

ESG in China

In the evolving landscape of environmental, social, and governance (ESG) factors, businesses in China are presented with a dynamic opportunity not only to align with global sustainability trends but also to excel in a swiftly transforming economic milieu. As China solidifies its role as a significant global player, the adoption of ESG principles has become a strategic imperative for companies aspiring to long-term success. By seamlessly integrating ESG considerations into their operations, businesses can ensure adherence to evolving local regulations while also bolstering their engagement in broader global corporate initiatives aimed at tackling urgent societal and environmental challenges.

Recent years have witnessed China making substantial strides in fortifying its commitment to ESG-related concerns, symbolizing a paradigm shift that embraces sustainable practices across various industries. Amidst stricter environmental regulations enforced by the government, enterprises are impelled to embrace cleaner technologies, curtail emissions, and optimize resource consumption.

In this exclusive Policy+ Report, the following topics will be explored:

1. ESG in China
2. Foreign Business and ESG
3. China Leadership Support for ESG
4. ESG Policies in China

Key Takeaways

China is largely focused on the “E” of ESG – making clear policies and guidelines for how business in China is expected to contribute to China’s environmental and carbon-reduction goals.

The foreign business community is acutely aware of the benefits of ESG in China and is actively pursuing a local strategy for ESG that will help elevate positive brand recognition alongside local talent recruitment and retention.

ESG in China

In recent years, China has made substantial strides in its ESG development, propelled by concerted efforts from the government to foster sustainable practices and uphold ESG principles. Notably, progress has been achieved in addressing pressing environmental concerns, such as air and water pollution. Despite this advancement, the nation still contends with several challenges in effectively embedding ESG principles across its business landscape.

The Chinese government has demonstrated active commitment to instilling ESG principles within the corporate sector. Mandating ESG disclosures for listed companies, the Chinese Securities Regulatory Commission (CSRC) issued guidelines in 2019, requiring annual ESG information disclosure in listed companies' reports. This regulatory framework has engendered increased ESG awareness and accountability.

The surge of interest in sustainability among investors has played a pivotal role in shaping China's ESG landscape. Evidently, there has been a substantial rise in demand for ESG investment products within the country. ESG funds and Exchange-Traded Funds (ETFs) have gained prominence, as indicated by Morningstar data showing growth in ESG fund assets under management (AUM) from RMB 7.5 billion in 2016 to RMB 142.5 billion in 2020.

China's ESG development has been further propelled by heightened consumer consciousness of environmental and social issues. Chinese consumers increasingly prioritize companies that integrate ESG considerations into their operations, offering a compelling incentive for businesses to align with sustainable practices.

However, China confronts multifaceted hurdles on its journey to full ESG integration. Chief among these challenges is the absence of standardized ESG

reporting requisites. While the CSRC's mandate enforces ESG disclosures for listed entities, a consistent framework for ESG reporting has yet to be established, leading to divergent reporting practices and frameworks.

Furthermore, a deficiency in ESG expertise and talent poses a significant impediment. Despite growing investor interest in ESG, a dearth of professionals proficient in conducting comprehensive ESG analyses and providing insights hampers progress. Many Chinese businesses also grapple with limited proficiency in effectively implementing ESG principles, particularly in domains like sustainability reporting and supply chain management.

China's economic and political landscape further shapes its ESG trajectory, notably through state-owned enterprises (SOEs), which wield substantial economic influence. Though efforts have been made to enhance ESG practices among SOEs, progress remains gradual, and numerous SOEs continue to encounter significant ESG challenges.

Foreign Business and ESG

As China rapidly integrates into the global economic fabric, the role of foreign businesses has emerged as a catalyst for steering the nation towards heightened Environmental, Social, and Governance (ESG) norms and internationally recognized business practices. Foreign companies operating within China are positioned at the crossroads of this transformative journey, wielding significant influence in shaping the business landscape's sustainability trajectory. In this section, we delve into the pivotal role that foreign enterprises play in pushing forward ESG principles and implementing globally recognized business standards within their operations in China.

In a revelation from the 2023 AmCham China Business Climate Survey, a remarkable 80% of AmCham China member companies are actively strategizing

or implementing ESG frameworks in China. This surge in interest can be attributed to ESG's multifaceted benefits for businesses. Notably, ESG initiatives have become increasingly attractive to global firms due to their potential to cultivate a commendable and responsible brand image. These initiatives not only ensure compliance with evolving regulations but also empower companies to play a substantial role in addressing larger global challenges.

The perspective of American businesses operating in China towards Environmental, Social, and Governance (ESG) strategies is highlighted in the following findings from the 2023 AmCham China Business Climate Survey:

- A significant 80% of respondents have established ESG strategies in China. Among them, 66% align their Chinese ESG strategies with their global ESG strategies, while 14% tailor their strategies specifically to the Chinese market. An additional 12% have ESG strategies but have yet to implement them, and 8% reported having no ESG strategies.
- A noteworthy 79% of respondents believe that implementing ESG strategies will enhance their brand image in China. Approximately half (49%) of the members were directed by their global headquarters to implement ESG strategies in China. Moreover, 42% of the respondents perceive that integrating ESG strategies will not only attract more talent but also enhance employment retention in the Chinese market.
- The primary focus areas of ESG strategies for these businesses in China include Diversity, Equity, and Inclusion (DEI), governance and business ethics, as well as community contribution. DEI was identified as the highest ESG priority by 73% of respondents, followed closely by Governance and Business Ethics at 72%. Community contributions, particularly in areas like women and children health development and support for disabled and minority groups, were highlighted as a top priority by 63% of respondents. Additionally, 61% of members expressed a desire to address environmental issues within their ESG strategies, and

60% aimed to prioritize employee training, education, and development within their ESG framework.

In the 2023 American Business in China White Paper, ESG was highlighted as a core consideration within the broader industry groups of “Banking and Capital Markets” and “Real Estate.” Below, each sector's distinctive issues and aspirations in the realm of ESG are summarized, offering a unique view of the strategic shifts unfolding on the path of foreign business seeking to implement ESG strategies in China.

Banking and Capital Markets: ESG Investment and Green Finance in China

Within the realm of Banking and Capital Markets, AmCham China members have welcomed China's commendable leadership in the domain of green finance on the global stage. They wholeheartedly support China's efforts to foster international collaboration in developing coherent, transparent, and practical green financial standards. Evidently, China has established six provincial pilot zones for green finance and has given the green light to 23 additional pilot regimes dedicated to climate investment and financing, showcasing the nation's commitment to sustainable financial practices.

The landscape of ESG investment in China's financial sector has gained substantial momentum, particularly following the announcement of the 2030/2060 dual carbon target. The ensuing wave of positive policies from regulators, coupled with active engagement from both financial institutions and companies, has fueled this upward trajectory. The growth of institutional ownership in A-share markets beyond 50% since 2020 has paved the way for asset managers to wield more influence through effective stewardship practices. The attention garnered by ESG topics is further illustrated by the burgeoning size of ESG and carbon-themed mutual funds.

Real Estate: Green Development and Sustainable Finance

The real estate industry in China is grappling with industry specific ESG challenges. The General Outline for the Preparation of Feasibility Study Report of Government Investment Projects has instigated a policy paradigm that champions green transformation in future land development ventures, all from an ESG and dual carbon perspective. Moreover, the Ministry of Housing's implementation of urban renewal pilot initiatives across 21 cities in 2021 aims to underscore ESG performance requirements for real estate entities.

In the realm of sustainable finance, China has harnessed a series of policies such as the Guiding Opinions on Building a Green Financial System (2016) and the Green Bond Endorsed Projects Catalogue (2021 Edition). These initiatives have propelled greater investment in the green industry, the development of green-related financial services and tools, and the fostering of local and international cooperation in the realm of green finance. Interestingly, 2021 data from the Climate Bonds Initiative (CBI) demonstrates that while global green bond investments in green building hovered around 30%, the corresponding figure for China was less than 10%.

China Leadership Support for ESG

In a call for transformative change, China's foremost leaders are orchestrating a compelling shift in perspective, urging the nation's private businesses to step onto the stage of social responsibility with fervor. Embarking on an era where profit and societal betterment harmoniously coalesce, China's top leadership is progressively elevating the discourse on Environmental, Social, and Governance (ESG) initiatives. This visionary outlook underscores a pivotal moment in the nation's trajectory, as leaders highlight the pivotal role that private enterprises play in fostering sustainable growth, equitable practices, and a flourishing society. As this rallying call gathers momentum, China's business landscape stands poised for a remarkable evolution, driven by a unified commitment to not just economic

prosperity, but also the holistic well-being of its people and the planet.

Notably, Chinese leaders have embraced the 'E' of ESG with remarkable fervor, emphasizing environmental protection and robust carbon reduction measures as integral imperatives for enterprises to uphold, further illuminating the path toward a greener and more sustainable future. This focus on “Environment” is noted in key speeches made by China’s top leadership:

- In September 2021, President Xi Jinping unveiled the ambitious "[30/60 Initiative](#)," setting the target for China to reach peak carbon dioxide emissions before 2030 and achieve carbon neutrality before 2060.
- In July 2023, President Xi Jinping [reinforced](#) the dedication to ecological and environmental preservation, emphasizing the promotion of a harmonious coexistence between humans and nature to build a beautiful China in a speech delivered at the National Ecological and Environmental Protection Conference shortly after top China and US officials focused on Climate – Xie Zhenhua and John Kerry – met in Beijing.
- Former Premier Li Keqiang's release of the [2023 Government Work Report](#) highlighted the government's focus on strengthening environmental protection and advancing green and low-carbon development.

Furthermore, “Collective Study Sessions” of the Politburo have consistently focused on the environmental and climate goals of China, often noting the role industry and private business must play in the transformation. Three study sessions of not include:

- In May 2017, President Xi Jinping underscored the significance of green development methods and lifestyles to create a favorable production and living environment. ([41st Collective Study Session](#))
- In January 2022, President Xi Jinping stressed the importance of analyzing the challenges and tasks related to carbon peaking and

neutrality while resolutely implementing the Party Central Committee's decisions. ([36th Collective Study Session](#))

- In April 2021, President Xi Jinping reiterated the need for unwavering determination in constructing an ecological civilization and pursuing a harmonious coexistence of humans and nature. ([29th Collective Study Session](#))

Leaders of key ministries in China have begun to prominently address the imperative of the government's steadfast commitment to environmental preservation and sustainable development. These influential figures have taken center stage, delivering compelling public speeches that underscore the critical role of both government and private businesses in achieving national environmental objectives. With a unified vision, these leaders emphasize the need for collaborative efforts and active participation from the private sector to propel China towards its environmental goals.

Recent Minister-level statements and speeches on China's environmental goals as they relate to industry include:

- *Ministry of Ecology and Environment* - Minister of Ecology and Environment Huang Runqiu [said](#) in July 2023 that high-level environmental protection is an important support for high-quality development. High-level protection can be accomplished by ecological environment zoning and environmental impact assessment, while high-quality development can be achieved through the transformation and upgrading of industrial structure, energy structure, and transportation structure. Both goals can be pushed forward by increasing financial investment, developing green finance, and ecological compensation mechanisms.
- *People's Bank of China* - Yi Gang, Former Governor of the People's Bank of China, [stated](#) in June 2023 that the main challenges in achieving the

30/60 target lie in addressing the negative externalities of carbon emissions and reducing the green premium. The primary focus is to reduce carbon emissions, which involves two main challenges. The first is to gradually address the negative externalities of carbon emissions. The second is to progressively reduce the green premium. The three major objectives for the PBOC are enhancing environmental information disclosure, improving the policy incentive and constraint system, and conducting stress tests on climate change.

- *Ministry of Industry and Information Technology* - During the first “ministerial channel” of the first session of the 14th National People’s Congress in March 2023, Minister of Industry and Information Technology Jin Zhuanglong [said](#) that the MIIT is formulating guiding opinions on accelerating the transformation and upgrading of traditional industries, and making traditional industries more high-end, more intelligent, and greener. Jin raised the “1+4” plan consisting of a general plan to achieve carbon peak in the industrial sector and a focus on the iron and steel, non-ferrous metals, building materials, and petrochemical and chemical industries. Specific energy conservation and carbon reduction projects include building green factories, green parks, and green supply chains, promoting the application of energy-saving and emission-reduction technologies, and improving the comprehensive utilization of resources such as batteries, scrap steel, and wastepaper for new energy vehicles.
- *Ministry of Natural Resources* - In an [exclusive interview in January 2023](#), Minister of Natural Resources Wang Guanghua states that the Ministry of Natural Resources, as the primary department responsible for ecological protection and restoration, continuously implements integrated protection and restoration projects to enhance the diversity, stability, and sustainability of the ecosystem. In addition to farmland protection and ecological restoration, the geospatial information industry is also under

the jurisdiction of the Ministry of Natural Resources. Promoting the transformation of data resources into data assets will allow the industry to fully tap into the significant value of spatiotemporal data as a new type of production factor.

- *Ministry of Agriculture and Rural Affairs* - Tang Renjian, Minister of Agriculture and Rural Affairs, [wrote](#) in December 2022 that the department will combine resource conservation with environmental protection to establish a new agricultural development pattern where humans and nature coexist harmoniously. This includes strengthening the protection of agricultural resources, intensifying the management of degraded farmland, addressing non-point source pollution in agriculture, protecting and restoring the agricultural ecosystem, as well as constructing a green, low-carbon, and circular agricultural industry system.
- *Ministry of Commerce* - Minister of Commerce Wang Wentao [said](#) during an interview in December 2021 that MOFCOM will include more green and low-carbon, digital economy, and other emerging fields into the *Catalogue of Industries for Encouraging Foreign Investment* to expand the scope of foreign investment attraction. Wang also emphasized the importance of improving the level of trade digitalization and promoting green trade development for foreign-invested enterprises.

ESG Policies in China

Over the past decade, China has undergone a profound transformation in its approach to environmental, social, and governance (ESG) considerations, reflecting a significant shift in its economic and policy landscape. The journey towards integrating ESG principles into its development strategies has been marked by a series of noteworthy milestones, signaling the country's commitment to sustainability and responsible business practices. As one of the world's largest economies and a major global player, China's evolving stance on ESG-related

policies has captured the attention of international stakeholders, investors, and environmental advocates alike.

Over the past decade, China embarked on a trajectory of sustainable development by recognizing the pressing need to address environmental degradation and social inequalities resulting from rapid industrialization. The country's leaders acknowledged that long-term economic growth could only be achieved by adopting a more holistic approach that accounted for environmental protection, social equity, and efficient governance. This realization paved the way for a series of policy initiatives aimed at curbing pollution, promoting clean energy, and enhancing corporate accountability. Over time, the Chinese government introduced stricter environmental regulations, set ambitious targets for reducing carbon emissions, and encouraged industries to adopt cleaner technologies.

Simultaneously, China turned its attention to improving social welfare and fostering greater inclusivity. Efforts were made to address issues such as income inequality, labor rights, and access to basic services. The government sought to strike a balance between economic advancement and social harmony, gradually recognizing that a stable and content population was essential for sustainable growth. Moreover, corporate governance reforms gained prominence, emphasizing transparency, ethical behavior, and accountability within businesses. These developments collectively underscored China's intent to align its policies with global ESG standards, thereby contributing to the broader international movement towards a more sustainable and responsible future.

Policies on ESG can be broken down into six unique categories:

- High-level guidance policies for the financial market
 - [*Guidelines for Establishing the Green Financial System*](#), August 2016

- Issued by: People's Bank of China (PBOC), Ministry of Finance, National Development and Reform Commission (NDRC), former Ministry of Environmental Protection, former China Banking Regulatory Commission (CBRC), CSRC, former China Insurance Regulatory Commission
- Established the top-level structure of China's green financial system.
- ESG-related investment guidelines for asset management
 - [*Green Investment Guidelines \(For Trial Implementation\)*](#), issued by the Asset Management Association of China in November 2018
 - [*Green Trust Guidelines*](#), issued by the China Trustee Association in December 2019
- [*Green Finance Guidelines for Banking and Insurance Sectors*](#), June 2022
 - Issued by: China Banking and Insurance Regulatory Commission (CBIRC)
 - Guided banking and insurance institutions to incorporate ESG requirements into their management processes and comprehensive risk management procedures.
 - Builds on the basis of [*Guidelines for Green Credit*](#), issued by the former CBRC in 2012
- Incentives mechanisms to spur interest in ESG investments.
 - [*Guidelines on Finance Serving Prosperity in Rural Areas*](#), January 2019
 - Issued by: PBOC, CBIRC, CSRC, Ministry of Finance, Ministry of Agriculture and Rural Affairs
 - Required financial institutions to invest more funds in rural revitalization.

- [Measures for Evaluation and Assessment of Services of the Financial Institutions for Rural Revitalization](#), May 2021
 - Issued by: PBOC, CBIRC
 - Financial institutions' support for rural revitalization is evaluated through loan scale, structure, system construction, and financial innovation.
- [Notice on the Policies for the Green Financing Statistical System](#), June 2020
 - Issued by: CBIRC.
 - Collection of statistics on low-carbon economy financing, circular economy financing, climate financing, and environmental equity financing
- [Measures for Supervision and Evaluation of Commercial Banks' Financial Services for Small and Micro Enterprises \(for Trial Implementation\)](#), June 2020
 - Issued by: CBIRC.
 - The support of commercial banks to small and microenterprises is evaluated through loan growth, loan cost, asset quality, and design of policies and procedures.
- [Performance Evaluation Rules for Commercial Banks](#), January 2021
 - Issued by: Ministry of Finance
 - Included the construction of an ecological civilization and loans for small and micro enterprises among evaluation indicators.
- [Green Finance Assessment Program for Banking Institutions](#), May 2021
 - Issued by: PBOC.

- Expanded the scope of quantitative assessment to green loans, green bonds, and other financial institution businesses to increase the allocation of green assets.
- The [*Guidelines on Green Finance for the Banking and Insurance Industries*](#) issued by the CBIRC in June 2022 required banks and insurance companies to take strategic measures to promote green finance
- In September 2022, the Insurance Asset Management Association of China encouraged insurance asset management agencies to actively promote green transformation in its [*Initiative on ESG Management in China's Insurance Asset Management Industry*](#)
- The [*Guiding Opinions on Promoting Investment and Financing in Response to Climate Change*](#) issued by the MEE, NDRC, PBOC, CBIRC, and CSRC in October 2020 proposed a work plan for climate investment and financing pilot areas
 - In December 2021, nine authorities including the MEE issued the [*Notice on Conducting Climate Investment and Financing Pilot Work*](#), marking the formal declaration of these pilots
 - In August 2022, the first 23 pilot areas were announced, including 12 cities, 4 districts, and 7 national new areas.
- **Policies for ESG bonds**
 - [*Guiding Opinions of the China Securities Regulatory Commission on Supporting the Development of Green Bonds*](#), March 2017
 - Issued by: CSRC.
 - Clarified requirements on green corporate bond issuers, use of proceeds, and disclosure.
 - [*Green Debt Financing Instrument Business Guidelines for Non-financial Enterprises*](#), March 2017

- Issued by: National Association of Financial Market Institutional Investors (NAFMII)
- Encouraged companies to issue green debt financing instruments and clarified bond issuance requirements.
- [Notice on Revising the Special Statistical System of Green Loans](#), December 2019
 - Issued by: PBOC.
 - Expanded the statistical scope of green loans and added metrics from the 2019 Green Industry Guiding Catalogue released by the NDRC.
- [Green Bond Endorsed Projects Catalogue \(2021 Edition\)](#), April 2021
 - Issued by: PBOC, NDRC, CSRC
 - Unified the two sets of definitions of green for green bonds, including the *Green Bond Principles* published by the International Capital Market Association and the guidelines issued by Chinese authorities, to achieve convergence with global standards.
 - To further harmonize domestic green bond regulations, the China Green Bond Standard Committee announced the [China Green Bond Principles](#) in July 2022
- [Business Guidelines for Innovative Corporate Bonds No. 1 - Green Corporate Bonds \(Revision 2021\)](#), July 2021
 - Issued by: Shenzhen Stock Exchange (SZSE)
 - Provided definition and issuance requirements for carbon neutral green corporate bonds and blue bonds in the SZSE bond market.
- [Guidelines for the Application of the Examination Rules for the Issuance and Listing of Corporate Bonds of the Shanghai Stock](#)

[Exchange No. 2—Corporate Bonds of Certain Varieties \(revised 2022\)](#), June 2022

- Issued by: Shanghai Stock Exchange (SSE)
 - Provided definition and issuance requirements of various types of ESG bonds in the SSE bond market.
- [Policies on ESG information disclosure](#)
 - Entities disclosing ESG-related information are mainly high-polluting enterprises, centrally administered state-owned enterprises (SOEs), and security issuers.
 - In 2021, the PBOC issued the *Work Plan for Promoting Environmental Information Disclosure of Financial Institutions in the Green Finance Reform and Innovation Pilot Zone*, [Operating Manual for Environmental Information Disclosure of Banking Financial Institutions \(for Trial Implementation\)](#), *Technical Guidelines for Carbon Accounting of Financial Institutions (for Trial Implementation)*, and other documents to encourage financial institutions to actively disclose environmental risk management, environmental impacts, and carbon emissions generated by business operations
 - [Administrative Measures for the Legal Disclosure of Enterprise Environmental Information](#), December 2021
 - Issued by: Ministry of Ecology and Environment (MEE)
 - Environment – key pollutant charging units must disclose information including pollutants, carbon emissions, and compliance to ecological environment laws; security issuers must disclose relevant information on climate change, environmental protection, and other related information of the projects they finance; carbon neutral bond issuers must disclose environmental information on the underlying projects.

- Social – enterprises are encouraged to disclose information on employee protection, product quality, and community relations.
- Governance – enterprises are required to disclose information on ownership structure, board composition and performance of duties, salary structure, related party transactions, and internal control system.
- The [*Guidelines on the Format for the Legal Disclosure of Enterprise Environmental Information*](#) was issued by the MEE in January 2022 to supplement the [*Administrative Measures for the Legal Disclosure of Enterprise Environmental Information*](#)
- The [*SSE*](#) and [*SZSE*](#) updated their Listing Rules in January 2022, introducing corporate social responsibility in the form of the inclusion of social responsibility in corporate governance, the disclosure of CSR performance in accordance with requirements, and the possibility of forced delisting in the case of infringing on the public's interest
 - Also in January, SSE brought the companies included in the Science and Technology 50 Index into the scope of its mandatory disclosure plan.
 - In April, in the [*Guidelines on Investor Relations Management of Listed Companies*](#), the CSRC introduced ESG information as an element of communication between listed companies and investors required by investor relations management
- At the policy level, two types of enterprises face increased pressure on information disclosure – listed companies controlled by centrally administered state-owned enterprises and financial institutions.

- In July 2021, the PBOC published the [Guidelines for Financial Institutions Environmental Information Disclosure](#)
- In May 2022, the SASAC issued a [work plan](#) requiring listed companies controlled by central state-owned enterprises to improve quality via implementing a new development philosophy, and building and strengthening their ESG systems
- The CSRC and Shanghai and Shenzhen Stock Exchanges also issued relevant guidelines requiring companies to disclose ESG-related information.
- The State-owned Assets Supervision and Administration Commission (SASAC) issued policies to guide SOEs to fulfill their ESG-related responsibilities.
- Standards systems
 - In February 2022, the PBOC, CBIRC, CSRC, and State Administration for Market Regulation jointly published the [14th Five-Year Plan for Financial Standardization](#). The plan views standardization as an essential component of green finance's sustainable development. It lays out tasks that form the focus of green finance and ESG standards in 2022 and the next few years.
 - In April 2022, the CSRC issued the [Standards for Carbon Financial Products](#), stipulating regulatory requirements for the classification and implementation of carbon financial products and offering guidelines for financial institutions to develop and launch carbon financial products
 - In July 2022, China's Green Bond Standards Committee released the [China Green Bond Principles](#), marking the official establishment of green bond standards that are unified in China and in line with international standards. According to the

principles, 100% of the funds raised by green bonds must be invested in green projects.

- As of November 2022, China already has six standards in place, including the ESG Reporting Guidelines for Listed Companies, the Guidance for Enterprise ESG Evaluation, the Guidance for Enterprise ESG Disclosure, the General Principle of Enterprise ESG Information Disclosure, the General Principle of Enterprise ESG Evaluation and the Specification of Enterprise ESG Evaluation
- Product innovation
 - In November 2021, the PBOC designed two structural monetary policy instruments, its carbon-reduction support tool, and special re-lending support for clean and efficient use of coal.
 - In July 2022, the [China Green Bond Principles](#) included an attachment that defined the types of green bonds, including ordinary green bonds (blue bonds and carbon neutral bonds), carbon incomes (environment-related equities) green bonds, green project benefit bonds, and green asset-backed securities
 - In May 2022, the NAFMII issued the [Notice on Conducting Pilot Innovation Related to Transition Bonds](#), officially launching transition bond products