.7 Securing authentic emission reduction data through digital means to evade green barriers with irrefutable transparency is the key for MNEs to build an impregnable core moat in the global climate club game.

5.2. Strategic Correction for Macroeconomic Policies of Developing RCEP Countries

For developing RCEP countries urgently needing foreign capital to drive industrial upgrading (especially ASEAN nations currently in the demographic dividend period of manufacturing transfer), the conclusions of this study serve as a sobering wake-up call, proposing stringent corrective suggestions for their current investment attraction and industrial development policies.

First, governments must completely abandon formalistic, "indicator-oriented" green investment attraction policies. Since international capital possesses the acuity to evade decoupling risks, attempting to drive domestic manufacturing enterprises to symbolically obtain environmental certifications in large batches through administrative subsidies—without making substantive investments in underlying energy transitions—is an extremely short-sighted and dangerous strategic misjudgment. According to the latest 2024 statistics published by global energy data agency Enerdata, global macro carbon intensity (CO_2 emissions per unit of GDP) rebounded against the trend by 1.7%; in this context, China successfully reduced its carbon intensity by 2.5% relying on massive investments in the new energy sector, whereas the carbon intensity of some Southeast Asian countries (e.g., Vietnam +6%, Indonesia +3%) continued to surge due to high-carbon lock-in.8 This immense contrast in macro carbon emission realities will directly dictate the ultimate flow of high-quality FDI in the future. If inflated certificates fail to cover up the reality of high carbon emissions, the host country will face severe credit bankruptcy, ultimately sliding into the abyss of a "pollution haven." Therefore, host country governments must invest real capital, tightly binding soft environmental standards

with hard clean energy infrastructure to continuously supply low-cost, substantive "green electricity" to MNEs within their jurisdictions.

Secondly, accelerate the deep integration and institutional elevation of green integration mechanisms within the RCEP region. Fighting alone is no longer sufficient to cope with the climate trade barriers dominated by developed economies. Taking the China-ASEAN Free Trade Area (CAFTA 3.0) upgrade protocol as an opportunity, RCEP member countries should vigorously promote the mutual recognition and resonance of environmental standards within the region at the ministerial and joint committee levels. By building a unified regional carbon footprint accounting database and eliminating barriers to cross-border green finance investments, RCEP can provide a vast and secure green safe harbor for multinational investments, thereby substantively elevating its strategic voice in the international green value chain division of labor as the main engine of the global economy.

In summary, the global mass migration of multinational capital has entered a historic new phase, evolving from "labor arbitrage" to "carbon compliance arbitrage." In this spectacular global supply chain reorganization of the century, whoever can be the first to shatter the illusion of "greenwashing" and reshape the fundamental logic of national competitiveness with substantive emission reduction actions will become the ultimate dominant force in the future global map of high value-added industries.

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