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The Development of ESG Integration in China

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Key Points

- The Chinese government has geared up its regulatory efforts to establish its ESG rating and disclosure system.
- The ESG market has been flourishing, in terms of rising number of players (both SOEs and private firms) and rapidly expansion of green finance.
- The pursuit of the carbon peak and carbon neutrality targets is the primary driver behind the green transition of the Chinese economy.

China's ESG Regulatory Framework

- The fundamental framework was set in the 2016 Guidelines for China's Green Finance System jointly issued by SEVEN government departments.



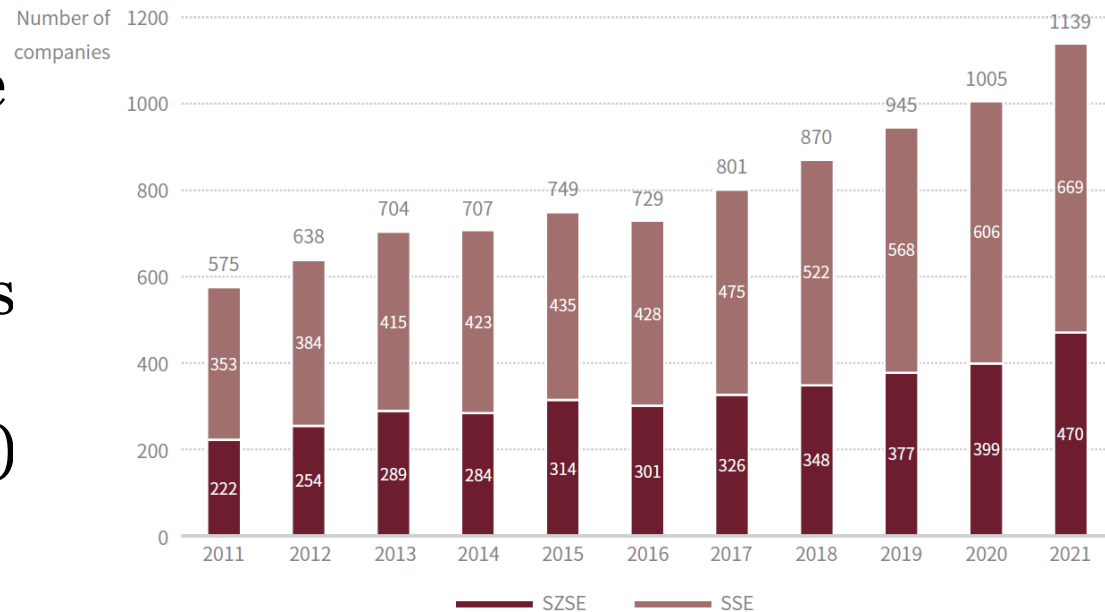
Recent regulatory efforts on ESG

- The newly created Ministry of Ecology and Environment (MEE) takes the central role in regulating carbon emissions and sustainable development, which has become the priority of China's development agenda.
- State-asset supervision and administration commission (SASAC) aims to design a ESG rating system for SOEs and “fully cover” the ESG disclosure of listed companies controlled by central SOEs by 2023.

ESG Disclosure

- ESG disclosure is structured by mandatory disclosure requirements on pollutants and voluntary ESG disclosure by listed companies through annual financial and sustainability reports
- More than a quarter of listed companies (1000+) have disclosed their ESG performance.

CSR Reports issued by listed companies, 2011-2021



Principles of the Chinese ESG Rating System

- Promoting quality development with carbon emission and rural revitalization targets as the core.
- Compatible with international standards and facilitating mutual recognition.
- Not one-size-fits-all approach.

ESG Finance

- Sustainable investment and finance are one of the most important growth driver.
- China has become the largest green credit market and the second largest green bond market after the US. Its outstanding green loans reached 16 trillion RMB in 2021, jumping by 33% from 2020.
- More than 100 ESG funds undertaking sustainable investing had been established in China by 2021.

ESG in China's development cooperation

- Green BRI Framework
 - ▣ BRI International Green Development Coalition (BRIGC), the BRI Green Development Institute, and the BRI Environmental Big Data Platform
- China's development finance and investment have increasingly emphasized environmental sustainability.
 - ▣ Investment in renewable energy in BRI countries has surpassed those in fossil energy.

Drivers behind China's ESG Integration

- Top-down driver: a comprehensive ESG standard reflects China's policy priorities and development goals.
 - The targets of carbon emissions and rural revitalization
- Bottom-up driver: Many institutional investors are PRI signatories.
- Global driver: International brand image building
 - China has the largest number of Fortune Global 500 companies.